

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: Toronto, Canada

Meeting Date: December 6–9, 2022

Agenda Item 9

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 Project management	Topic	Agenda Item
	Revenue and Transfer Expenses: Project Roadmap	9.1.1
	Instructions up to Previous Meeting	9.1.2
	Decisions up to Previous Meeting	9.1.3
Decisions required at this meeting	Next Steps on the Revenue and Transfer Expenses Projects	9.2.1
	Consideration of Residual Revenue Issues	9.2.2
	Proposed Illustrative Examples	9.2.3
	Proposed Approach for Amendments to Other IPSAS	9.2.4
Other supporting items	[Draft] IPSAS [X], <i>Transfer Expenses</i>	9.3.1
	[Draft] IPSAS [X], <i>Revenue</i>	9.3.2

**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. Review Responses 2. Discuss Issues 3. Develop IPSAS
March 2023	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

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	<ol style="list-style-type: none"> Initial discussion of definitions Discussion of PSPOA Initial discussion of presentation Initial discussion of effective date and transition requirements Initial review of draft ED
June 2019	<ol style="list-style-type: none"> Discussion of scope and definitions Discussion of subsidies and premiums Discussion of additional material to be included in the ED Discussion of examples to be included in the ED
September 2019	<ol style="list-style-type: none"> Disclosures – discussion of issues Review of initial draft of ED
December 2019	<ol style="list-style-type: none"> Review of draft ED final amendments Review of examples – exception basis only Approval of ED
March 2020 to September 2020	<ol style="list-style-type: none"> Document Out for Comment
December 2020 to April 2021	<ol style="list-style-type: none"> Review Responses Discuss Issues
June 2021 to March 2022	<ol style="list-style-type: none"> Review Responses Discuss Issues Develop IPSAS
June 2022 to September 2022	<ol style="list-style-type: none"> Review Responses Discuss Issues Develop IPSAS
December 2022	<ol style="list-style-type: none"> Review Responses Discuss Issues Develop IPSAS
March 2023	<ol style="list-style-type: none"> Approve IPSAS

INSTRUCTIONS UP TO PREVIOUS MEETING

Meeting	Instruction	Actioned
Revenue		
September 2022	1. Consult with the other IFAC standard setting boards to learn from their experience on the re-exposure of a near-final pronouncement.	1. To be addressed in March 2023.
September 2022	2. Ensure Implementation Guidance supports the application of accounting principles to transfers of non-cash consideration and [for Transfer Expenses specifically,] the allocation of transaction consideration to transfer rights.	2. Additional support on application of accounting principles for transfers of non-cash consideration is better provided through the existing ED70 Illustrative Example 34.
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. Incorporated into IE proposals in Agenda Item 9.2.3 .
June 2022	1. 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.	1. BC108–BC113 in Agenda Item 9.3.2 .
June 2022	2. 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.	2. IEs in progress. AGs and IGs are in Agenda Item 9.3.2 .
June 2022	3. Draft Basis for Conclusions to explain that capital transfers are expected to arise from a binding arrangement.	3. BC127 in Agenda Item 9.3.2 .
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. Completed. See Agenda Item 9.3.2 .
June 2021	1. Provide non-authoritative guidance to clarify that an entity should consider both explicit and implicit consequences in its assessment of	1. See Implementation Guidance B.2 in Agenda Item 9.3.2 .

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	the mechanisms of enforceability in a binding arrangement.	
March 2021	1. 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.	1. BC6 and BC11 in Agenda Item 9.3.2.
March 2021	2. 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.	2. See Implementation Guidance E.1 in Agenda Item 9.3.2.
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		
September 2022	1. Consult with the other IFAC standard setting boards to learn from their experience on the re-exposure of a near-final pronouncement.	1. To be addressed in March 2023.
September 2022	2. Clarify the drafting on the interactions between a transfer right asset and guidance in IPSAS 21 and IPSAS 41.	2. Paragraphs 26, 43, and AG30 in Agenda Item 9.3.1.
September 2022	3. Consider if disclosure based on the distinction between transfer expenses from transactions with and without binding arrangements is required.	3. Paragraphs 59-60 in Agenda Item 9.3.1.
September 2022	4. Clarify the expected level of detail in the disclosure of the cost of programs, activities, and other relevant segments as required by paragraph 111 of IPSAS 1.	4. AG52 in Agenda Item 9.3.1.
September 2022	5. Work with specific IPSASB members to consider amendments	5. AG53-AG55 and IG A.1 in Agenda Item 9.3.1.

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	to the definition of capital transfers and the addition of disclosures of significant terms in capital transfers arrangements.	
September 2022	6. Amend the definitions of transfer consideration and stand-alone consideration to address member comments.	6. Paragraph 6 in Agenda Item 9.3.1.
September 2022	7. Address the editorials raised by the IPSASB during the page-by-page review of the [draft] IPSAS, <i>Transfer Expenses</i> .	7. Revisions to core text and authoritative guidance incorporated into Agenda Item 9.3.1.
September 2022	8. Ensure Implementation Guidance supports the application of accounting principles to transfers of non-cash consideration and the allocation of transaction consideration to transfer rights.	8. Revisions to implementation guidance incorporated into Agenda Item 9.3.1.
September 2021	1. Draft a Basis for Conclusion that highlights how the proposed change in principle from what was proposed in ED 72 responds to constituent concerns about the practicality and implementation of proposed guidance.	1. Revisions to BCs incorporated into Agenda Item 9.3.1.

DECISIONS UP TO PREVIOUS MEETING

Meeting	Decision	BC Reference
Revenue		
September 2022	1. The disclosure requirement proposed in ED 70 on compelled revenue transactions should be retained, without changes.	1. BC108–BC113 in Agenda Item 9.3.2.
September 2022	2. Subject to the instructions below, the proposed implementation guidance topics are appropriate.	2. BC62, BC87, BC93, BC98, BC101, and BC105
July 2022	1. Subject to the instructions, the examples are appropriate for inclusion in the revised draft revenue IPSAS.	1. BC131
June 2022	1. IPSAS 41 accounting principles should be applied by analogy to subsequently measure non-contractual receivables, as proposed in the ED.	1. BC102–BC105
June 2022	2. The disclosure requirements proposed in the ED remain appropriate and should be retained, in the revised order proposed.	2. BC108–BC113
June 2022	3. The accounting for capital transfers is addressed by the general model on revenue arising from binding arrangements.	3. BC131
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. BC28 and BC50
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	3. BC100, BC101, and BC117

	intention to enforce) inform subsequent measurement considerations.	
December 2021	1. An entity's obligation in a binding arrangement in Revenue accounting is a narrower concept than 'present obligation' in the IPSASB Conceptual Framework: it is a legally binding obligation in a binding arrangement, which is a unit of account for revenue accounting, to use resources received/receivable in compliance with the terms of the binding arrangement.	1. BC2 and BC27
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. This decision was superseded by the March 2022 Decision regarding 'compliance obligation'. BC28 and BC50.
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. BC87
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. BC93
October 2021	1. Revenue guidance should be presented as a single IPSAS.	1. BC18, BC19, BC26, and BC29
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 (compliance) obligation(s), and the enforceable terms of the binding arrangement require the entity (i.e., the transfer recipient) to transfer resources to another party if it does not fulfill its present (compliance) obligation(s).	1. BC89
September 2021	2. A liability (deferred revenue) is extinguished as the transfer recipient fulfills its present obligations to earn revenue.	2. BC90
September 2021	3. The detailed review of guidance in the draft pronouncements, based on Board decisions for the Revenue	3. N/A – DG decided no BC is required for this process decision. The DG is a sub-group for the Board.

	and Transfer Expenses projects, be delegated to the Drafting Group.	
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. BC18 and BC62
June 2021	1. Retain the definition of a 'binding arrangement' in the Revenue standard(s), as it is conceptually consistent with the definitions elsewhere in IPSAS literature, with the following minor wording revisions: include "for the purposes of this Standard," and "enforceability through legal or equivalent means", and change "both parties" to "the parties".	1. BC45
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. BC117
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. BC16
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. BC117
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. BC32
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	6. Processed in the Conceptual Framework project. Also see BC88.

	clarifies (i.e., does not substantially change) the underlying concepts.	
June 2021	7. Incorporate additional guidance and examples into the Conceptual Framework on 'transfer of resources', as outlined in the Agenda Item, to clarify the ambiguities associated with what entails a 'transfer of resources'.	7. Processed in the Conceptual Framework project.
April 2021	1. Confirm, for revenue, that there is no initial recognition when no party has fulfilled its stated obligations under the binding arrangement, unless the binding arrangement is onerous. Accounting for the binding arrangement begins when the binding arrangement is at least partially fulfilled (i.e., at least one party begins to fulfill one or more of its stated obligations).	1. BC91
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. BC91
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. BC18
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 (compliance) obligation.	3. BC15 and BC46
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	4. BC16

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	parties accountable to the satisfaction of stipulated obligations.	
March 2021	5. Highlight that an entity should assess all relevant factors at the transaction date to determine whether an arrangement is enforceable.	5. BC118
March 2021	6. Retain revenue from performance obligations as a separate type of revenue.	6. This decision has been incorporated in conjunction with December 2021 Decisions. See BC11, BC20–BC26, BC28, and BC29.
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. This decision has been incorporated in conjunction with December 2021 Decisions. See BC11, BC20–BC26, BC28, and BC29.
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. This decision has been incorporated in conjunction with December 2021 Decisions. See BC30.
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. BC88-BC89
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. N/A – DG decided no BC is required for this process decision.
December 2020	1. Reorder the draft guidance in ED 70 and ED 71 to begin with ED 71,	1. BC18

	either as a separate standard, or a combined standard.	
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. BC109
December 2019	1. All decisions made up until December 2019 were reflected in the Exposure Draft (ED) 70, Revenue with Performance Obligations and Exposure Draft (ED) 71, Revenue without Performance Obligations .	1. All decisions made up until December 2019 were reflected in the Exposure Draft (ED) 70, Revenue with Performance Obligations and Exposure Draft (ED) 71, Revenue without Performance Obligations .
Transfer Expenses		
September 2022	1. Subject to drafting instructions, the signposting to the presentation and disclosure requirements in IPSAS 1, IPSAS 19, IPSAS 28, and IPSAS 30, as well as the requirement to disclose the significant judgements made regarding the recognition of a transfer right asset, is appropriate.	1. BC31 in Agenda Item 9.3.1 .
September 2022	2. The disclosure of a reconciliation between the opening and ending balance of a transfer right asset should be removed.	2. BC32
September 2022	3. Subject to drafting instructions, the application of the presentation and disclosure requirements for expenses in IPSAS 1 should be applied to transfer expenses.	3. BC31(a)
September 2022	4. Subject to drafting instructions, the addition of the terms 'transfer consideration' and 'stand-alone consideration' is appropriate.	4. BC17
September 2022	5. Referring to existing guidance in IPSAS 19 for variable consideration from a transfer provider's perspective is appropriate.	5. BC30(b)
September 2022	6. Allocating the 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 is appropriate.	6. BC30(d)

September 2022	7. The draft Transfer Expenses IPSAS can be applied on either a full retrospective or prospective basis.	7. BC34-BC36
September 2022	8. Subject to drafting instructions, the revised core text and application guidance reviewed during the page-by-page review should be incorporated into the [draft] IPSAS, <i>Transfer Expenses</i> .	8. The decisions to move away from ED 72 and to revise the core text are explained in the background section in BC1-BC9.
September 2022	9. Subject to drafting instructions, the proposed implementation guidance topics are appropriate.	9. N/A – The DG decided no BC is required for this process decision. The DG is a sub-group for the Board.
June 2022	1. Subject to drafting instructions, the key transfer expense accounting principle is determining whether the entity controls a transfer right.	1. BC20
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. BC29 and BC26
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. BC23(h)
June 2022	4. Onerous contracts are not applicable to transfer expenses.	4. BC12
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. BC23(d)
December 2021	1. Non-cash resources transferred by a transfer provider should be measured at their carrying amount	1. BC24 and BC30(a)

	in line with the requirements in other IPSAS.	
September 2021	1. Where the transfer provider in a binding arrangement transfers cash or other resources prior to the transfer recipient fulfilling its obligations, the transfer provider's enforceable right to have the transfer recipient fulfill its obligations (or face consequences outlined in the binding arrangement) meets the definition of an asset.	1. BC27
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. The decisions to move away from ED 72 and to revise the core text are explained in the background section in BC1-BC9.
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. The decisions to move away from ED 72 and to revise the core text are explained in the background section in BC1-BC9.
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. The decisions to move away from ED 72 and to revise the core text are explained in the background section in BC1-BC9.
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. N/A – The DG decided no BC is required for this process decision. The DG is a sub-group for the Board.
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. BC21
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	1. BC22 and BC23(a)-(b)

	conceptually consistent and freestanding.	
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. BC23(c)
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. BC23(c)
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. BC23(d)
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. BC29
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 and referenced in BC29.
April 2021	1. Address principle-related issues raised by constituents first, before considering other issues raised.	1. The decisions to move away from ED 72 and to revise the core text are explained in the background section in BC1-BC9.
April 2021	2. Revise the presentation of guidance in the transfer expense standard to better reflect the public sector.	2. BC9
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	3. BC9 and BC20-BC21

	arrangement is from the perspective of the entity.	
April 2021	4. Confirm that, in a binding arrangement, each party will have at least one present obligation.	4. BC23(e)
April 2021	5. Confirm that enforceability can be demonstrated by various mechanisms in transfer expense accounting, and all relevant factors should be considered in that analysis.	5. BC23(b)
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. BC27
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. The decisions to move away from ED 72 and to revise the core text are explained in the background section in BC1-BC9.
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. The decisions to move away from ED 72 and to revise the core text are explained in the background section in BC1-BC9.
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. BC23(e) and BC23(g)
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	10. BC23(f)

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	party begins to fulfill one or more of its stated obligations).	
April 2021	11. Confirm an entity's right and obligation within a binding arrangement are directly linked and interdependent. When the binding arrangement is not completely fulfilled, the combined right and obligation constitute a single asset or liability.	11. BC23(g)
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. BC31-BC33
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.

Next Steps on the Revenue and Transfer Expenses Projects

Purpose

1. To provide an overview of project progress and next steps leading to March 2023 approval.

Background

2. The IPSASB started its review of responses to the Revenue and Transfer Expenses Exposure Drafts (EDs) in December 2020. The IPSASB focused first on finalizing accounting principles in the authoritative guidance before moving to finalize the non-authoritative guidance.
3. The Board has made substantial progress on both projects, using a consistent approach and support of its Drafting Group (DG)¹. The DG supported staff in actioning and incorporating Board decisions and instructions in the drafting of the proposed standards, and performed detailed reviews to ensure that decisions and instructions have been appropriately reflected. In September 2022:
 - (a) The IPSASB reviewed all authoritative guidance (core text and Application Guidance (AGs)) and confirmed that its key decisions to date had been appropriately reflected;
 - (b) The IPSASB reviewed and approved the list of Implementation Guidance topics (proposed by staff and the DG in [September 2022 Agenda Item 6.2.8](#)); and
 - (c) Consistent with the process on previous projects, the IPSASB asked the DG to continue working with staff on drafting of non-authoritative guidance, and to flag any issues related to the non-authoritative guidance for the IPSASB's review by exception.

As of Q4 2022

4. Staff and the Drafting Group finished authoritative guidance, as follows, for:
 - (a) *Revenue*: All principle-based discussions were completed in June 2022 and incorporated into the drafting. The authoritative guidance has been reviewed extensively by the DG, and presented to the Board quarterly, since June 2021. There are minimal changes (editorial in nature) since September 2022.
 - (b) *Transfer Expenses*: All principle-based discussions were completed in September 2022. The majority of authoritative guidance was reviewed by the DG and presented to Board in September 2022. Since then, the DG also reviewed staff's proposed drafting for the Disclosure² section of the authoritative text, which reflects the detailed proposals reviewed by the IPSASB in September 2022. The Board will be offered an opportunity to comment on this new drafting.
5. Staff drafted and the DG reviewed non-authoritative guidance, as follows, for both projects:
 - (a) **Basis for Conclusions (BCs)**, based on Board decisions up to and including September 2022. See Agenda Items [9.3.1](#) (Transfer Expenses) and [9.3.2](#) (Revenue) for drafting, and [Agenda Item 9.1.3](#) for direct references from decisions to the BC paragraphs.
 - (b) **Implementation Guidance (IGs)**, based on Board decisions and instructions in September 2022, and offline discussions with Board and DG members. See Agenda Items [9.3.1](#) (Transfer

¹ As a reminder, the IPSASB established the DG to enable the Board to prioritize principle-related issues during its limited agenda time. The Drafting Group does not reopen decisions made by the IPSASB.

² Staff and the DG agreed to use "Display and Disclosure" to be consistent with the Conceptual Framework.

Expenses) and [9.3.2](#) (Revenue). The total number of IGs increased since the September discussion, as follows:

- (i) *Revenue*: Two additional IGs (to clarify capital transfers definition, and that the accounting models can be applied to multi-year arrangements); and
- (ii) *Transfer Expenses*: Three additional IGs (to clarify capital transfers definition, provide non-authoritative guidance related to transfer expenses without binding arrangements, and clarify that the accounting models can be applied to multi-year arrangements).

During its detailed review of drafting, the DG did not identify any drafting which requires additional Board consideration or review at this December 2022 meeting. The Board will be offered an opportunity to complete a page flip of the drafted BCs and IGs.

6. Staff assessed and proposed **Illustrative Example (IEs)** topics, which was supported by DG members. See [Agenda Item 9.2.3](#) for analysis and IE topics proposed by staff and the DG.

Next Steps

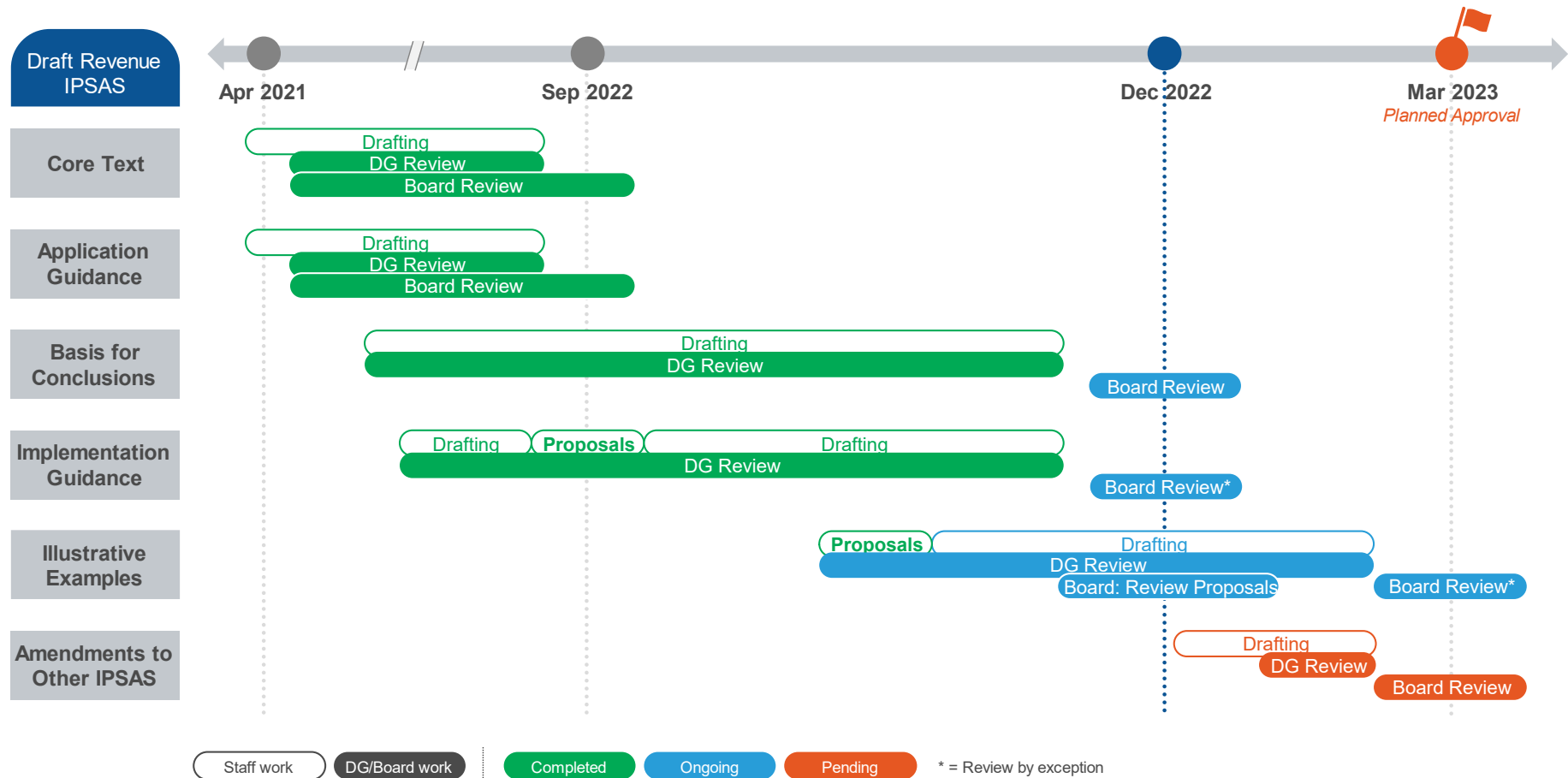
7. As summarized in the Program and Technical Director's Report (Agenda Item 2), staff considered whether the proposed Revenue and Transfer Expenses standards should be put forward for approval in December 2022. Staff, based on discussions with the IPSASB Chair on the many upcoming approvals, decided to shift approval of these two projects to March 2023. This change would:
- (a) **Allow the IPSASB to vote on a more complete package of guidance** – drafting for Amendments to Other IPSAS (best completed after the finalization of other IPSAS; see staff's proposed approach in [Agenda Item 9.2.4](#)) and IEs will be available by March 2023. A first draft of the IEs may be provided at the February 2023 check-in, subject to the results of the IPSASB's December 2022 deliberations on other projects; and
 - (b) **Better allocate Board plenary time** – the use of plenary time to review and approve the numerous IPSASB planned approvals is better balanced across two meetings (December 2022 and March 2023).
8. In March 2023:
- (a) The IPSASB will be asked to approve the Revenue and Transfer Expenses IPSAS. Once the Board approves the new IPSAS, it will consider the need for re-exposure as part of due process³; and
 - (b) Staff will present a due process paper which will analyze and inform on the need for a re-exposure vote for each of Revenue and Transfer Expenses projects.

³ 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 – Updated Progress and Timeline for the Proposed Revenue and Transfer Expenses IPSAS

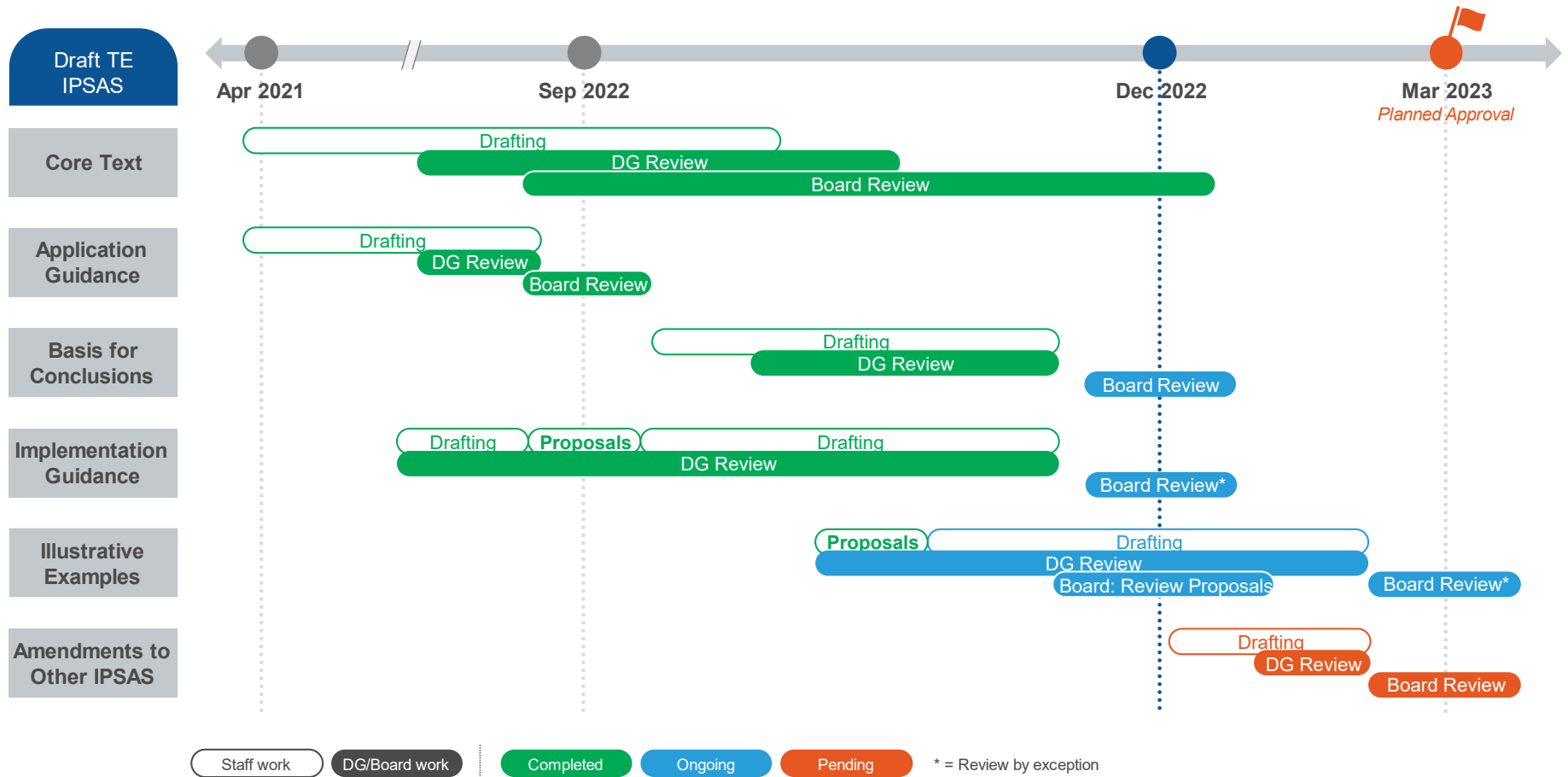
The following diagrams provide a visual timeline for work on the Revenue and Transfer Expenses projects, respectively.

Revenue



Agenda Item 9.2.1

Transfer Expenses



Consideration of Residual Revenue Issues

Question

1. Does IPSASB agree with staff's recommendation based on the conclusion that all revenue issues raised by constituents have been resolved?

Recommendation

2. Staff recommend that the IPSASB proceed with finalizing its current [draft] IPSAS [X], *Revenue*, as all revenue issues raised by constituents have been considered.

Background

3. The IPSASB began reviewing constituent responses to [draft] IPSAS [X], *Revenue with Performance Obligations* (ED 70) and [draft] IPSAS [X], *Revenue without Performance Obligations* (ED 71), in December 2020. Based on the IPSASB's decisions and instructions up to date, a number of revisions, including combining the two EDs, were made. See [Agenda Item 9.3.2](#) for the current [draft] IPSAS.
4. As part of the finalization process, staff considered if there were any issues raised by constituents which have not yet been explicitly discussed with the IPSASB and needed to consider before the [draft] standard is approved. This paper sets out staff's considerations.

Analysis

5. For completeness, staff revisited their detailed analysis from December 2020 which grouped all comments from the responses to ED 70 and ED 71 into both overarching and specific themes. Staff used this summary to perform a ground-up analysis to verify that all identified issues have been considered by the IPSASB.
6. Staff noted that a significant proportion of comments related to:
 - (a) Unclear distinction between performance obligations and present obligations, leading to difficulties in determining which ED to apply; and
 - (b) Requests for clarifications or additional guidance on specific topics such as the subsequent measurement of non-contractual receivables.
7. The comments in paragraph 6(a) have been resolved by the decision to combine the EDs into one draft standard and change the classification of revenue to focus on binding arrangements rather than performance obligations. The revisions to the application guidance and the addition of implementation guidance also addressed the requests, summarized in paragraph 6(b), for clarifications or additional guidance on specific topics.

8. Staff noted two areas that have not yet been explicitly considered by the IPSASB:

Key Residual Issues Raised	Resolution
1. Some respondents requested clarifications or enhancements to illustrative examples.	1. See the discussion of proposed revisions to Illustrative Examples in Agenda Item 9.2.3 .
2. One respondent questioned the appropriateness of adopting private sector principles from IFRS 15.	<p>2. While the EDs and subsequent board papers did not explicitly consider this point on IFRS alignment. However, the IPSASB has had a formal policy for aligning with IFRS since 2008. Further the IPSASB's Strategy and Work Plan 2019–2023 Theme B-Maintaining Alignment with IFRS and explains that IFRS alignment is in the public interest for the following reasons:</p> <ul style="list-style-type: none"> ○ Common Approach and Language. Global public sector standards should have consistent principles and accounting outcomes when the economics of the transactions are the same; ○ Mixed Group Consolidations. Different requirements are costly to those applying IPSAS when there is no public sector specific reason to develop different accounting treatments; and ○ Leveraging Resources. When transactions are the same in the public and private sector, it makes sense for the IPSASB to build off the best practices in the private sector. <p>In addition, staff noted that when IFRS 15 was developed, the IASB's constituents largely supported the proposals and agreed that they resulted in improved accounting and disclosures for revenue. For similar revenue transactions, these perceived improvements are expected to also result in better financial information in the public sector.</p> <p>Staff further notes that although the principles in the current [draft] revenue standard are drawn from, and aligned with IFRS 15, they have been significantly modified by the IPSASB to ensure they are fit for purpose for public sector entities. The draft guidance and principles underlying the standard have been developed through public consultations, including a Consultation Paper, and Exposure Drafts, from which respondent feedback has taken into account in developing the draft guidance.</p>

9. Staff conclude that there are no outstanding issues, other than the review of the non-authoritative Illustrative Examples addressed in [Agenda Item 9.2.3](#), which have not been considered by IPSASB.

Decision Required

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

Proposed Illustrative Examples

Question

1. Does the IPSASB agree with the proposed illustrative examples to accompany the [draft] IPSAS [X], *Revenue* and [draft] IPSAS [X], *Transfer Expenses*?

Recommendation

2. Staff and the Drafting Group recommend including:
 - (a) 63 IEs in the draft Revenue IPSAS, to provide greater clarity on the application of principles for complex areas of the accounting models. These IEs are based on existing IEs from EDs 70-71, with revisions noted in paragraph 9(a) and 9(b); and
 - (b) 10 IEs in the draft Transfer IPSAS, to clarify and walk through the mechanics of the application of principles. Due to the changes from ED 72 which simplified the proposed accounting, presentation and disclosure requirements, very few IEs were retained and those that were not removed were repurposed to align with the revised accounting models for transfer expenses.

Background

3. In September 2022, the IPSASB agreed with staff's approach to identify Illustrative Examples (IEs)⁴ for the draft Revenue and Transfer Expenses standards after the IPSASB agreed on the list of Implementation Guidance (IGs) proposed in [September 2022 Agenda item 6.2.8](#).
4. The analysis highlighted that 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.

Analysis

Staff's Approach

5. The Revenue and Transfer Expenses Exposure Drafts, originally issued in 2020, included:

ED 70 Revenue with Performance Obligations	ED 71 Revenue without Performance Obligations	ED 72 Transfer Expenses
64 IEs	32 IEs	41 IEs

6. To identify the IEs to include in the draft Revenue and Transfer Expenses standards, staff reviewed each of the 96 revenue IEs and 41 transfer expenses IEs, in [Appendix 1](#), and proposed to:
 - (a) **Retain** IEs that:
 - (i) Illustrate principles that are still relevant in the current accounting models;

⁴ IEs accompany but are not part of IPSAS. They illustrate aspects of IPSAS but are not intended to provide interpretative guidance.

- (ii) Provide additional guidance when the principles are not already sufficiently clear in the drafted authoritative guidance and non-authoritative IEs, and any other IEs; and
- (iii) Present application of accounting principles for transactions that are relevant and prevalent in the public sector.

Note: *all Retained IEs will be subject to minor revisions for changes in terminology or verbiage.*⁵

- (b) **Remove** any IEs that do not meet the retention criteria in paragraph 6(a);
- (c) **Revise** retained IEs as necessary to better reflect Board decisions on accounting principles; or
- (d) **Add** new IEs, using general fact patterns, to illustrate any challenging areas in the current accounting models which are not already covered by existing IEs to support the application of complex areas of the proposed accounting models.

7. This objective approach was supported by the Drafting Group during its October 2022 discussions.

Revenue

8. Staff noted that:

- (a) **The accounting principles have not substantially changed since EDs 70-71** – The IPSASB made many decisions since December 2020, which explored, refined, and clarified principles proposed in the revenue EDs. These decisions have not substantially changed the accounting principles themselves. Rather, the key changes are:
 - a. Structural (e.g., guidance is now in a single IPSAS and presented in a way that more appropriately reflects the prevalence various revenue types in the public sector, etc.); and
 - b. Clarifications about fundamental concepts and principles (e.g., binding arrangement is a fundamental concept, compliance obligation is a unit of account that encompasses ED 70 ‘performance obligations’ and ED 71 ‘present obligations’, etc.)
- (b) **The existing IEs are already public-sectorized** – The Board previously completed substantial work to ensure the IEs in EDs 70-71 were public sector specific (i.e., reflected public sector transactions and thus useful for application in practice);
- (c) **Some existing IEs do not illustrate prevalent public sector transactions** – Relevant transactions are not necessarily also prevalent transactions in the public sector. Some of the IEs in ED 70, adapted from IFRS 15 for the public sector, are relevant but not prevalent; and
- (d) **Some existing IEs illustrate the same set of accounting principles** – Multiple IEs may be warranted for certain complex concepts or accounting principles, while a single IE may be sufficient to illustrate others.

⁵ For example, minor drafting changes are necessary for the Revenue IEs to reflect Board decisions since December 2020 (e.g., ‘compliance obligation’) and DG drafting decisions earlier this year (e.g., ‘stand-alone value’) to ensure consistency with revised terminology or wording.

9. Staff assessed IEs in [Appendix 1 Table 1](#), based on the criteria in paragraph 6 and reflections in paragraph 8, and propose to include 63 IEs in the current [draft] Revenue IPSAS⁶:
- (a) **Retain 49 IEs** with minor drafting changes (per the footnote in paragraph 6) for consistency with guidance across the entire IPSAS, as they continue to reflect and provide clarity on relevant accounting principles;
 - (b) **Revise 14 IEs** to better reflect Board decisions to date, improve the tone/focus of the IEs, and provide greater clarity on issues noted by constituents; and
 - (c) **Remove 33 IEs** which did not meet the retention criteria (e.g., because they are no longer relevant, have been replaced by IGs per Board decision, do not illustrate prevalent public sector transactions, or highlight principles that already better or more clearly addressed by other IEs).

Transfer Expenses

10. Staff noted that:
- (a) **The accounting principles have changed substantially since ED 72** – Based on decisions made by the IPSASB up to June 2022, the proposed accounting for transfer expenses were substantially revised. In addition, the proposed presentation and disclosure requirements were also substantially simplified at the September 2022 IPSASB meeting;
 - (b) **The existing IEs largely mirrored examples from EDs 70 and 71** – Many of the examples in ED 72 mirrored those from EDs 70 and 71, as the Transfer Expenses ED from 2020 was structured to mirror the principles in the revenue EDs. Due to the significant changes as noted in paragraph 10(a), many of these examples are no longer relevant; and
 - (c) **New IEs will be needed to illustrate the revised proposals** – In order to illustrate the revised proposed principles, new IEs will be needed. In the rare case where IEs from ED 72 can be retained, they will need to be significantly repurposed to align with the current proposals.
11. Staff assessed IEs in [Appendix 1 Table 2](#), based on the criteria in paragraph 6 and the reflections in paragraph 10, and propose to remove the majority of IEs from ED 72 and add new examples to illustrate the current proposed principles. This would result in 10 IEs for the current [draft] Transfer Expenses IPSAS:
- (a) **Add 5 IEs** to illustrate revised principles on scope, capital transfers, and the simplified proposals on the accounting (2 examples) and disclosure (1 example) of transfer expenses;
 - (b) **Revise 4 IEs** to align with current proposals on scope, transfers subject to appropriations, identification of transfer rights, and modifications to a binding arrangement; and
 - (c) **Remove 37 IEs** which related to principles which are either no longer relevant or addressed by one of the 5 new examples.

Decision Required

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

⁶ Note, all IEs are subject to minor drafting revisions to better reflect Board and DG decisions to date and ensure consistency in guidance across the entire IPSAS.

Appendix 1 – Proposed Illustrative Examples

Please note:

- (a) All IEs are subject to minor drafting revisions to better reflect Board decisions and DG discussions to date and to ensure consistency in guidance across the entire IPSAS (e.g., terminology changes per Board decisions and DG discussions); and
- (b) The order of IEs in the tables below are aligned with the order of associated principles in the draft IPSAS.

Table 1: Revenue

Topic / Core Principle	Application Guidance	Implementation Guidance	Existing IEs	Action proposed
Objective				
Scope	AG2–AG8		[ED71] 1 Scope	Remove , no longer relevant
			[ED71] 23 Contribution from Owners	Retain
			[ED71] 28 Transaction with one component which is within the scope of ED 70, and another component which is within the scope of ED 71	Remove , no longer relevant
			[ED 70] 3 Transactions with one component which is within the scope of ED 70, and another component which is within the scope of ED 71	Remove , no longer relevant
Definitions	AG9–AG11	A.1 Capital Transfers		
Identifying the Revenue Transaction	AG12–AG30	B.1 Identify Whether a Binding Arrangement Exists	[ED70] 1 Transaction Arose from an Arrangement that is Not Binding	Revise , to focus on existence of a BA
			[ED71] 10 Transfer of resources to Another Level of Government for General Purposes – not binding	Retain
			[ED71] 11 Transfer of resources with a present obligation	Remove , no longer relevant
			[ED71] 14 Research Grant (in Substance a Transaction with a performance obligation)	Revise , to focus on existence of a BA
			[ED70] 2 Transactions Arose from a Binding Arrangement without Performance Obligations	Revise , to focus on existence of a BA
• Enforceability	AG13–AG24	B.2 Enforceability	[ED70] 4 Enforceability by Mechanism other than Legal Means	Retain
			[ED71] 12 Transfer to a Public Sector University – unenforceable transaction	Retain

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Topic / Core Principle	Application Guidance	Implementation Guidance	Existing IEs	Action proposed
			[ED71] 24 Transfer from Binding Arrangement not Requiring Recognition of a Liability	Retain
			[ED71] 20 Revenue of Aid Agency	Revise , to better illustrate how an entity can assess enforceability with a sovereign state
		B.3 Enforceability: Revenue Subject to Appropriations	[ED71] 31 Transfers Subject to Authorization of Appropriations	Retain
		B.4 Changes in Factors Related to the Enforceability of a Binding Arrangement		
• Parties in an Arrangement	AG25–AG30			
Revenue from Transactions without Binding Arrangements		C.1 Recognition of Revenue from Various Types of Taxes	[ED71] 2 A local government has a portfolio of properties	Remove , replaced with IG (see footnote 7)
			[ED71] 3 Measurement of taxation revenue	
			[ED71] 4 Value added tax	
			[ED71] 5 Goods and services tax	
			[ED71] 6 Customs duty	
			[ED71] 7 Death duty	
			[ED71] 8 Property tax	
			[ED71] 9 Advance Receipts of Income Tax	
				Retain
		C.2 Measurement of Revenue from Various Types of Taxes	[ED71] 2 A local government has a portfolio of properties	Remove , replaced with IG (see footnote 7)
			[ED71] 3 Measurement of taxation revenue	
			[ED71] 4 Value added tax	
			[ED71] 5 Goods and services tax	
			[ED71] 6 Customs duty	
			[ED71] 7 Death duty	
			[ED71] 8 Property tax	

⁷ The IPSASB decided in September 2022 to replace ED 71 Illustrative Examples 2-8 with Implementation Guidance (IGs). See drafted IGs C.1 and C.2.

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Topic / Core Principle	Application Guidance	Implementation Guidance	Existing IEs	Action proposed
Revenue from Transactions with Binding Arrangements				
• Criteria for 5-Step Model	AG31–AG38		[ED70] 5 Collectability of the Consideration [ED70] 6 Consideration is not the Stated Price—Implicit Price Concession [ED70] 7 Implicit Price Concession [ED70] 8 Reassessing the Criteria for Identifying a Binding Arrangement	Revise , to clarify that the assessment is on whether to apply the model (not whether it is BA)
• Modifications			[ED70] 9 Modification of a Binding Arrangement for Goods [ED70] 10 Change in the Transaction Price after a Modification of a Binding Arrangement [ED70] 11 Modification of a Binding Arrangement of Services [ED70] 12 Modification Resulting in a Cumulative Catch-up Adjustment to Revenue [ED70] 13 Unapproved Change in Scope and Price	Retain Retain Remove , [ED 70] 9 sufficiently illustrates the principle Retain Remove , not prevalent in public sector
• Breach of Terms and Conditions	AG39–AG41			
• Identifying Compliance Obligations	AG42–AG55	D.1 Identifying Compliance Obligations in a Binding Arrangement	[ED70] 15 Determining whether goods or services are distinct [ED70] 14 Goods and services are not distinct [ED71] 13 Transfer to Another Level of Government with Present Obligations	Retain Revise , and add another Case to illustrate how an entity can identify compliance obligations for a BA related to programmatic initiatives Revise , to focus on identifying

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Topic / Core Principle	Application Guidance	Implementation Guidance	Existing IEs	Action proposed
				compliance obligations
			[ED70] 16 Explicit and Implicit Promises in a Binding Arrangement	Retain
• Initial Recognition of Revenue	AG56–AG57			
• Existence and Recognition of Liability	AG58–AG61			
• Satisfaction of Compliance Obligations	AG62–AG83		[ED70] 17 Purchaser Simultaneously Receives and Consumes the Economic Benefits or Service Potential	Retain
			[ED70] 18 Assessing Alternative Use and Right to Payment	Retain
			[ED70] 19 Asset has no Alternative Use to the Entity	Remove, [ED 70] 18 sufficiently illustrates the principle
○ Resource Provider Acceptance of Entity's Transfer of Goods or Services	AG84–AG87			
○ Methods for Measuring Progress	AG88–AG97	D.2 Satisfaction of Compliance Obligations: Methods of Measuring Progress	[ED70] 21 Assessing Whether a Performance Obligation is Satisfied at a Point in Time or Over Time	Retain
			[ED70] 20 Enforceable Right to Payment for Performance Completed to Date	Remove, [ED 70] 21 sufficiently illustrates the principle
			[ED70] 22 Measuring Progress when Making Goods or Services Available	Retain
			[ED70] 23 Uninstalled Materials	Retain
		D.3 Satisfaction of Compliance Obligations: Measuring Progress for Capital Transfers		
• Variable Consideration			[ED70] 25 Estimating Variable Consideration	Retain
			[ED70] 24 Penalty Gives Rise to Variable Consideration	Remove, [ED 70] 25 sufficiently illustrates the principle

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Topic / Core Principle	Application Guidance	Implementation Guidance	Existing IEs	Action proposed
• Right of Return	AG98–AG105		[ED70] 26 Right of Return	Remove , not prevalent in public sector
• Constraining Estimates of Variable Consideration			[ED70] 27 Volume Discount Incentive	Remove , not prevalent in public sector
			[ED70] 28 Management Fees Subject to the Constraint	Remove , not prevalent in public sector
• Consideration Payable to Resource Provider	AG106–AG108			
• Significant financing component			[ED70] 29 Significant Financing Component and Right of Return	Retain
			[ED70] 30 Withheld Payments on a Long-Term Binding Arrangement	Retain
			[ED70] 31 Determining the Discount Rate	Retain
			[ED70] 32 Advance Payment and Assessment of Discount Rate	Retain
			[ED70] 33 Advance Payment	Retain
• Non-cash consideration			[ED70] 34 Entitlement to Non-Cash Consideration	Retain
• Allocation Based on Stand-Alone Values		D.4 Allocation Based on Stand-Alone Values	[ED70] 35 Allocation Methodology	Retain
			[ED70] 37 Allocation of Variable Consideration	Retain
			[ED70] 38 Provision of Vaccines to Third-Party Beneficiaries	Revise , to better illustrate transaction types and clarify measures of progress
• Allocation of a Discount	AG109–AG111		[ED70] 36 Allocating a Discount	Retain
• Determination of Stand-alone Value	AG112			
• Warranties	AG113–AG118			

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Topic / Core Principle	Application Guidance	Implementation Guidance	Existing IEs	Action proposed
• Principal vs Agent Considerations	AG119–AG127		[ED70] 48 Promise to Provide Goods or Services (Entity is a Principal)	Remove , not prevalent in public sector
			[ED70] 49 Promise to Provide Goods or Services (Entity is a Principal)	Retain
			[ED70] 50 Promise to Provide Goods or Services (Entity is a Principal)	Retain , while the conclusion is same as 49, this example illustrates a different “chain” of parties in the transaction
			[ED70] 51 Arranging for the Provision of Goods or Services (Entity is an Agent)	Retain
			[ED70] 47 Arranging for the Provision of Goods or Services (Entity is an Agent)	Remove , [ED 70] 51 sufficiently illustrates the principle
• Resource Provider Options for Additional Goods or Services	AG128–AG132		[ED70] 52 Option that Provides the Purchaser with a Material Right (Discount Voucher)	Remove , not prevalent in public sector
			[ED70] 53 Option that Provides the Purchaser with a Material Right (Renewal Option)	Remove , not prevalent in public sector
			[ED70] 54 Loyalty Program	Remove , not prevalent in public sector
• Resource Provider’s Unexercised Rights	AG133–AG136			
• Non-refundable Upfront Fees	AG137–AG140		[ED70] 55 Non-refundable Upfront Fee	Retain
Other Assets from Revenue Transactions with Binding Arrangement Costs			[ED70] 39 Costs that Give Rise to an Asset	Retain
Subsequent Measurement of Receivables		F.1 Subsequent Measurement for Non-		

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Topic / Core Principle	Application Guidance	Implementation Guidance	Existing IEs	Action proposed
		Contractual Receivables		
Display			[ED70] 40 Binding Arrangement Liability and Receivable	Retain
			[ED70] 41 Binding Arrangement Asset Recognized for the Entity's Performance	Retain
			[ED70] 42 Receivable Recognized for the Entity's Performance	Retain
Disclosure	AG205–AG209		[ED71] 22 Disclosure of Services In-kind not Recognized	Retain
			[ED71] 25 Disclosures Made in the Financial Statements of Government A	Retain
			[ED71] 32 Disclosure of a Transfer Subject to Appropriations	Retain
			[ED70] 43 Disaggregation of Revenue—Quantitative Disclosure	Retain
			[ED70] 44 Disclosure of the Transaction Price Allocated to the Remaining Performance Obligations	Retain
			[ED70] 45 Disclosure of the Transaction Price Allocated to the Remaining Performance Obligations—Qualitative Disclosure	Retain
			[ED70] 46 Disclosures of Transactions that an Entity was Compelled to Enter by Legislation or Other Governmental Policy Decisions	Retain
Effective Date and Transition				
Application of Principles to Specific Transactions (capital transfers, services in-kind, etc.)	AG141–AG204	E.1 Accounting for Multi-Year Arrangements	[ED71] 29 Capital Transfers – Single Present Obligation	Revise, and replace with the 4 examples Board finalized in July 2022
			[ED71] 30 Capital Transfers – Multiple Present Obligations	
			[ED71] 17 Pledge – Television Appeal for Public Hospital	Retain
			[ED71] 26 Concessionary Loans	Retain
			[ED71] 15 Debt Forgiveness	Retain
			[ED71] 18 Fine	Retain
			[ED71] 16 Proposed Bequest	Retain
			[ED71] 19 External Assistance Recognized	Retain
			[ED71] 21 Goods in-kind received as Revenue	Retain

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Topic / Core Principle	Application Guidance	Implementation Guidance	Existing IEs	Action proposed
			[ED71] 27 Interaction Between Measurement Requirements of [draft] IPSAS [X] (ED 71) Revenue without Performance Obligations) and IPSAS 41	Revise , to reflect Board decisions (if BA, IPSAS 41 by analogy)
			[ED70] 56 Right to Use Intellectual Property	Remove , not prevalent in public sector
			[ED70] 57 License of Intellectual Property	
			[ED70] 58 Identifying a Distinct License	
			[ED70] 59 Access to Intellectual Property	
			[ED70] 60 Right to use Intellectual Property (Recognition at a Point in Time)	
			[ED70] 61 Sales-based Royalty for a License of Intellectual Property	
			[ED70] 62 Access to Intellectual Property	
			[ED70] 63 Repurchase Agreements	
			[ED70] 64 Bill-and-Hold Arrangement	

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Table 2: Transfer Expenses

Topic / Core Principle	Application Guidance	Implementation Guidance	Existing IEs	Action proposed
Objective				
Scope	AG2-AG3		[ED72] 1 Transfer Where the Other Party Provides Goods and Services	Revise
			[ED72] 2 Research Grants	Revise to illustrate whether 'transfer expense' definition is met
			[ED72] 3 Transaction with Components Within the Scope of Other IPSAS	Remove
Definitions	AG4-AG9	A.1 Capital Transfers		See application section below.
Identifying the Transfer Expense Transaction	AG10			
Binding Arrangements and Enforceability				
• Binding Arrangement	AG11-AG13	B.1 Identify Whether a Binding Arrangement Exists		Add
• Enforceability	AG14-AG25	B.2 Enforceability		
		B.3 Enforceability: Transfers Subject to Appropriations	[ED72] 35 Agreement for Transfers Subject to Approval of Appropriations	Revise
		B.4 Changes in Factors Related to the Enforceability of a Binding Arrangement		
• Parties in a Binding Arrangement	AG26-AG29			
• Combination of Binding Arrangements				

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Topic / Core Principle	Application Guidance	Implementation Guidance	Existing IEs	Action proposed
Transfer Expenses from Transactions without Binding Arrangements		C.1 Accounting for Transfers Arising from Transactions without Binding Arrangements		
Recognition	AG30			
Measurement				
Transfer Expenses from Transactions with Binding Arrangements				
Identifying Transfer Rights	AG31-AG34	D.1 Identifying Transfer Rights in a Binding Arrangement	[ED72] 10 Goods and Services are not Distinct [ED72] 11 Determining whether Goods or Services are Distinct	Remove Revise to illustrate the identification of transfer rights and use the same fact pattern to illustrate measurement (allocation of transfer consideration)
			[ED72] 26 Right to Use Intellectual Property	Remove
			[ED72] 27 License of Intellectual Property	Remove
			[ED72] 28 Identifying a Distinct License	Remove
Recognition of Transfer Expenses				
• Recognition at Inception of a Binding Arrangement	AG30, AG35-AG37			Replace , all previous IEs with 1 multi-step example to walk through recognition of transfer right asset and subsequent derecognition of the asset / recognition of expense. Each step will build on the
• Derecognition of the Transfer Right Asset	AG38-AG41	E.1 Derecognition of a Transfer Right Asset	[ED72] 12 Third-Party Beneficiary Simultaneously Receives and Consumes the Economic Benefits or Services Potential	
			[ED72] 13 Assessing Alternative Use and Right to Payment	
			[ED72] 14 Asset has no Alternative Use to the Transfer Recipient	

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Topic / Core Principle	Application Guidance	Implementation Guidance	Existing IEs	Action proposed
			[ED72] 15 Measuring Progress when the Transfer Recipient is Making Goods or Services Available	previous fact pattern and only change one fact at a time.
• Recognition of a Transfer Obligation Liability	AG42-AG46			Add
• Interaction Between Transfer Right Asset and Transfer Obligation Liability	AG47-AG48			
Modifications to a Binding Arrangement			[ED72] 5 Modifications of a Binding Arrangement for Goods	Remove
			[ED72] 6 Change in the Transaction Consideration after a Modification of a Binding Arrangement	Remove
			[ED72] 7 Modification of a Binding Arrangement for Services	Remove
			[ED72] 8 Modification Resulting in a Cumulative Catch-up Adjustment to Expenses	Revise
			[ED72] 9 Unapproved Change in Scope and Price	Remove
Derecognition of a Transfer Right Asset Due to Non-Performance by the Transfer Recipient		E.1 Derecognition of a Transfer Right Asset		
Measurement				
• Variable Consideration			[ED72] 16 Penalty Gives Rise to Variable Consideration	Remove
			[ED72] 17 Estimating Variable Consideration	
			[ED72] 18 Volume Discount Incentive	
• Allocating the Transfer Consideration to Transfer Rights	AG49-AG50	F.1 Allocating the Transfer Consideration to Transfer Rights	[ED72] 22 Allocation Methodology	Remove , as these specific items are no longer in the Standard. (The general allocation is included in the IE on identifying transfer rights.) Non-refundable upfront fee example related to an exchange
			[ED72] 23 Allocating a Discount	
			[ED72] 24 Option that Provides the Transfer Provider with a Material Right (Discount Voucher)	
			[ED72] 25 Non-refundable Upfront Fees	

Agenda Item 9.2.3

Topic / Core Principle	Application Guidance	Implementation Guidance	Existing IEs	Action proposed
				transaction that would not meet the definition of a transfer expense.
• Changes in the Transfer Consideration				
Impairment of a Transfer Right Asset		E.1 Derecognition of a Transfer Right Asset		
Display	AG51			
Disclosure				Add
Effective Date and Transition				
Application of Principles to Specific Transactions		G.1 Accounting for Multi-Year Arrangements		
• Capital Transfers	AG52-AG54			Add

The following ED 72 examples were removed as they related to principles which are no longer relevant:

- [ED72] 4 Government Funding of Employment Program
- [ED72] 19 Withheld Payments on a Long-Term Binding Arrangement
- [ED72] 20 Determining the Discount Rate
- [ED72] 21 Advanced Payment and Assessment of Discount Rate
- [ED72] 29 Bill-and-Hold Arrangement
- [ED72] 30 Transfer of Resources to Another Level of Government for General Purposes
- [ED72] 31 Transfer of Resources with an Enforceable Activity and/or Eligible Expenditure
- [ED72] 32 Transfer to Another Level of Government with Specific Requirements
- [ED72] 33 Debt Forgiveness
- [ED72] 34 Agreement for a Series of Transfers
- [ED72] 36 National Government Provides Transfers to Regional Government
- [ED72] 37 Transfer Provider's Binding Arrangement Asset
- [ED72] 38 Transfer Provider's Binding Arrangement Liability Recognized for the Transfer Recipient's Performance
- [ED72] 39 Disclosure of the Transaction Consideration Allocated to the Transfer Recipient's Remaining Performance Obligations
- [ED72] 40 Disclosure of the Transaction Consideration Allocated to the Transfer Recipient's Remaining Performance Obligations - Qualitative Disclosure
- [ED72] 41 Disclosure of a Transfer Expense Subject to Appropriations

Proposed Approach for Amendments to Other IPSAS

Purpose

1. To summarize staff's proposed approach for Amendments to Other IPSAS in the [draft] IPSAS [X], *Revenue* and [draft] IPSAS [X], *Transfer Expenses*.

Background

2. The "Amendments to Other IPSAS" of a new or revised IPSAS reflect the changes required to the existing IPSAS as a result of the newly approved Standard. Amendments to Other IPSAS are authoritative and generally are revisions to existing IPSAS references (e.g., replacing existing or adding new references to specific IPSAS). In cases where the proposed IPSAS introduces new principles, the amendments may also propose additional guidance for legacy IPSAS.
3. As highlighted in [Agenda Item 9.2.1](#), the IPSASB made all principled-related decisions on the Revenue and Transfer Expenses projects in June and September 2022, respectively. Decisions are reflected in the drafted authoritative guidance, which has been reviewed by the Drafting Group (DG) and the IPSASB. Since authoritative guidance is now finalized, staff will begin finalizing the Amendments to Other IPSAS.

Proposed Approach

4. The 2020 Exposure Drafts (EDs) included proposed Amendments to Other IPSAS. Finalization of the two [draft] IPSAS requires review of Amendments to Other IPSAS proposed in the ED(s) to determine if adjustments or additional amendments are needed based on the IPSASB's decisions to date.
5. Staff analyzed the EDs Amendments to Other IPSAS related to the two projects as follows:
 - (a) **Revenue** –The accounting principles have not substantially changed since EDs 70-71. Rather, decisions have primarily changed the structure and presentation of revenue accounting guidance, and clarified fundamental concepts in the drafting. Details were provided in [Agenda Item 9.2.3](#).
 - (b) **Transfer Expenses** – While the proposed Standard has changed substantially since ED 72, the primary changes have been to the structure of the standard, the principles driving the recognition and derecognition of transfer right assets, and the guidance around the timing of recognition. ED 72 had a limited number of Amendments to Other IPSAS, and staff does not expect these principle-related changes to impact how the proposed guidance interacts with existing IPSAS.
6. Staff's approach to finalize the Amendments to Other IPSAS is as follows:
 - (a) **[draft] Revenue IPSAS only:** combine the two sets of Amendments proposed in EDs 70-71 and eliminate any duplication, such as scope-related amendments, that are no longer relevant;
 - (b) **Both [draft] Revenue and [draft] Transfer Expenses IPSAS:**
 - (i) Revise the Amendments to Other IPSAS from the 2020 EDs for:
 - a. Consistency in new terminology and wording changes (e.g., compliance obligation, transfer rights, stand-alone value, etc.) agreed by IPSASB;

- b. Any annual Improvements since made since February 2020 that are relevant to revenue and/or transfer expenses;
- (ii) Reconsider amendments to IPSAS 17, *Property, Plant, and Equipment* after the completion of the current Property, Plant, and Equipment project (tentative approval in December 2022);
- (iii) Consider whether any amendments are required for IPSAS issued after December 2019 (when EDs 70-72 were approved by IPSASB) (i.e., IPSAS 43, *Leases* and IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations*); and
- (iv) Engage the DG to review proposed Amendments to Other IPSAS.

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

1. This supporting document is the current version of the [draft] IPSAS [X], *Transfer Expenses*, which includes:
 - (a) Drafting based on IPSASB decisions and instructions, and subsequent Drafting Group discussions; and
 - (b) Revisions based on offline discussions with various members and to improve consistency in wording and terminology use within and between the Revenue and Transfer Expenses IPSAS.
2. To facilitate review:
 - (a) Revisions to the authoritative guidance (Core Text and Application Guidance) since the version presented at the September 2022 IPSASB meeting are highlighted in tracked changes;
 - (b) All non-authoritative guidance presented (Basis for Conclusions and Implementation Guidance) are new to the Board, and have been extensively reviewed by the Drafting Group. To facilitate readability, these additions have not been highlighted in tracked changes; and
 - (c) Minor editorial and formatting changes have been accepted to facilitate readability.

[DRAFT] IPSAS [X], TRANSFER EXPENSES

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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 resources 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~~ 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~~ Financial instruments, including 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); ~~and~~
 - (i) Income taxes (see the international or national accounting standard dealing with income taxes).
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~~ separately recognize 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 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:

From the perspective of a transfer provider, a capital transfer is an outflow of cash or another asset that arises from a binding arrangement with a specification that the transfer recipient acquires or constructs a non-financial asset that will be controlled by the transfer recipient. (Paragraph AG53 provides additional guidance.)

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

For the purposes of this [draft] Standard, the transfer consideration is the amount of total ~~consideration~~resources 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 asset¹ to another entity (which may be an individual) without directly receiving any good, service, or other asset in return (paragraphs 18-29 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~~A transfer provider is an entity that provides a good, service, or other asset to another entity without directly receiving any good, ~~services~~service 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~~satisfy 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]:

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

- (a) Binding arrangement;
- ~~1. — Capital transfer;~~
- (b) Compliance obligation;
- (c) Contract;
- ~~2. — Control of an asset;~~
- (d) Taxes; and
- (e) 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, or not the transaction results in the recognition of an asset. Transfers which do not result in the recognition of an asset are generally recognized as a transfer expense when the entity loses control of the transferred resources. Alternatively, when the entity has incurred an obligation to transfer resources, it recognizes a liability and transfer expense.~~ 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 and whether an obligation to transfer resources exists.
- 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 21-43.

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 fulfillingsatisfying 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. When the binding arrangement is wholly unsatisfied, 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 satisfy their obligations under the arrangement.
- 15.16. A binding arrangement is wholly unfulfilledunsatisfied 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 fulfillingsatisfying any of its stated compliance obligations in the binding arrangement; and
 - (b) The transfer recipient has not fulfilledstarted satisfying any of its stated compliance 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 priceconsideration 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.

Paragraph AG30 provides additional guidance on the derecognition of the transferred resources.

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~~transferred 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~~satisfy an obligation that is separate from the ~~fulfillments~~satisfaction of other obligations in the binding arrangement; or
 - (b) A series of rights to have the transfer recipient ~~fulfill~~satisfy its obligation that have substantially the same characteristics and risks and that have the same pattern of ~~fulfillments~~satisfaction.

Paragraphs AG31-AG34 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 ~~fulfills~~^{satisfies} its obligations, the transferred resources are derecognized²¹ and a transfer right asset is recognized for the transfer rights arising from the binding arrangement.

Paragraph AG30 provides additional guidance on the derecognition of the transferred resources.

23. Conversely, when a transfer recipient ~~fulfills~~^{satisfies} 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.

Paragraphs AG35-AG49 provide additional guidance on the recognition of transfer expenses.

Derecognition of a Transfer Right Asset Due to Non-Performance by the Transfer Recipient

26. After the recognition of a transfer right asset, the transfer recipient may become unable or unwilling to satisfy 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, and/or other circumstances, the entity shall derecognize the transfer right asset and recognize a financial asset. Subsequent to its recognition, the entity shall measure the financial asset in accordance with IPSAS 41, *Financial Instruments*.

Modifications to a Binding Arrangement

- ~~26-27.~~ 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 enforceable rights and obligations, or changes to 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.

- ~~27-28.~~ An entity shall account for a modification to a binding arrangement as a separate binding arrangement if both of the following conditions ~~are present~~^{exist}:

- (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.

~~28-29.~~ If a modification to a binding arrangement is not accounted for as a separate binding arrangement in accordance with paragraph 28, 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~~satisfy 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~~satisfied 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~~satisfy 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~~satisfies 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 AG50-AG51 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 27-29.

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~~satisfy its obligations under the binding arrangement. When this occurs, and ~~if the transfer right asset is~~terms of the binding arrangement, the legal system in the jurisdiction, and/or other circumstances do not ~~reclassified to~~support the recognition of a financial asset as noted in paragraph 26, the entity shall assess the transfer right asset for impairment in accordance with IPSAS 21, *Impairment of Non-Cash-Generating Assets*.

Presentation

Display

44. **For transfer expenses from transactions without binding arrangement, if an entity recognizes a provision for a constructive or legal obligation to transfer resources, the resulting provision is presented in accordance with the presentation requirements for provisions in paragraphs 88, 94, and 107 of IPSAS 1.**
45. **For transfer expenses from transactions with binding arrangements, when only one party to a binding arrangement has performed and the other parties have yet to perform, an entity shall present the binding arrangement in the statement of financial position as a transfer right asset or transfer obligation liability, based on the guidance in paragraphs 22-23.**
46. An entity shall present a transfer right asset in accordance with the presentation guidance for prepayment assets in paragraphs 76, 90, 91, and 94 of IPSAS 1.
47. When a transfer right asset has been derecognized for non-performance and a financial asset has been recognized (see paragraph 26), the entity presents the financial asset in accordance with the requirements in IPSAS 28, *Financial Instruments: Presentation*.
48. An entity shall present a transfer obligation liability in accordance with the presentation guidance for transfers payable in paragraphs 80 and 88 of IPSAS 1.
49. As required by paragraph 109 of IPSAS 1, an entity shall present, either on the face of the statement of financial performance or in the notes, an analysis of expenses using a classification based on the nature of expenses or their function within the entity. Paragraph 111 of IPSAS 1 also requires the subclassification of expenses to highlight the costs and cost recoveries of particular programs, activities, or other relevant segments of the reporting entity. In the context of transfer expenses, the analysis of expenses by nature results in the presentation of transfer expenses as a separate line item, while the analysis of expenses by function results in the allocation of transfer expenses to the various programs or purposes for which the transfers were made.

Paragraph AG52 provides additional guidance on the presentation and disclosure of transfer expenses.

Disclosure

50. **The objective of the disclosure requirements is for the entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing, and uncertainty arising from transfer expenses. To achieve that objective, the entity shall disclose qualitative and quantitative information about all of the following:**

- (a) **Transfer expenses and related balances (see paragraphs 53-58);**
- (b) **Transfer arrangements (see paragraphs 59-60); and**
- (c) **The significant judgements, and changes in the judgements, made regarding the recognition of transfer right assets from transfer expense transactions (see paragraph 61).**

51. 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.
52. 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.

Transfer Expenses and Related Balances

53. As noted in paragraph 49, an entity shall incorporate transfer expenses in the analysis of expenses required by IPSAS 1. This analysis can be presented on the face of the statement of financial performance or disclosed in the notes.
- Paragraph AG52 provides additional guidance on the presentation and disclosure of transfer expenses.
54. In addition to the analysis of expenses, an entity shall provide qualitative and quantitative information on the significant transfers arising from transactions with and without binding arrangements to able users to understand how the entity's resources are spent on its programs, activities, and services.
55. When a transfer right asset has been derecognized for non-performance and a financial asset has been recognized (see paragraph 26), the entity applies the disclosure requirements for financial assets from IPSAS 30, *Financial Instruments: Disclosures*.
56. A transfer obligation liability which arose from an obligation to transfer cash meets the definition a financial liability measured at amortized cost. Therefore, the disclosure requirements from IPSAS 30 for payables are applicable to such liabilities.
57. If a liability has been recognized for variable consideration (see paragraphs 35-37), an entity shall apply the disclosure requirements applicable to provisions in IPSAS 19.
58. For transfer from transactions without binding arrangements, when a liability is recognized for a legal or constructive obligation to transfer resources, an entity shall apply the disclosure requirements applicable to provisions in IPSAS 19.

Transfer Arrangements

59. An entity shall disclose information about its transfer binding arrangements including a description of the following:
- (a) The purpose of the transfer binding arrangements;
 - (b) Significant payment terms;
 - (c) Nature of the resources that have been or will be transferred; and

- (d) Significant risks and uncertainties relating to the realization of transfer rights assets.

The above information can be aggregated for binding arrangements that are of a similar nature.

60. An entity may enter an arrangement for a transfer that is not a binding arrangement. For such arrangements, an entity shall disclose the following:

- (a) The purpose of the transfer arrangements;
- (b) Significant payment terms, if any; and
- (c) Nature of the resources that have been or will be transferred.

The above information can be aggregated for arrangements that are of a similar nature.

Significant Judgements, and Changes in Judgements, Made Regarding the Recognition of Transfer Right Assets from Transfer Expense Transactions

61. An entity shall disclose the significant judgements, and changes in judgements, made regarding the recognition of transfer right assets from transfer expense transactions. In particular, an entity shall explain the basis for the recognition of its transfer right assets.

Effective Date and Transition

Effective Date

62. **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.**
63. 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

64. **An entity shall apply this [draft] Standard using one of the following two methods:**
- (a) **Prospectively to transfers occurring on or after the date of initial application 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*.**

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) Derecognition of the Transferred Resources (paragraph AG30);
- (f) Identifying Transfer Rights (paragraphs AG31-AG34);
- (g) Recognition of Transfer Expenses from Transactions with Binding Arrangements (paragraphs AG35-AG49);
- (h) Allocating the Transfer consideration to Transfer Rights (paragraphs AG50-AG51); and
- (i) Presentation: Display (paragraph AG52);
- (j) Specific Application Issues (paragraphs AG53-AG55).

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, service, or other asset to another entity without directly receiving any good, service, or other asset in return.
- AG3. This [draft] Standard does not address transactions where an entity receives any good, service, or other asset in return for the good, service, or other asset 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 that is received directly from the transfer recipient.~~

Transfer Obligation and Transfer Obligation Liability

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. The liability recognized for the existence of one or more transfer obligations arising from a binding arrangement is referred to as a transfer obligation liability.

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~~satisfy 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~~satisfying 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~~satisfaction 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~~satisfaction 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~~satisfy 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 ~~fulfillments~~satisfaction 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~~satisfy 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 ~~fulfillings~~satisfying 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~~satisfy 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~~satisfy 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 ~~fulfill~~satisfy the promises established within the arrangement or to seek redress should those promises not be ~~fulfilled~~satisfied.
- 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.

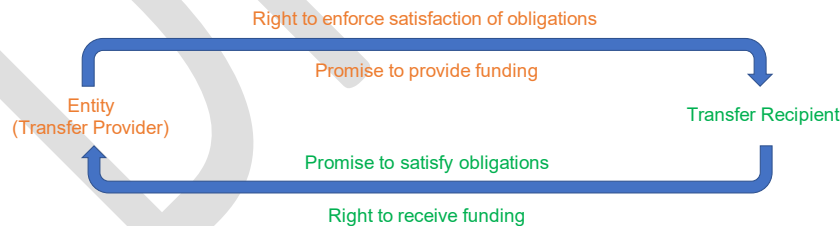
AG24. When determining if a reduction of future funding would be an enforcement mechanism, the entity shall apply judgment based on the facts and circumstances. Key factors that may indicate the entity would reduce future funding in the event of a breach of promises made in another binding arrangement are the entity's ability to reduce future funding and its past history of doing so.

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.

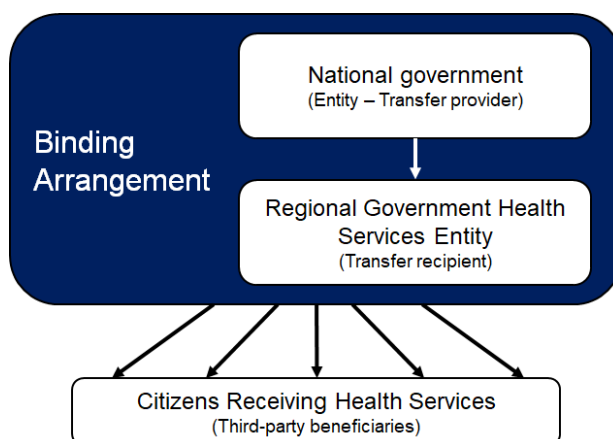
AG27. That is, at a minimum, the entity must be able to enforce ~~fulfillment~~satisfaction of the obligations assumed by the entity receiving the consideration, and the entity receiving the consideration (transfer recipient) must be able to enforce the promise to receive funding (consideration). The 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~~binding arrangements, the entity must have the ability to force the transfer recipient to deliver goods, services, or other assets 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~~resources from the entity and is responsible for providing goods,

services, or other assets to the third-party beneficiaries. This relationship is illustrated in the following diagram.



Derecognition of the Transferred Resources (paragraphs 18 and 22)

AG30. For both transfer expenses transactions with and without binding arrangements:

- (a) Prior to the transfer of a non-financial asset to a transfer recipient, the 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 non-financial asset, which could be an indication of impairment;
- (b) The consideration in paragraph AG30(a) does not apply to financial assets to be transferred, as the potential impairment of financial assets are assessed continuously in accordance with the requirements of IPSAS 41; and
- (c) When the transferred resources are derecognized, an entity should apply the derecognition guidance from other Standards that are applicable to the assets which have been transferred.

Identifying Transfer Rights (paragraph 21)

AG30-AG31. 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-AG32. 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-AG33. 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-AG34. In some binding arrangements, it may not be possible to identify aggregations of rights to have the transfer recipient ~~fulfill~~satisfy its obligation that are distinct. In such cases, the entity shall identify the binding arrangement as a single transfer right.

Recognition of Transfer Expenses from Transactions with Binding Arrangements (paragraphs 22-25)

Recognition at Inception of a Binding Arrangement

AG34-AG35. In accordance with paragraph 15, at the inception of a binding arrangement and when the binding arrangement is wholly ~~unfulfilled~~unsatisfied, 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~~unsatisfied 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-AG36. 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 ~~fulfills~~satisfies their stated obligations. An entity shall account for these items in accordance with paragraphs 22-25.

AG36-AG37. Where parts of the binding arrangement remain equally ~~unfulfilled~~unsatisfied, the entity shall not recognize any asset, liability, or expense for the equally ~~unfulfilled~~unsatisfied parts of the binding arrangement. Such equally ~~unfulfilled~~unsatisfied 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-AG38. Typically, a transfer recipient's ~~fulfillment~~satisfaction (or lack of ~~fulfillment~~satisfaction) 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 ~~fulfills~~satisfies its obligations, the entity's corresponding transfer right is extinguished.

AG38-AG39. A binding arrangement may specify that as the transfer recipient ~~fulfills~~satisfies 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~~satisfaction of its obligations in the binding arrangement. If the entity cannot reliably estimate the transfer recipient's progress towards complete ~~fulfillment~~satisfaction of its obligation, the transfer right asset shall be expensed immediately.

AG39-AG40. 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 ~~fulfills~~satisfies its obligations, methods based on elapsed time would not faithfully depict the transfer recipient's ~~fulfillment~~satisfaction 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.

AG41. *In some situations, a transfer right asset may be derecognized when the transfer recipient is unable or unwilling to satisfy its obligations in a binding arrangement. (See paragraph 26.) A transfer right asset may also be derecognized if changes in facts and circumstances indicate that the arrangement is no longer binding. (See paragraph AG14).*

AG40-AG42. If the entity and the transfer recipient both ~~fulfill~~satisfy 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-AG43. If the transfer recipient has ~~fulfilled~~satisfied 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~~satisfaction of the obligation completed to date. As the transfer recipient has already ~~fulfilled~~satisfied 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-AG44. In many cases, a transfer recipient will have an unconditional right to payment only at an agreed-upon milestone or upon complete ~~fulfillment~~satisfaction of the obligation. In assessing whether a transfer recipient has a right to payment for ~~fulfillment~~satisfaction 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~~satisfaction 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~~satisfy its obligations as promised.

AG43-AG45. In some binding arrangements, an entity may or may not 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~~satisfy its obligations as promised), the binding arrangement (or other laws) might entitle the transfer recipient to continue to ~~fulfill~~satisfy its obligations and require the entity to pay the consideration promised in exchange for those obligations being ~~fulfilled~~satisfied. In those circumstances, a transfer recipient has a right to payment for ~~fulfillment~~satisfaction of its obligations completed to date because the transfer recipient has a right to continue to ~~fulfill~~satisfy its obligations in accordance with the binding arrangement and to require the entity to ~~fulfill~~satisfy its transfer obligations.

AG44-AG46. 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-AG47. The payment schedule specified in a binding arrangement does not necessarily indicate whether a transfer recipient has an enforceable right to payment for ~~fulfillment~~satisfaction 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~~satisfaction 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~~satisfy its obligations as promised in the binding arrangement.

Interaction Between Transfer Right Assets and Transfer Obligation Liability

AG46-AG48. 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~~satisfaction of the transfer recipient's compliance obligations will result in the recognition of an expense and a transfer obligation liability.

AG47-AG49. 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-AG50. 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-AG51. 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~~satisfying its obligations when negotiating the binding arrangement.

Presentation and Disclosure (paragraphs 44-61)

AG52. Paragraph 49 requires transfer expenses to be included in the analysis of expenses, either presented on the face of the statement of financial performance or disclosed in the notes. To meet this requirement and the disclosure objective in paragraph 50, an entity shall provide sufficient information in the analysis of expenses, along with the description of the nature of the entity's operations and principal activities as required by paragraph 150 of IPSAS 1, to enable users to understand how the entity's resources are spent on its programs, activities and services.

Application of Principles to Specific Transactions

Capital Transfers

AG53. AThis [draft] Standard defines a capital transfer as a transaction that arises from a binding arrangement for a capital transfer may require where the entity provides cash or another asset with a specification that the transfer recipient acquires or constructs a non-financial asset that will be controlled by the transfer recipient. A capital transfer gives rise to return resources at least one transfer right to the entity if the asset is not used for the transfer recipient to satisfy its obligation to acquire or construct a non-financial asset or face the consequences as specified for an agreed period. Such in the binding arrangement.

AG54. An entity shall account for a capital transfer transaction by applying paragraphs 21-25. An entity shall identify the transfer rights in the binding arrangement in accordance with paragraph 21 then separately account for each transfer right by applying paragraphs 22-25. In situations where an entity transfers resources prior to the acquisition or construction of the non-financial asset by the transfer recipient, upon the transfer of resources, the entity typically recognizes a transfer right asset, which is then expensed when the non-financial asset is acquired or as it is being constructed.

AG50-AG55. Some binding arrangements for capital transfers may include a single transfer right for the construction or purchase acquisition of the a non-financial asset, or may include which meets the definition of a capital transfer, and separate transfer rights for the construction or purchase of the asset and for its operation of the asset, which would not meet the capital transfer definition. 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 once constructed or purchased.

Amendments to Other IPSAS

1. [Pending]

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, [draft] IPSAS [X], Transfer Expenses.

Introduction

- BC1. The primary objective of most public sector entities is to deliver services to the public, rather than to make profits and generate a return on equity to investors. For many governments, the delivery of services to the public through social benefits, collective and individual services, and transfer expenses account for a significant portion of their expenditures.
- BC2. In March 2015, the IPSASB approved a project brief to develop the requirements for accounting for non-exchange expenses, other than social benefits. The project brief acknowledged that there had been little guidance on the non-exchange transactions from the provider's perspective and that this area was a gap in the IPSASB's literature.
- BC3. The IPSASB undertook a phased program of work to address non-exchange transactions from the provider's perspective, beginning with IPSAS 42, *Social Benefits*, which was issued in

January 2019, then continuing with *Collective and Individual Services* (Amendments to IPSAS 19), issued in January 2020.

- BC4. For the remaining non-exchange expenses, the IPSASB released a Consultation Paper (CP), *Accounting for Revenue and Non-Exchange Expenses*, in August 2017 to seek constituent views on potential recognition and measurement for both revenue and non-exchange expenses. The CP:
- (a) Proposed replacing the then-current IPSAS dealing with revenue from exchange transactions and construction contracts with an IPSAS based on IFRS 15, *Revenue from Contracts with Customers*;
 - (b) Proposed updating IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* to address issues identified by users; and
 - (c) Considered recognition approaches for significant non-exchange expense transactions.

Development of Exposure Draft (ED) 72, Transfer Expenses

- BC5. Based on constituents' feedback on the CP, the IPSASB developed ED 72, *Transfer Expenses*. The ED:
- (a) Proposed a definition for transfer expense;
 - (b) Proposed the classification of transfer expenses based on whether the transfer recipient has at least one performance obligation; and
 - (c) Proposed accounting and disclosure requirements for:
 - (i) Transfer expenses without performance obligations; and
 - (ii) Transfer expenses with performance obligations, which was largely based on application of the Public Sector Performance Obligation Approach (PSPOA) and mirrored the accounting for revenue with performance obligations.
- BC6. In February 2020, the IPSASB published ED 72, together with ED 70, *Revenue with Performance Obligations*, and ED 71, *Revenue without Performance Obligations*. The three exposure drafts were released together to highlight the linkages between the accounting for revenue and transfer expenses.

Feedback from Constituents on ED 72, Transfer Expenses

- BC7. The IPSASB received a broad and diverse set of comment letters in response to ED 72. While the feedback indicated that some constituents supported the proposals, the following significant concerns were also identified:
- (a) The distinction between transfer expenses with and without performance obligations appeared to be unnecessary or artificial, as there was no economic difference between these transactions from a transfer provider's perspective;
 - (b) The distinction based on performance obligations also did not reflect the way transfer expense transactions were carried out in the public sector, as under ED 72, only transfer expenses where the transfer recipient had at least one performance obligation could result in the recognition of an asset. Many respondents identified examples of transactions where

they retained control over the transferred resources (and thus did not immediately derecognize the asset), even if the transfer did not involve performance obligations;

- (c) The proposals in ED 72 required a transfer provider to consider the transaction from the transfer recipient's perspective and assumed that the transfer provider has access to information regarding the transfer recipient's performance obligations. Many respondents noted that this assumption is not realistic and will lead to practical difficulties in applying the proposed guidance;
- (d) In ED 72, only transfer expenses with performance obligations could result in the recognition of an asset. Respondents noted that this accounting model did not necessarily achieve consistency in accounting principles, particularly with asset recognition principles in The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (the IPSASB's Conceptual Framework); and
- (e) The majority of respondents commented that because the proposed disclosures in ED 72 were based on the disclosure requirements from IFRS 15, they did not reflect the nature of transfer expenses, which have different characteristics and risks. Some respondents noted that the proposed disclosures would also impose administrative burden that is disproportionate to any benefits for users.

Discussion with the IPSASB Consultative Advisory Group (CAG)

BC8. The IPSASB consulted the CAG at their December 2020 and June 2021 meetings on significant issues highlighted by respondents. CAG members provided input and advice that helped the IPSASB consider and address issues.

IPSASB's Response to Feedback on ED 72

BC9. In light of the responses to ED 72, the IPSASB decided not to proceed with the proposals in ED 72 and to revisit the proposed accounting and disclosures for transfer expenses to:

- (a) Use the transfer provider's perspective when developing accounting and disclosure requirements;
- (b) Move away from the PSPOA and the distinction between transfer expenses with and without performance obligations;
- (c) Focus on whether the transfer results in the recognition of an asset when developing accounting requirements;
- (d) Use binding arrangements as a fundamental concept for transfer expense accounting; and
- (e) Where appropriate, simplify presentation and disclosure requirements.

Scope (paragraphs 3-5)

BC10. When the IPSASB developed ED 72, the Board had noted that the main group of non-exchange expense transactions which were not already addressed by IPSAS 41, *Financial Instruments*, IPSAS 42 or the amendments to IPSAS 19 consisted of grants, contributions, and other transfers. The IPSASB noted at the time that this group of transactions was covered by the definition of 'transfers' in the statistical reporting frameworks and that aligning the scope of ED 72 with the definition of 'transfers' in the statistical reporting frameworks would be consistent with the IPSASB's

Policy Paper, *Process for Considering GFS Reporting Guidelines During Development of IPSASs*. As a result, the IPSASB agreed to align the scope of ED 72 with the definition of 'transfers' (see paragraph 6) in the statistical reporting frameworks. This scoping decision was retained in [draft] IPSAS [X], *Transfer Expenses*.

- BC11. The IPSASB also decided that contributions from owners and distributions to owners did not meet the definition of transfers and were consequently outside the scope of [draft] IPSAS [X].
- BC12. The IPSASB considered if [draft] IPSAS [X] should explicitly state that onerous contracts are not applicable to transfer expenses and noted that when IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, was developed from IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, the definition of onerous contract was modified to explicitly refer to the exchange of assets or services. Because transfer expenses are defined as transactions where an entity provides a good, service, or other asset without directly receiving any good, service, or other asset in return, the IPSASB concluded that transfer expenses could not meet the definition of onerous contracts. Therefore, no explicit scope exclusion is required.

Definitions (paragraphs 6-7)

- BC13. As noted in paragraph BC10, the IPSASB had decided to align the definition of transfers with the definition in the statistical reporting frameworks. The *Government Finance Statistics Manual 2014* (GSM 2014) defines a transfer as follows:

A transfer is a transaction in which one institutional unit provides a good, service, or asset to another unit without receiving from the latter any good, service, or asset in return as a direct counterpart.

- BC14. Having agreed to use the GFSM 2014 definition of transfers as the basis for the scope of ED 72, the IPSASB had agreed to base the definition of 'transfer expenses' in ED 72 on the GFSM definition. The IPSASB had agreed to adopt the term transfer expenses, as the term transfers had previously been used in IPSAS 23, where the term transfers referred to inflows (i.e., revenue) only. In IPSAS 23, the term transfers also excluded taxes, and the IPSASB had agreed to exclude taxes from the definition of transfer expenses for consistency.
- BC15. The definition of transfer expenses and the exclusion of taxes was retained in [draft] IPSAS [X], as the definition of transfers in [draft] IPSAS [Y], *Revenue*, also only referred to revenue and excluded taxes.
- BC16. As noted in paragraph BC9, the IPSASB decided to revisit the proposed accounting model for transfer expenses. Based on the revisions, as explained in paragraphs BC20-BC30, the IPSASB agreed to define the following terms in [draft] IPSAS [X]:
- (a) Transfer obligation;
 - (b) Transfer obligation liability;
 - (c) Transfer right; and
 - (d) Transfer right asset.
- BC17. [Draft] IPSAS [X] complements [draft] IPSAS [Y] and relies on certain definitions in [draft] IPSAS [Y] where possible (see paragraph 7). In some cases, the switch in perspective from recognizing revenue to recognizing an expense required a modification to the definitions. Consequently, the IPSASB agreed to define the following additional terms in [draft] IPSAS [X]:

- (a) Stand-alone consideration; and
- (b) Transfer consideration.

These definitions are based on the definitions of stand-alone value and transaction consideration in [draft] IPSAS [Y].

- BC18. This Standard refers to the party providing resources in a transfer expense transaction as the 'transfer provider', while [draft] IPSAS [Y] refers to the party providing resources in a revenue transaction as the 'resource provider'. The IPSASB considered whether the same term should be used in both [draft] Standards and decided that because the scope of the revenue standard is broader and encompasses revenue from transfers and other transactions, a more generic term (resource provider) should be used for revenue.
- BC19. The IPSASB also considered the definition of expenses in IPSAS 1, *Presentation of Financial Statements*, as well as constructive obligations in IPSAS 19 and concluded that no changes were required. The IPSASB agreed to include cross-references to these definition in [draft] IPSAS [X] (see paragraph 7 of [draft] IPSAS [X]).

Identifying the Transfer Expense Transaction (paragraphs 8-9)

- BC20. Based on the decision to revisit the general accounting model for transfer expenses, the IPSASB decided that the key transfer expense accounting principle is whether the transaction results in the recognition of an asset by the entity. Transfer transactions which do not result in the recognition of an asset are generally recognized as a transfer expense when the entity loses control of the transferred resources or when the entity has an obligation to transfer resources. The IPSASB also decided that when the entity has incurred an obligation to transfer resources, it recognizes a liability and transfer expense.
- BC21. To operationalize the decisions in paragraph BC20, the IPSASB noted that whether the transaction arises from a binding arrangement provides inputs into the assessments of whether the asset recognition criteria is met and whether the entity has an obligation to transfer resources. Therefore, the IPSASB decided to move away from the classification based on performance obligations and to classify transfer expenses based on whether they arose from transaction with or without binding arrangements.

Binding Arrangements and Enforceability (paragraphs 10-17)

- BC22. The decision to classify transfer expenses based on whether the transfer expense arose from a binding arrangement is consistent with the decision on how revenue should be classified. As outlined in the Basis for Conclusions in [draft] IPSAS [Y] (see paragraphs BC15-BC30, BC43-BC48, and BC116-BC125 of [draft] IPSAS [Y] for details), the IPSASB clarified the impact of binding arrangements and enforceability in IPSAS [Y] and agreed that these clarifications also apply to transfer expenses.
- BC23. As a result, when the IPSASB revisited the accounting model for transfer expenses, the Board agreed to carry over the guidance on binding arrangements and enforceability from [draft] IPSAS [Y], as the principles were equally applicable to transfer expense transactions. This decision had the following impacts on the development of [draft] IPSAS [X]:
- (a) The definition of a 'binding arrangement' was carried over from [draft] IPSAS [Y];

- (b) The guidance on how to determine if an arrangement is enforceable through legal or equivalent means by considering all relevant factors and whether the arrangement meets the definition of a binding arrangement were also carried over;
- (c) Like IPSAS [Y], enforceability is based on the entity's ability to enforce the terms of the binding arrangement, including imposing consequences on parties that do not fulfill their agree-upon obligations;
- (d) Like IPSAS [Y], the assessment of enforceability for transfer expenses occurs at the inception of a binding arrangement and when a significant internal or external change indicates that there may be a change in enforceability;
- (e) The concept that in a binding arrangement, each party will have at least one enforceable right and one obligation was adopted;
- (f) Like revenue arising from transactions with binding arrangements, for transfer expenses with binding arrangements, there is no initial recognition when no party has started to satisfy its stated obligations under the binding arrangement;
- (g) Because an entity's right and obligation within a binding arrangement are directly linked and interdependent, when both the entity and transfer recipient begin to perform in accordance with the binding arrangement, the resulting transfer right assets and transfer obligation liabilities arising from the same binding arrangement are presented as a single asset or liability in the statement of financial position; and
- (h) If a transfer expense arising from a transaction that is subject to an appropriation, the appropriation may limit the enforceability of the related arrangements and impact whether they are binding. The IPSASB noted that this conclusion results from the application of the principles on binding arrangements and enforceability, and therefore developed implementation guidance on how appropriations could impact transfer expense transactions.

Transfer Expenses from Transactions without Binding Arrangements (paragraphs 18-20)

- BC24. The IPSASB decided when a transfer expense arises from a transaction without a binding arrangement, there is no basis for the recognition of a transfer right asset from the transfer of resources. (That is, the recognition of a transfer right asset is only possible when a transfer arises from a binding arrangement—see paragraph BC27.) In these cases, the IPSASB decided that when the transfer occurs and control of the asset is lost, the entity derecognizes the transferred asset and recognizes a transfer expense at the asset's carrying amount.
- BC25. The IPSASB noted that even when there is no binding arrangement, an entity may still have a one-way enforceable right which results in retaining control of the resources after they are transferred. In these cases, the entity would consider the principles in the IPSAS 1, and whether it should recognize an asset. Because this asset's recognition is driven by the definition of an asset in IPSAS 1, the IPSASB decided to include implementation guidance on these situations, and no additional authoritative text is required.
- BC26. The IPSASB also noted that even when there is no binding arrangement, if facts and circumstances result in a legal or constructive obligation to transfer resources, the entity is required to recognize a liability in accordance with the IPSAS 19. [Draft] IPSAS [X] refers to this liability as a transfer obligation liability.

Transfer Expenses from Transactions with Binding Arrangements (paragraphs 21-43)

Recognition

BC27. The IPSASB decided that when an entity begins to transfer resources as specified in a binding arrangement, the transfer results in a transfer right (i.e., transfer provider's enforceable right to have the transfer recipient fulfill its obligations, or face the consequences outlined in the binding arrangement) which meets the definition of an asset in the IPSASB's Conceptual Framework. This is because:

- (a) The transfer right embodies a resource (i.e., the right to direct how the transfer recipient is to use resource internally);
- (b) The binding arrangement provides the transfer provider with control of the transfer right; and
- (c) This control arose from a past event (i.e., the transfer of resources within the context of a binding arrangement).

BC28. The IPSASB decided that an asset recognized to reflect the existence of a transfer right shall be referred to as a transfer right asset. When or as the entity's transfer right is extinguished, the basis of asset recognition no longer exists. Therefore, the related transfer right asset is derecognized and expensed.

BC29. The IPSASB also decided that when a transfer recipient has satisfied its obligations in a binding arrangement, the entity is obligated by the terms of the binding arrangement to transfer resources. This obligation results in the recognition of a liability in accordance with the IPSASB's Conceptual Framework², and [draft] IPSAS [X] refers to such a liability as a transfer obligation liability.

Measurement

BC30. The IPSASB made the following decisions regarding the measurement of transfer expenses arising from transactions with binding arrangements:

- (a) Similar to transfer expenses from transactions without binding arrangements, the transfer consideration is measured based on the total carrying amount of the transferred resources, adjusted for the effects of variable consideration;
- (b) The guidance on variable consideration should refer to the existing recognition and measurement guidance for a provision in IPSAS 19. This is because variable consideration for a transfer expense is of a similar nature as a provision (i.e., a liability of uncertain timing and amount);
- (c) The requirement in ED 72 to consider the time value of money and the effect of financing was removed. Many respondents to ED 72 noted that transfers are typically funded in tranches rather than one large upfront payment, so it would be rare for the discounting of transfers to have a material impact on the financial statements; and
- (d) The allocation of the transfer consideration to the individual transfer rights in a binding arrangement should be based on the amounts stated in the binding arrangement, or if not

² The IPSASB referred to the definition of a liability in the Conceptual Framework rather than IPSAS 1 at this stage, as IPSAS 1 has not yet been updated for the proposed changes to the framework.

explicitly stated, the amounts that the entity intended to compensate the transfer recipient for satisfying each of its compliance obligations in the binding arrangement. The IPSASB noted that this simplification is appropriate because:

- (i) A transfer provider would be fully aware of how much it is willing to pay for each transfer right when negotiating the binding arrangement with the transfer recipient; and
- (ii) The allocation requirements are more robust for revenue because in addition to potentially changing the timing of revenue recognition, an inappropriate allocation for revenue could obscure the margins for certain goods or services or delay the recognition of losses. These additional concerns are not applicable for transfer expenses.

Presentation (paragraphs 44-61)

BC31. As noted in paragraph BC7(e), respondents to ED 72 raised concerns that the proposed disclosures were overly burdensome and did not focus on the nature and risks of transfer expense transactions. To address these concerns, the IPSASB decided to significantly reduce the required display and disclosures requirements to focus on the following areas:

- (a) Display and disclosure of transfer expenses and related balances – The IPSASB noted that many of the display and disclosure requirements in existing IPSAS are applicable to transfer expenses and related balances. These include:
 - (i) The analysis of expenses, as well as the display and disclosure of prepayment assets and transfers payable in IPSAS 1, *Presentation of Financial Statements*;
 - (ii) The display and disclosure requirements in IPSAS 28, *Financial Instruments: Presentation*, and IPSAS 30, *Financial Instruments: Disclosures*, are applicable to financial assets, as well as transfer obligation liabilities which meet the definition of financial liabilities, which arose from a transfer expense transaction; and
 - (iii) The display and disclosure requirements in IPSAS 19 are applicable to provisions recognized for constructive obligations or variable consideration.

As a result, the IPSASB decided to cross-reference to these requirements rather than developing new display and disclosure requirements;

- (b) Qualitative information regarding transfer arrangements – To enable users of the financial statements to understand the nature, amount, timing, and uncertainty arising from transfer expenses, the IPSASB decided to require the disclosure of certain qualitative information regarding both binding and non-binding transfer arrangements; and
- (c) Significant judgements made regarding the recognition of transfer right assets – Because 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, the IPSASB decided to require the disclosure of significant judgements that led to the recognition of transfer right assets.

BC32. In addition, respondents to ED 72 had previously raised concerns over the complexity and value of reconciliations for opening and ending balances of transfer right assets and transfer obligation liabilities. Respondents also noted that these items are similar in nature to prepayment assets and

transfers payable, which do not require such disclosures. Based on the feedback received, the IPSASB decided to remove the requirement to disclose these reconciliations.

- BC33. The IPSASB decided to use the terms ‘transfer provider’, ‘transfer recipient’, ‘transfer right asset’ and ‘transfer obligation liability’ but this [draft] Standard does not prohibit an entity from using alternative descriptions in the financial statements for those terms. In addition, because this [draft] Standard refers to the disclosure requirements in other IPSAS as noted in paragraph BC31, an entity need not repeat the disclosure of information in accordance with this [draft] Standard if it has provided the information in accordance with another Standard.

Effective Date and Transition (paragraphs 62-64)

- BC34. When ED 72 was developed, the transition provisions, including the practical expedients available, largely mirrored those from the revenue EDs. Some respondents noted that even with the 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 final standard.
- BC35. Based on the feedback received, the IPSASB noted that allowing prospective application of [draft] IPSAS [X] would not result in a significant loss of information because:
- (a) If a transfer expense was fully expensed in the prior period, the transfer of resources would have already occurred and would have been reported in the prior period financial statements. Even if the expensed amount would have qualified for asset recognition in accordance with the revised guidance, requiring an entity to reverse a transfer expense would not result in any new information regarding the underlying expenditure; and
 - (b) If an entity recognized an asset or liability for a transfer expense transaction by applying the asset or liability recognition and measurement principles of the IPSASB’s Conceptual Framework, these principles are already consistent with the revised accounting model for transfer expenses.
- BC36. Based on the above reasons, the IPSASB decided to allow prospective application of [draft] IPSAS [X] for all transfers occurring on or after the date of initial application. To provide entities with the flexibility to adjust their prior-period financial statement, the IPSASB also decided to include the option to adopt [draft] IPSAS [X] on a full retrospective basis in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Application Guidance

- BC37. The IPSASB considered the interaction between transfer expenses and the potential impairment of the assets to be transferred. The IPSASB noted that when a decision has been made to transfer a non-financial asset in the context of a transfer expense transaction, the asset is no longer held for the purposes of generating a commercial return and becomes a non-cash-generating asset for impairment purposes. Before the asset is transferred, the entity should consider if the decision to transfer the asset results in a significant change in use, which is an indicator to consider impairment in IPSAS 21, *Impairment of Non-Cash-Generating Assets*. The IPSASB also noted that this separate consideration of impairment is not applicable to financial assets, as IPSAS 41 requires such assets to be assessed for impairment continuously. These decisions have been reflected in application guidance, as they relate to the application of existing IPSAS rather than new principles.

BC38. The IPSASB noted the revised general accounting model for transfer expenses arising from transactions with binding arrangements fully addresses transactions involving capital transfers. Therefore, the IPSASB decided that capital transfers should be addressed in application guidance and implementation guidance, and that no separate principles are required to be developed.

Implementation Guidance

Section A: Definitions

A.1 Capital Transfers

When is a transfer of a physical asset a ‘capital transfer’?

It depends on what the binding arrangement requires the transfer recipient to do with the asset.

A transfer of a physical asset is a ‘capital transfer’ if the entity transferred the physical asset within a binding arrangement and the transfer recipient is required by the binding arrangement to acquire or construct a non-financial asset that it will subsequently control.

Section B: Identifying the Transfer Expense Transaction

B.1 Identify Whether a Binding Arrangement Exists

Does the way in which an entity transacts with others impact the accounting?

Yes. Public sector entities may transact in different ways. These may vary in form, include multiple parties, confer rights and/or obligations on one or more of the involved parties, and have varying degrees of enforceability, which overall determine the economic substance of the transaction. Binding arrangements, in particular, confer both enforceable rights and enforceable obligations on the parties to the arrangement through legal or equivalent means. The enforceability of binding arrangements necessitates differences in accounting principles to capture the unique nature and risks of such transactions (in comparison with transactions without binding arrangements), thereby informing the recognition and measurement of transfer expenses to ensure fair presentation of such transactions.

Correctly identifying whether or not the transfer expense transaction arises from a binding arrangement is integral to correctly applying this [draft] Standard. The entity is required to determine what type of arrangement it has entered into, by considering the terms of its transfer expense transaction and all relevant facts and circumstances, to apply the appropriate accounting principles to reflect the economic substance of the transaction (see paragraphs 10-16).

B.2 Enforceability

What should an entity consider in assessing enforceability?

Determining whether an arrangement, and each party’s rights and obligations in that arrangement, are enforceable may be complex and requires professional judgment. This assessment is integral to identifying whether an entity has a binding arrangement (enforceable rights and obligations), only enforceable rights, or only enforceable obligations. In cases where an entity does not have a binding arrangement, it may still have an enforceable right or an enforceable obligation which should be accounted for appropriately. Enforceability may arise from various mechanisms, so long as the mechanism(s) provide the entity with the ability to enforce the terms of the arrangement and hold the

parties accountable for the satisfaction of their obligations in accordance with the terms of the arrangement.

At inception, an entity shall use its judgment and objectively assess all relevant factors and details to determine if it has enforceable rights and/or obligations (i.e., what is enforced), and the implicit or explicit consequences of not satisfying those rights and/or fulfilling those obligations (i.e., how it is enforced). Relevant factors include, but are not limited to:

- (a) The substance, rather than the form, of the arrangement;
- (b) Terms that are written, oral, or implied by an entity's customary practices;
- (c) Whether it is legally binding through legal means (e.g., by the legal system, enforced through the courts, judicial rulings, and case law precedence), or compliance through equivalent means (e.g., by legislation, executive authority, cabinet or ministerial directives);
- (d) Consequences of not fulfilling the obligations in the arrangement;
- (e) The specific jurisdiction, sector, and operating environment; and
- (f) Past experience with the other parties in the arrangement.

Some mechanisms (for example, sovereign rights or reductions of future funding) may constitute a valid mechanism of enforcement. An entity should apply judgment and consider all facts and circumstances objectively, within the context of their jurisdiction, sector, and operating environment, in making this assessment. Paragraphs AG14-AG25 provide further guidance on assessing enforceability through legal or equivalent means.

B.3 Enforceability: Transfers Subject to Appropriations

Can an appropriation give rise to a transfer expense?

An appropriation is defined in IPSAS 24, *Presentation of Budget Information in Financial Statements*, as an authorization granted by a legislative body to allocate funds for purposes specified by the legislature or similar authority.

An appropriation itself typically does not result in an accounting event or transaction. However, like other transfers that did not arise from a binding arrangement, there may be situations when an appropriation, in combination with external announcements or other communications, may create a valid expectation with other parties that the entity which approved the allocation of funds is accepting and discharging certain responsibilities. In these situations, IPSAS 19, *Provisions, Contingent Liabilities, and Contingent Assets*, is applicable, and a provision is recognized if a legal or constructive obligation exists. If an appropriation does not give rise to a legal or constructive obligation, the entity accounts for the subsequent transfer by applying the principles in this [draft] Standard.

How should an entity consider the impact of appropriations on its transfer expense transactions arising from binding arrangements?

Appropriations on their own do not prove, nor refute, the existence of enforceability within an arrangement. An entity should consider any appropriation clauses as one of the relevant factors in its overall assessment of enforceability, in the context of their specific jurisdiction and the unique terms and conditions of each arrangement.

A binding arrangement may specify that the resources to be transferred to a transfer recipient by an entity are subject to an appropriation process being completed by an unrelated third-party in accordance with the laws and regulations in the jurisdiction. The entity considers whether, in substance, the arrangement is enforceable because mechanisms of enforceability enable the transfer recipient to require the entity to transfer the resources or, if the entity fails to do so, enable the transfer recipient to impose consequences on the entity.

An entity should consider any appropriation clauses as one of the relevant factors in its overall assessment of enforceability, in the context of their specific jurisdiction and the unique terms and conditions of each arrangement.

If the limitation that the resources to be transferred are subject to the appropriation has substance, the arrangement is not enforceable and thus not a binding arrangement, as the transfer recipient cannot establish an enforceable right to those resources before the appropriation process has been completed.

In other circumstances, a transfer that is subjected to appropriations could still be enforceable if the arrangement is set up in a way that the mechanisms of enforceability enable the transfer recipient to require the entity to transfer the resources or, if the entity fails to do so, enable the transfer recipient to impose consequences on the entity, prior to the appropriation process being completed.

In some jurisdictions, the authorization for a transfer of resources may go through a multiple step process. For example:

- (a) The enabling authority to provide a transfer is in place, which is conveyed through approved legislation, regulations or by-laws of an entity;
- (b) The exercise of that authority has occurred. In essence, a decision by the approved enabling authority clearly demonstrates that a transfer recipient has an enforceable right to the transfer of the promised resources, and consequently the entity has lost its discretion to avoid proceeding with the transfer, for example through entering into a binding arrangement; and
- (c) The authority to pay is evidenced by the completion of an appropriation process.

The enabling authority, together with the exercise of that authority, may be sufficient for an entity to conclude that the transfer recipient has an enforceable right to those resources in the arrangement that enables the transfer recipient to require the entity to transfer the resources or, if the entity fails to do so, enable the transfer recipient to impose consequences on the entity, prior to the completion of the appropriation process. In such circumstances, the limitation (that the future transfer is subject to the completion of the appropriation process) does not have substance.

In other cases, the completion of the appropriation process may determine when an entity has lost its discretion to avoid proceeding with a transfer. In such circumstances, the limitation (that the future transfer is subject to the appropriation process being completed) has substance.

B.4 Changes in Factors Related to the Enforceability of a Binding Arrangement

Does a change in internal or external factors, after the inception of a binding arrangement, have accounting implications?

At inception, an entity considers the terms and conditions of an arrangement to determine whether it meets the definition of a binding arrangement in paragraph 7. If it does meet the definition, the entity accounts for the binding arrangement in accordance with paragraphs 21-43.

After inception, an entity should assess whether any changes in internal or external factors affect the enforceability of the binding arrangement (i.e., the substance of the arrangement), or the likelihood of enforcing the binding arrangement (i.e., the subsequent measurement of any assets or liabilities associated with the entity's right(s) and obligation(s) in the binding arrangement). Examples of such factors include, but are not limited to:

- (a) Changes in the legal framework impact the ability of the entity, or other party or parties in the arrangement to enforce their respective rights through legal or equivalent means; and
- (b) Changes in the entity's assessment of any party's choice to partially or fully exercise its ability to enforce its rights in the binding arrangement.

The implication on subsequent measurement of the respective asset or liability depends on whether the impact is not likely to be reversed and should be accounted for in accordance with IPSAS 19 or IPSAS 41.

Section C: Transfer Expenses from Transactions without Binding Arrangements

C.1 Accounting for Transfers Arising from Transactions without Binding Arrangements

When the entity transfers resources in a transaction without binding arrangements, is it possible for the transfer to result in the recognition of a transfer right asset?

No. Because a transfer right asset is defined as an asset recognized for the existence of one or more transfer rights arising from a binding arrangement, it will not be possible to recognize a transfer right asset without a binding arrangement.

However, it is possible for an entity to have a one-way enforceable right over transferred assets (for example, the right to direct the recipient on how to use resources) as the result of a non-binding arrangement. In such cases, the transfer would result in the recognition of an asset which would be derecognized when or as the enforceable right is extinguished.

Section D: Transfer Expenses from Transactions with Binding Arrangements

D.1 Identifying Transfer Rights in a Binding Arrangement

How does an entity determine the individual transfer rights in a binding arrangement in order to appropriately apply the accounting model for transactions with binding arrangements?

From the transfer provider's perspective, a binding arrangement has at least one transfer right. A transfer right, as defined in paragraph 6, is a unit of account to determine the distinct components or elements within a binding arrangement. Identifying a meaningful unit of account is fundamental to the appropriate recognition and measurement of transfer expenses. In practice, since binding arrangements can vary substantially by entity, jurisdiction, sector, and operating environment, an entity must use professional judgment as it applies paragraphs 21 and AG31-AG34 to determine the individual transfer rights in its binding arrangement.

An entity should first identify all the rights to require the transfer recipient to satisfy its compliance obligation(s) in a manner as specified in the binding arrangement. In the context of a binding arrangement for transfer expenses, rights include the ability to require the transfer recipient to use resources for a good or service internally or to transfer a good, service, or other asset (which could include cash) to a third party or third parties. A thorough assessment is necessary for the entity to identify all of its rights in the binding arrangement.

An entity then considers each identified right to determine if a right is itself a distinct transfer right, or whether it should be grouped with other rights to be a single distinct transfer right. Thus, a transfer right is a unit of account that represents a distinct right or group of rights to which recognition and measurement concepts are applied (paragraphs 22-43).

A right in a binding arrangement is distinct if it can be enforced separately from other rights in the arrangement. An entity can consider the following factors when assessing whether a right is distinct:

- (a) The right relates to the entity's ability to require the transfer recipient to provide a good, service, or other asset that can be provided separately from other goods, services, or assets to be provided under the binding arrangement;
- (b) The right relates to the entity's ability to require the transfer recipient to use a good, service, or other asset internally in a specific manner separately from the use of other goods, services, or assets to be used under the binding arrangement; and
- (c) The good, service, or other asset that the transfer recipient is required to provide to third parties or use internally is not highly interdependent or highly interrelated with other goods, services, or assets to be provided or used under the binding arrangement.

Any distinct right, or distinct group of rights, identified by the entity through this analysis would be an individual transfer right.

Section E: Recognition of Transfer Expenses from Transactions with Binding Arrangements

E.1 Derecognition of a Transfer Right Asset

An entity has determined it has one transfer right which is extinguished over time, how does the entity determine a measure of progress that best depicts the extinguishment of its transfer right?

In general, a transfer right is extinguished (and so the related transfer right asset is expensed) when or as an entity can no longer require the transfer recipient to act in accordance with the binding arrangement. This often occurs when or as the transfer recipient has satisfied its obligations in the arrangement, so the appropriate method of measuring progress depends on the specific nature of the entity's transfer rights and the specific terms of the binding arrangement. In situations where the binding arrangement consists of one transfer right to have the transfer recipient satisfy various interrelated activities, the transfer right may be partially extinguished as individual activities are being performed by the transfer recipient. Common considerations which could inform when a transfer right has been partially extinguished include:

- (a) The transfer recipient has performed activities specified in the binding arrangement;

- (b) The transfer recipient has incurred eligible expenditures as outlined in the binding arrangement; and
- (c) The transfer recipient has achieved some of the milestones agreed upon in the binding arrangement.

In cases where multiple parties are involved in the arrangement, the entity will need to consider whether a transfer right relates to the right to require another party in the arrangement to satisfy a specific compliance obligation. There could be situations where resources are passed through a series of entities before being transferred to the ultimate transfer recipient. In these situations, the entity will need to consider whether the extinguishment of the transfer right asset depends on the satisfaction of the ultimate transfer recipient's compliance obligations as specified in the binding arrangement.

In other cases, a transfer right may be extinguished due to the transfer recipient's inability or unwillingness to satisfy its obligations in the binding arrangement. When this occurs, the entity considers if the terms of the binding arrangement, along with the legal framework in the relevant jurisdiction, give the entity the unconditional right to receive cash (e.g., a refund of the transferred resources). Such an unconditional right results in the derecognition of the transfer right asset and the recognition of a financial asset (see paragraph 26). If the binding arrangement and relevant legal framework do not support the recognition of a financial asset, the entity then considers if the transfer right asset has been impaired (see paragraph 43).

Section F: Measurement of Transfer Expenses from Transactions with Binding Arrangements

F.1 Allocating the Transfer Consideration to Transfer Rights

How should a public sector entity determine the suitable method for estimating the stand-alone consideration of a transfer right?

Generally, an entity would want to explicitly specify in a binding arrangement the amount of resources it is willing to transfer for each transfer right (i.e., the stand-alone consideration is typically specified for each transfer right). In situations where the stand-alone consideration is not explicitly stated, the Standard requires determining the best estimate of the amounts that an entity intended to compensate the transfer recipient for satisfying its obligation when negotiating the binding arrangement.

The most suitable method to estimate the stand-alone consideration will depend on the quality and type of information that is available to the entity. For example, the individuals negotiating a binding arrangement may have contemporaneous records detailing how they estimated the stand-alone consideration for specific transfer rights included in the binding arrangement. Other entities may have detailed internal budget information documenting the resources it is willing to pay for each specific transfer right. In other cases, the individuals negotiating a binding arrangement may be using a standard pricing list from the transfer recipient to estimate the total resources to be transferred. In this situation, the standard prices for each individual deliverable can be used to estimate the stand-alone consideration of each transfer right.

Section G: Multi-Year Arrangements

G.1 Accounting for Multi-Year Arrangements

Are different principles required to account for, and recognize transfer expenses from, multi-year arrangements?

Multi-year arrangements, which may arise from transactions with binding arrangements, generally involve the provision of resources over multiple years for a specific purpose (for example, the publication of research findings on a specified topic). The provision of resources may occur at multiple dates throughout a year and/or across multiple years.

While these arrangements span a longer term, the application of accounting principles is consistent with the accounting for other transfer expense transactions. An entity shall consider whether the multi-year arrangement is a binding arrangement and apply the principles in the paragraphs 18-20 for transfer expenses arising without binding arrangements, or paragraphs 21-43 for transfer expenses arising from transactions with binding arrangements. The entity shall consider the recognition of a transfer right asset and/or transfer expense independently from the timing of when resources are transferred.

Illustrative Examples

These examples accompany, but are not part of, [draft] IPSAS [X], Transfer Expenses. They illustrate aspects of IPSAS [X] but are not intended to provide interpretive guidance.

IE1. [Pending]

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

1. This supporting document is the current version of the [draft] IPSAS [X], *Revenue*, which includes:
 - (a) Drafting based on IPSASB decisions and instructions, and subsequent Drafting Group discussions; and
 - (b) Revisions based on offline discussions with various members and to improve consistency in wording and terminology use within and between the Revenue and Transfer Expenses IPSAS, and with the Conceptual Framework.
2. To facilitate review:
 - (a) Revisions to the authoritative guidance (Core Text and Application Guidance) since the version presented at the September 2022 IPSASB meeting are highlighted in tracked changes;
 - (b) The majority of non-authoritative guidance presented (Basis for Conclusions⁸ and Implementation Guidance) are new to the Board, and have been extensively reviewed by the Drafting Group. To facilitate readability, these additions have not been highlighted in tracked changes; and
 - (c) Minor editorial and formatting changes have been accepted to facilitate readability.

⁸ ED 70 and ED 71 Basis for Conclusions that are retained, because they remain relevant for the current [draft] Revenue IPSAS, are highlighted in grey.

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Objective

1. The objective of this [draft] Standard is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from revenue transactions.
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 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 [draft] Standard in accounting for its revenue transactions. This [draft] 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 [draft] 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*;**
 - (j) **Changes in the value of current and non-current assets arising from subsequent measurement;**

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

- (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 [draft] Standard with the meanings specified:

For the purposes of this [draft] 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 services³ 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.

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.

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

³ In this [draft] Standard, [references to goods and services or goods or services are to be read as incorporating references to cash and non-current assets.](#)

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~~ of a ~~promised~~ good or service that is used internally, or provided 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~~ resources 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 without 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 [draft] Standard as follows:
- (a) Revenue from transactions without binding arrangements are accounted for by applying paragraphs 20–56, [with guidance specific to taxes in paragraphs 38–56](#); 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 [revenue](#) transaction without binding arrangements meet the definition of an asset in accordance with paragraphs 20–27; and**

- (b) Any of its obligations in its revenue transaction without binding arrangements meet the definition of a liability in accordance with paragraphs 28–29.

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.⁴ ~~An entity has control~~ Control of an asset when it has the resource entails the ability of the entity to use the resource (or direct the use of and obtain substantially all other parties on its use) so as to derive the benefit of the remaining economic benefits or service potential from the asset or economic benefits embodied in the resource in the achievement of its service delivery or other objectives. A past event that gives the entity control of ~~an asset~~ a resource 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 AG145, entities may, but are not required, to recognize services in-kind.
22. Each type of inflow of resources is analyzed and accounted for separately. 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 may 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. (in accordance with paragraph 28).~~

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 is 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

⁴ Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent. Paragraph BC16 of IPSAS 1 discusses the transitional approach to the explanation of reliability.

of flows of resources, and its expectations regarding the ~~taxpayer or~~ resource provider's ability and intention to pay.⁵

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.⁶
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~~ revenue transaction, 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.~~

~~30-29.~~ 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)).

⁵ ~~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.~~

⁶ 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.

30. An obligation that meets the definition of a liability shall be recognized as a liability when, and only when the amount of the obligation can be measured reliably.

Recognition of Revenue Transactions without Binding Arrangements

31. When an entity recognizes an inflow or right to 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 (e.g., 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, subject to any liability recognized in accordance with paragraphs 28–29.

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 [draft] Standard, the best estimate of a liability on initial recognition is limited to the value of the associated asset recognized.
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~~ (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~~ presently controlled by the inflow ~~entity as a result of resources will occur~~ past events and their ~~fair~~ value can be measured reliably. The ~~degree of probability attached to the inflow of resources is determined on the basis of~~ entity should consider 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 a binding arrangement 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 accordance 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 pricetransaction consideration 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 [pricevalue](#) 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 [internally](#) 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 [internally](#) 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 resource](#)

internally [for a service](#) 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 specific guidance on identifying distinct promises to use resources for another party](#).

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 itself 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 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 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 use internally or will be 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 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 internally uses](#) or provides a good or service separately would indicate that a party can generate 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 [acquiringusing](#) 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 unsatisfied, an entity shall not recognize any asset, liability or revenue associated with the binding arrangement, unless the binding arrangement is onerous. [The recognition of assets, liabilities, and revenues commences when one party to the binding arrangement starts to satisfy their obligations under the arrangement.](#)
79. A binding arrangement is wholly unsatisfied if both of the following conditions are met:
- (a) The entity has not yet started satisfying 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.
80. 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

81. An entity may receive or have the right to 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 20–27, 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

82. Public sector entities typically receive resources from governments or 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.
83. 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, if the entity does not satisfy the compliance obligation(s) associated with the consideration received, by requiring the entity to transfer resources to another party in compliance with the terms of the binding arrangement.

See additional guidance in paragraphs AG58–AG61.

- ~~84. 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.~~

~~85.84.~~ 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)).

~~86.85.~~ 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.

~~87.86.~~ 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.

88-87. A compliance obligation that meets the definition of a liability shall be recognized as a liability when, and only when the amount of the obligation can be measured reliably. 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

89-88. 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 20–27, 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.

90-89. 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 82–87 that was recognized upon receipt of an inflow of resources. Paragraphs AG62–AG97 provides additional guidance on the satisfaction on performance compliance obligations.

91-90. An entity satisfies a compliance obligation by using resources ~~to acquire afor~~ 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~~ used internally or transferred when (or as) the entity receiving the asset obtains control of that asset.

92-91. Goods and services are assets, even if only momentarily, when they are received and used (as in the case of many services). Control of an asset refers to the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset. Control includes the ability to prevent other entities from directing the use of, and obtaining the benefits from, an asset. The economic benefits or service potential embodied in an asset are the potential cash flows (inflows or savings in outflows), or the ~~capacity~~ capability 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.

93-92. 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 paragraph 97) or satisfies the compliance

obligation at a point in time (in accordance with paragraph 96 or paragraph 98). If the entity does not satisfy a compliance obligation over time, the compliance obligation is satisfied at a point in time.

Compliance Obligations to Use Resources for Goods or Service ~~for Internal Use~~Internally

Satisfied Over Time

94.93. 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).

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.

96.95. 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

97.96. 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 (Purchaser or Third-Party Beneficiary)

Satisfied Over Time

98-97. 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

99-98. 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 resource provider is presently obligated to pay for an asset, then that may indicate that the resource provider 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 resource provider'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 resource provider 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 resource provider 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 resource provider 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 resource provider 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 resource provider but not yet satisfied an additional compliance obligation to provide maintenance services related to the transferred asset.
- (e) The resource provider has accepted the asset — the resource provider'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

~~400.~~99. For each compliance obligation satisfied over time in accordance with paragraphs 93–95 (for compliance obligations to ~~acquire~~use goods or service ~~for internal use~~internally) 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.

~~401.~~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

~~402.~~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.

~~403.~~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~~use a distinct good or service ~~for internal use~~internally, 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.

~~104.~~103. As circumstances change over time, an entity shall update its measure of progress to reflect any changes in the satisfaction 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

~~105.~~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.

~~106.~~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

~~107.~~106. When an inflow of resources arrangement with a resource provider within the scope of this [draft] 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 unsatisfied compliance obligation; or
- (b) The arrangement has been terminated and the inflow received from the resource provider is non-refundable.

Measurement

~~108.~~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

~~109.~~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

~~110.~~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 [draft] Standard, the best estimate of a liability on initial recognition is limited to the value of the associated asset recognized for the inflow of resources. An entity shall apply paragraph 37 in determining its best estimate of the liability.

Determining the Transaction Consideration

~~111.~~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~~resources 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.

~~112.~~111. Credit risk is not considered when determining the amount the 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.

~~113.~~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).

~~114.~~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

~~115.~~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.

~~116.~~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.

~~447.~~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; or
- (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.

~~448.~~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).

~~449.~~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

~~420.~~119. An [entity may enter into a binding arrangement which includes a right of return. In these cases, the](#) 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

~~421.120.~~ 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.

~~422.121.~~ 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.

~~423.122.~~ 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

~~424.123.~~ 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

~~425.124.~~ 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.

~~126.~~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~~consideration that a resource provider would have transferred if the resource provider had transferred cash (i.e., the cash price) for those goods or services promised in the compliance obligation when (or as) the entity ~~acquires~~uses them (~~for internal use~~internally) 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.

~~127.~~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.

~~128.~~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.

~~129.~~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).

~~130.~~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

~~131.~~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.

~~132.~~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~~used internally or transferred to the resource provider or third-party beneficiary (or class of resource provider) for the consideration.

~~133.~~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.

~~134.~~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

~~135.~~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.**

~~136.~~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 compliance obligations satisfied.

~~137-136.~~ 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 [acquireuse](#) 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

~~138-137.~~ 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.

~~139-138.~~ The stand-alone value is the price at which an entity would [acquireuse](#) a ~~distinct~~ good or service ~~for internal use internally~~ or provide a ~~promised~~ good or service separately to a [resource providerpurchaser or third-party](#). 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.

~~140-139.~~ 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.

~~141-140.~~ 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 [acquiresuses](#) 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 [acquiredused](#) 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 [acquiresuses](#) 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).

~~142.~~141. A combination of methods may need to be used to estimate the stand-alone values of the goods or services to be ~~acquired~~used 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

~~143.~~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~~using 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).

~~144.~~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~~use or transfer the distinct good or service (or to a specific outcome from satisfying the compliance obligation or ~~acquiring~~using 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.

~~145.~~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

~~146.~~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.

~~147.~~**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.

~~148.~~**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.

~~149.~~**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

~~150.~~**149.** An entity shall recognize as an asset the incremental costs of obtaining a binding arrangement if the entity expects to recover those costs.

~~151.~~**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).

~~152.~~**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.

~~153.~~**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

~~154.~~**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.

~~155.~~**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.

~~156.~~**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).

~~157.~~**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

~~158.~~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)).

~~159.~~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*.

~~160.~~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).

~~161.~~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.

~~162.~~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.

~~163.~~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

~~164.~~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.

~~165.~~**164.** If a resource provider transfers cash or another asset, or an 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.

~~166.~~**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)).

~~167.~~**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).

~~168.~~**167.** This [draft] Standard uses the terms 'binding arrangement asset' and 'binding arrangement liability' but does not prohibit an entity from using alternative descriptions in the statement of financial position for those items. If an entity uses an alternative description for a binding arrangement asset, the entity shall provide sufficient information for a user of the financial statements to distinguish between receivables and binding arrangement assets.

Disclosure

~~169.~~**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~~resource provider in accordance with paragraph 149 or 153 (see paragraphs 192–193).

~~170.~~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.

~~171.~~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;
 - (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.

~~172.~~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 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.

~~173.~~172. In the public sector, an entity may have a revenue transaction where the entity is 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

~~174.~~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.

~~175.~~174. Paragraph 170(e) requires ~~transfer recipients~~entities 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.

~~176.~~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.

~~177.~~^{176.} Transfer recipients Entities that do not recognize services 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.

~~178.~~^{177.} Where services in-kind meet the definition of an asset and satisfy the criteria for recognition as an asset, transfer recipients entities 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

~~179.~~^{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.

~~180.~~^{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

~~181.~~^{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.

~~182.~~^{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

~~183.~~^{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).

~~184.~~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.

~~185.~~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 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

~~186.~~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

~~187.~~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), 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.

~~188.~~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.

~~189.~~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

~~190.~~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.

~~191.~~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

~~192.~~**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

~~193.~~**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 (in accordance with paragraph 149 or 153); and
- (b) The method it uses to determine the amortization for each reporting period.

~~194.~~**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

~~195.~~**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

~~196.~~**195.** An entity shall apply this [draft] Standard for annual financial statements covering periods beginning on or after [DD/MM/YYYY]. Earlier application is encouraged. If an entity applies this [draft] Standard for periods beginning before [DD/MM/YYYY], it shall disclose that fact and apply [draft] IPSAS [X], *Transfer Expenses* at the same time.

~~197.~~**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 [draft] Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS.

Transition

~~198-197.~~ 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*.

~~199-198.~~ 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.

~~200-199.~~ 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.

~~201-200.~~ 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.

202-201. 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.

203-202. 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).

204-203. 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.

205-204. 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

206-205. 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.

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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 for Goods or Services Transferred to Another Party (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 AG145–AG151);
 - (iii) Pledges (paragraph AG152);
 - (iv) Advance Receipts of Transfers (paragraph AG153);
 - (v) Concessionary Loans (paragraphs AG154–AG155);
 - (vi) Measurement of Transferred Assets (paragraph AG156);
 - (vii) Debt Forgiveness and Assumptions of Liabilities (paragraphs AG157–AG160);
 - (viii) Fines (paragraphs AG161–AG162);
 - (ix) Bequests (paragraphs AG163–AG165);
 - (x) Gifts, Donations, including Goods In-kind (paragraphs AG166–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);
 - (i) Disclosure of Disaggregated Revenue (paragraphs AG207–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. [Examples of these revenues include, but are not limited to:](#)
- (a) Taxes;
 - ~~(b) Capital transfers; and~~
 - ~~(c) Other transfers.~~ [Transfers \(whether cash or non-cash\)](#), including debt forgiveness, fines, bequests, gifts, donations, goods in-kind, services in-kind, and the off-market portion of concessionary loans received; and
 - ~~(d)~~ [\(c\) Capital transfers.](#)
- 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 [draft] 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 willingly entered into the arrangement and 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 11–17)

- 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 the 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 obligation on the [other party resource provider](#) to provide such funding. However, if the entity 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 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).
- 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 [enforcing the rights and](#) satisfying the ~~rights and~~ obligations they agreed to in the binding arrangement.

Parties in an Arrangement

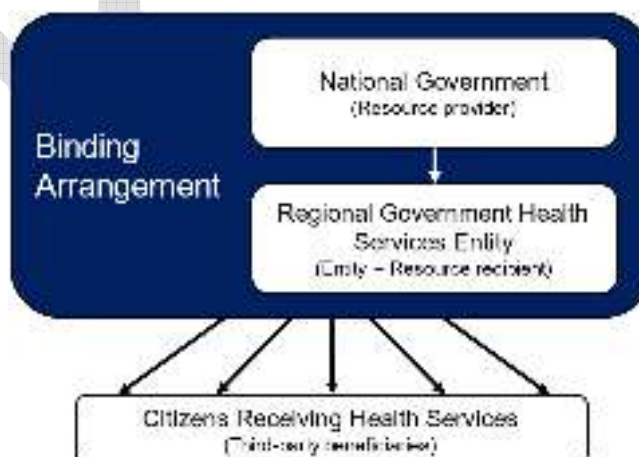
- AG25. Arrangements in the public sector often include two or more parties. For the arrangement to meet the definition of a binding arrangement for the purposes of this [draft] Standard, at least two of the parties to the arrangement must have their own rights and obligations conferred by the arrangement, 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 resource provider 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 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 [draft] 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 [draft] 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 accordance 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 the existence of 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 of](#) 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 ([A Resource Provider or Third-Party Beneficiary](#))

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 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 [\(A Resource Provider or Third-Party Beneficiary\)](#)

AG52. Promises to use resources to transfer distinct goods or services to an external party 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 unsatisfied, 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 unsatisfied 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 when or as one or more parties to the binding arrangement satisfy their stated obligations.
- AG57. Where parts of the binding arrangement remain equally unsatisfied, the entity shall not recognize any asset, liability or revenue for the equally unperformed parts of the binding arrangement. Such equally unsatisfied 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 82–87)

- 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 (i.e., through legal or equivalent means) 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 compliance obligations.

A Transfer of Resources

- AG61. The enforceability of a binding arrangement provides each party in the arrangement with 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 entity 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-Use Resources for~~ Goods or Services ~~for Internal-Use~~Internally

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~~used to date for no charge or for a nominal charge, or the price of the goods or services ~~acquired~~used 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 those resources internally](#) 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 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 99–105)

- 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 compliance obligations satisfied to date relative to the remaining compliance obligations 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 (resource 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-transaction consideration](#) 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 138–141)

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-purchaser or third-party beneficiary](#). 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 AG145, 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 at least one compliance obligation on the entity.

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 81, and whether its compliance obligation is to be recognized as a liability by applying paragraphs 82–87. The carrying amount of any such liability is reduced as revenue is recognized.

AG144. Some capital transfer transactions may include a compliance obligation for the operation of the purchased or acquired asset, which would not meet the capital transfer definition. The entity determines whether the binding arrangement includes one or more compliance obligations relating to the operation of the asset by assessing whether the transaction consideration is associated with the operation of the asset, once constructed or purchased.

Services In-Kind

AG145. An entity may, but is not required to, recognize services in-kind as revenue and as an asset.

AG146. 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.

AG147. 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.

AG148. 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.

AG149. 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 AG148, 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.

AG150. 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.

AG151. 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

AG152. 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 AG166–AG169. Pledges may warrant disclosure as contingent assets under the requirements of IPSAS 19.

Advance Receipts of Transfers

AG153. 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 82–87, 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

AG154. 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.

AG155. 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

AG156. 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

- AG157. 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.
- AG158. 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.
- AG159. 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.
- AG160. Revenue arising from debt forgiveness is measured at the carrying amount of the debt forgiven.

Fines

- AG161. Fines are economic benefits or service potential received or receivable by a public sector entity, 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.
- AG162. 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

- AG163. 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.
- AG164. 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.

AG165. The transaction consideration of bequeathed assets is determined in the same manner as for gifts and donations, as is described in paragraph AG168. 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

AG166. 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. ~~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~~ 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 or service potential flowing to the entity.

AG167. Goods in-kind are tangible assets transferred to an entity in a transaction that do not require a transfer of distinct goods or services to an external party but may be subject to specified activities~~certain obligations~~. External assistance provided by multilateral or bilateral development organizations often includes a component of goods in-kind.

AG168. Recognition of gifts or donations of services in-kind are addressed in paragraphs AG145–AG151. Gifts and donations other than services in-kind and goods in-kind are recognized as assets when in accordance with paragraphs 20–27, and the goods are received, or there is recognition of revenue depends on whether they arise from transaction with 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 120–122, 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.

Amendments to Other IPSAS

1. [Pending]

DRAFT

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, [draft] IPSAS [X], *Revenue*.

Introduction

- BC1. IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* was issued in December 2006 and was developed to provide guidance on how to account for revenue that arose from non-exchange transactions, which account for a large proportion of public sector revenue. The issuance of IPSAS 23 completed the suite of revenue standards, together with IPSAS 9, *Revenue from Exchange Transactions*, and IPSAS 11, *Constructions Contracts* which were both issued in July 2001. IPSAS 9 and IPSAS 11 were based on IAS 18, *Revenue* and IAS 11, *Constructions Contracts* respectively, which were both issued by the International Accounting Standards Board (IASB).
- BC2. Since IPSAS 23 became applicable, the IPSASB became aware of constituents' concerns regarding the application of the Standard, in particular:
- (a) Difficulty in making the distinction between exchange and non-exchange transactions;
 - (b) Difficulty in making the distinction between a condition and a restriction;
 - (c) Lack of guidance on multi-year funding arrangements;
 - (d) Lack of guidance on taxation received in advance of the period in which it is intended to be used;
 - (e) Lack of guidance on accounting for capital grants; and
 - (f) Lack of guidance on accounting for services in-kind.
- BC3. In May 2014, the IASB published the final version of IFRS 15, *Revenue from Contracts with Customers*, which provides a comprehensive framework for recognizing revenue from contracts with customers. IFRS 15 replaces IAS 11, IAS 18, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers* and SIC-31, *Revenue—Barter Transactions Involving Advertising Services*.
- BC4. In 2015, the IPSASB commenced work on a project to update IPSAS that dealt with accounting for revenue as part of the IPSASB's alignment program which aims to align IPSAS with IFRS® Standards. In August 2017, the IPSASB issued Consultation Paper (CP), *Accounting for Revenue and Non-Exchange Expenses*. In addition to potential alignment with IFRS 15, the CP also gave the IPSASB an opportunity to re-evaluate and address some of the application issues with the guidance for non-exchange revenue transactions in IPSAS 23. In particular, the IPSASB considered the question of whether accounting approaches based on whether a revenue transaction is with or without performance obligations are more appropriate than distinguishing between exchange and non-exchange transactions. Based on this new thinking, the CP classified public sector revenue transactions into the following categories:
- (a) Transactions with no performance obligations or stipulations. Under the current framework in IPSAS 23, revenue transactions with stipulations involved the transfer of assets to a resource recipient with the expectation and/or understanding that they will be used in a particular way and, therefore, that the resource recipient entity will act or perform in a particular way;

- (b) Transactions with stipulations, as described in IPSAS 23, that do not meet all the requirements of IFRS 15; and
- (c) Transactions that meet all the requirements of IFRS 15 that involve the transfer of promised goods or services to customers and arise from a contract with a customer which establishes performance obligations.

BC5. The majority of CP respondents agreed that there are different types of revenues in the public sector, and supported a classification approach based on whether the revenue transaction has performance obligations. In addition, respondents noted, and the IPSASB agreed, that the concepts of restrictions or conditions in the exchange/non-exchange approach in IPSAS 23 was difficult to apply in practice.

Development of Exposure Draft (ED) 70, Revenue with Performance Obligations, and ED 71, Revenue without Performance Obligations

BC6. Based on responses to the CP and subsequent discussions, the IPSASB decided to move away from the exchange/non-exchange distinction and decided to develop accounting approaches based on whether the transaction is with or without performance obligations.

BC7. The accounting approaches were presented in two revenue Exposure Drafts (EDs), ED 70, *Revenue with Performance Obligations* and ED 71, *Revenue without Performance Obligations*. The issuance of two separate EDs enabled the IPSASB to explicitly demonstrate IFRS alignment and maintain the existing allocation of guidance for different revenue transaction types:

- (a) ED 70 presented guidance for exchange-type transactions, akin to those in the private sector, and is based on the requirements of IFRS 15, modified as appropriate for public sector entities and to reflect the requirements of other IPSAS. ED 70 would replace IPSAS 9 and IPSAS 11, which were principally based on IAS 18 and IAS 11 respectively; and
- (b) ED 71 presented guidance for non-exchange-type transactions, which are the majority of transactions in the public sector. ED 71 would replace IPSAS 23.

BC8. In developing the proposed Standards, the IPSASB:

- (a) Considered the guidance on revenue in the *Government Finance Statistics Manual 2014 (GFSM 2014)* with the aim of avoiding unnecessary differences;
- (b) Considered guidance developed by national standard setters and bodies with oversight responsibilities for public sector entities, in developing additional examples that illustrated the public sector environment;
- (c) Considered the aspects of IPSAS 9 and IPSAS 11 that had been developed specifically to address public sector issues or circumstances that are more prevalent in the public sector than in other sectors. The IPSASB focused on addressing these issues in the [draft] Standard;
- (d) Made changes to aspects of IPSAS 23 to address the concerns noted by constituents⁷;
- (e) Applied its *Process for Reviewing and Modifying IASB Documents*. Modifications to IFRS 15 were made in circumstances where public sector issues were identified that warranted a

⁷ [As a result, Basis for Conclusion paragraphs from IPSAS 23 that relate to retained IPSAS 23 text have been incorporated.](#)

departure. As part of its development process, the IPSASB debated a number of issues and whether departure was justified; and

- (f) Agreed to retain the existing text of IFRS 15 wherever consistent with existing IPSAS and made the following modifications:
- (i) Changes to the definitions and terminology in IFRS 15 to ensure consistency with The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (the Conceptual Framework), consistency with definitions and terminology in existing IPSAS, and to reflect the public sector;
 - (ii) Addition of application guidance on public sector-specific issues or issues which may be more prevalent in the public sector;
 - (iii) “Amendments to Other Standards” in IFRS 15 were replaced with “Amendments to Other IPSAS” to reflect IPSAS literature. Where applicable, references to other specific IFRS Standards were also amended to reflect references to the corresponding IPSAS;
 - (iv) Deletion of illustrative examples which had limited or no applicability to the public sector; and
 - (v) Modification of IFRS 15 examples to reflect the public sector context, as well as the addition of public sector specific examples to assist with the application of [draft] IPSAS [X] (ED 70).

BC9. In February 2020, the IPSASB published ED 70 and ED 71, together with ED 72, *Transfer Expenses*. The three exposure drafts were released together to highlight the linkages between the accounting for revenue and transfer expenses.

Feedback from Constituents on ED 70 and ED 71

BC10. The IPSASB received a broad and diverse set of comment letters⁸ in response to ED 70, ED 71, and ED 72, respectively. During its review of ED responses, the IPSASB noted that, overall, the comments did not point to substantial concerns about the revenue accounting principles; rather, the responses generally encouraged clarifications of and additional guidance for the accounting principles, and further consideration on the structure and flow of guidance, to support application in practice.

BC11. The IPSASB also noted that constituents continued to support that there are different types of revenues in the public sector, and different transactions may warrant separate accounting principles. The IPSASB considered feedback from the CP and ED processes together and acknowledged that, while the exchange/non-exchange distinction is considered difficult to apply in practice for the purposes of classifying and accounting for revenue, the distinction still exists as an underlying economic concept. Put differently, while the IPSASB decided to move away from using exchange/non-exchange as defined terms to classify revenue, it remains an appropriate concept to describe the economic substance of transactions in the public sector.

BC12. Some ED respondents noted that it was difficult to determine the applicable ED for their revenue transactions, and sought clarity on the interrelation between ED 70 and ED 71, and the application of the proposed standards in practice. Some of this confusion was attributed to the distinction

⁸ [Including two letters per ED received after the comment period.](#)

between performance obligations and present obligations, which are in the scope of ED 70 or ED 71 respectively.

Discussion with the IPSASB Consultative Advisory Group (CAG)

BC13. The IPSASB consulted the CAG at their December 2020 meeting on significant issues highlighted by respondents. CAG members provided input and advice that helped the IPSASB consider and address issues.

IPSASB's Response to Feedback on ED 70 and ED 71

BC14. In light of the responses to ED 70 and 71, the IPSASB decided to revisit its decisions on the proposed structure of revenue guidance and how it can better clarify the proposed accounting principles and related disclosure requirements for revenue transactions in the public sector. Key changes include:

- (a) Retaining binding arrangement as a fundamental concept for revenue accounting, and which dictates the applicable accounting model (paragraphs BC15–BC17);
- (b) Presenting accounting guidance for revenue transactions in a single IPSAS, to more clearly communicate the prevalence of revenue types in the public sector and the fundamental concepts for revenue accounting (paragraphs BC18–BC18(a)); and
- (c) Using a single concept, 'compliance obligation' for an entity's legally binding obligation arising from a binding arrangement (paragraphs BC20–BC30).

The Concept of a Binding Arrangement

BC15. The majority of respondents to ED 70 and ED 71 supported the use and concept of binding arrangements in the public sector. Considering constituent comments, the IPSASB also noted that while the revenue without performance obligations and revenue with performance obligations differ in economic substance, the latter is expected to be a very small subset of public sector transactions and the existence of a binding arrangement is of greater importance in revenue accounting. Thus, the IPSASB decided to retain the concept of a binding arrangement as a fundamental concept for revenue accounting.

BC16. The IPSASB also confirmed that enforceability is an integral component of a binding arrangement, and the specific details within binding arrangements would clearly specify each party's rights and obligations (i.e., what each party is held accountable to satisfy, and how they will be held accountable). Enforceability of binding arrangements necessitates differences in accounting principles to capture the unique nature and risks of transactions with binding arrangements compared to transactions without binding arrangements. The IPSASB also clarified that enforceability can arise from various mechanisms, so long as the mechanism(s) provide the entity with the ability to enforce the arrangement and hold the parties accountable for the satisfaction of their obligations, by imposing consequences on parties that do not satisfy their obligations.

BC17. The focus on assessing the ability to enforce a binding arrangement is integral for the overall goal of better public financial management. From the broader public financial management perspective, the purpose and intention of enforceable transactions, such as binding arrangements, is to allow the parties in the arrangement to achieve specific objectives. The ability to enforce these arrangements ensures an entity is held accountable and is able to hold other engaged parties

accountable, thereby facilitating strong public financial management. Appropriately reporting and disclosing information related to these arrangements enables public sector entities to be transparent to its constituents.

One Revenue IPSAS

BC18. Based on its review of constituent concerns, discussions on key revenue accounting concepts and principles, and subsequent analysis of presentation options, the IPSASB decided to restructure and present the accounting guidance, previously proposed in ED 70 and ED 71, as a single standard that:

- (a) Is titled '*Revenue*', with clear structure and references, presents a single source of guidance for all public sector revenues;
- (b) Requires an entity to consider up front whether the transaction arises without or with a binding arrangement, based on its conclusion in BC15;
- (c) Has separate guidance for revenue without binding arrangements, and revenue with binding arrangements.

BC19. The IPSASB concluded that this revised structure and presentation would better reflect the prevalence of public sector revenues, with guidance related to the majority of public sector revenues presented first, and overall be more appropriate from a public sector perspective.

Compliance Obligation

BC20. The IPSASB noted that most respondents to ED 70 and ED 71 acknowledge that there are separate types of revenue in the public sector and generally agreed with the distinction between 'performance obligations', as defined in ED 70, and 'present obligations', as described in ED 71. However, some ED respondents indicated that the distinction is not clear or is difficult to apply in practice, and as a consequence, it was unclear which proposed standard and set of principles would apply to a specific transaction.

BC21. As a result of these comments, the IPSASB:

- (a) Reflected on the similarities and differences between 'present obligations' as proposed in ED 71 and 'performance obligations' as proposed in ED 70;
- (b) Considered whether the differences warranted different accounting principles for revenue with present obligations compared with revenue with performance obligations; and
- (c) Clarified proposed guidance to better explain the concepts in a principled manner.

Similarities and Differences

BC22. During its review of comments from respondents, the IPSASB acknowledged that present obligations and performance obligations both:

- (a) Arise from transactions with binding arrangements, and thus are legally binding obligations (i.e., enforceable through legal or equivalent means);
- (b) Are described with sufficient specificity in the binding arrangement in order to enable each party in the binding arrangement to hold the other party or parties accountable to satisfy their

respective obligations in a specified manner, in compliance with the terms and conditions of that binding arrangement; and

- (c) Are units of account to determine distinct components in a binding arrangement, which are used as mechanisms to recognize and measure revenue as an entity satisfies its obligations in that binding arrangement.

BC23. Reflecting on the differences, the IPSASB clarified that the notion of a present obligations was intended to reflect non-exchange type public sector transactions arising from binding arrangements previously covered by IPSAS 23, whereas a performance obligation was intended to reflect exchange-type public sector transactions previously in IPSAS 9 and IPSAS 11 (and comparable to commercial transactions in the private sector, in scope of IFRS 15). Consistent with its decision to acknowledge the economic substance of these transactions, but to move away from using exchange and non-exchange to classify revenue, the Board further considered how to better distinguish the two types of obligations in a binding arrangement.

BC24. A performance obligation as presented in ED 70 is an entity's obligation that requires a transfer to an external party (i.e., from the entity back to the transfer provider (purchaser) or to an identified third-party beneficiary). The outputs from the entity's use of resources in a performance obligation as presented in ED 70 are transferred out of the entity in the form of distinct goods or services to another party. This would not capture public sector revenue transactions, like capital grants, where the promise to use resources in a specific manner, on their own or together with other resources, results in using resources for specific goods or services internally. A legally binding obligation which requires a transfer out of the entity to an external party generally requires greater specificity and clearly identifiable actions for the entity to perform, thereby providing more objective and potentially more specific identification, recognition, and measurement of revenue.

Impact on Accounting Principles

BC25. The IPSASB noted that, while there are identifiable differences between these two types of revenue and the party receiving the distinct goods or services from the entity's satisfaction of its obligations in a binding arrangement may differ, the underlying concept for present obligations and performance obligations are the same: both require the entity to use resources in a specified manner. Of significance is the enforceability of the binding arrangement from which it arises, as this enforceability informs the recognition and measurement accounting principles to appropriately reflect the economic substance of revenue from binding arrangements. As such, the key accounting principles are consistent for both types of obligations in a binding arrangement.

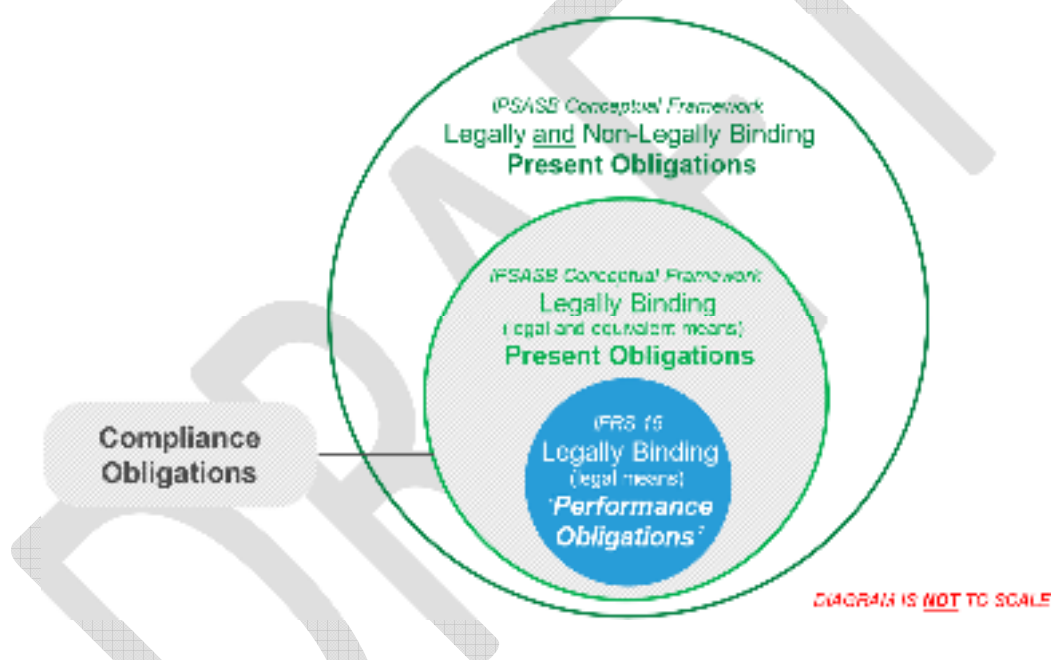
Presenting Revised Guidance

BC26. The IPSASB's conclusion that the performance obligations in ED 70 are a subset of present obligations in ED 71 that comprise a minority of public sector revenues, and that key accounting principles are consistent for both types of obligations were contributing factors to its decision to combine revenue guidance into a single IPSAS.

BC27. When considering how to clarify accounting guidance, the IPSASB noted that the concept of a 'present obligation' in the revenue context is narrower than in the Conceptual Framework. A present obligation is a unit of account in revenue accounting, and is a legally binding obligation in a binding arrangement to use resources in compliance with the terms of the binding arrangement. Present obligations in the Conceptual Framework are legally or non-legally binding obligations, and are

used more generally to describe an entity's obligations. A term other than 'present obligation' would more clearly describe and define the concept for revenue accounting purposes.

- BC28. Since performance obligations in ED 70 are a subset of present obligations, and both represent the notion of an enforceable promise or requirement arising from a transaction with a binding arrangement, the IPSASB decided to adopt the new term "compliance obligation" to describe all obligations arising from revenue transactions with binding arrangements. This notion of compliance is in relation to compliance with the terms and conditions in the entity's binding arrangement. This term and concept would encompass performance obligations (as presented in ED 70 and in alignment with IFRS 15, to capture revenues from transactions that transfer distinct goods or services to an external party) and present obligations (as presented in ED 71, and consistent with legally binding present obligations in the Conceptual Framework, to also capture revenues from public sector transactions that do not transfer distinct goods or services to an external party). The following diagram illustrates the relationship between "compliance obligation" and the previously used terms:



- BC29. The IPSASB provides further guidance to highlight any additional considerations for the entity in applying the accounting principles to compliance obligations which require a specific, distinct transfer of goods or services to an external party. Such compliance obligations to transfer goods or services to an external party generally entail a clearly discharge of an entity's obligation in the binding arrangement. These additional considerations are intended to help an entity account for the deferral and recognition of revenue to better reflect the nature of such obligations.
- BC30. The IPSASB's decision to have a single concept for obligations arising from revenue transactions with binding arrangements, along with the decision to present revenue guidance in a single IPSAS, also prompted the removal of redundant guidance proposed in the EDs related to scope considerations and measurement of transactions with components under the two proposed revenue standards.

Scope (paragraph 3)

Modification of IFRS 15 for Applicability to the Public Sector

- BC31. The IPSASB modified the requirements of IFRS 15 to address public sector specific transactions. This included using the concept of a binding arrangement, which is broader than a contract, in [draft] IPSAS [X] to allow for jurisdictions where government and public sector entities cannot enter into legal contracts but do enter into binding arrangements which are in substance the same as contracts.
- BC32. The IPSASB modified enforceability to include mechanisms that are outside the legal system that are equivalent to legal means. This change was made as some binding arrangements in the public sector may arise and become enforceable through exercise of executive authority, legislative authority, cabinet or ministerial directives, and these binding arrangements would not be considered “contracts”. The IPSASB also noted that legal or equivalent means is consistent with ‘legal obligation’ as described in the Chapter 5 of the Conceptual Framework, and is not ‘non-legally binding obligation’.
- BC33. Public sector transactions may involve three parties: the purchaser, which provides the consideration; the entity, which receives the consideration and is responsible for the delivery of goods or services; and the third-party beneficiary, which can be individuals or households, receiving those goods or services. While the IASB’s educational materials referred to such three-party arrangements, they were not explicitly highlighted in IFRS 15. The third-party beneficiary concept was made more explicit in [draft] IPSAS [X], as three-party transactions are expected to be much more prevalent in the public sector.
- [Pending –the following two BCs regarding Illustrative Examples will be updated based on the Board’s decision on Agenda Item 9.2.3. If the Board agrees with the recommendation, staff will update the BCs to explain: (1) why IFRS 15-based IEs, that illustrated exchange-type transactions, were removed (relevant, but not prevalent); and that (2) constituents should refer to IFRS 15 directly for IEs illustrating these exchange-type transactions]
- BC34. The IPSASB also adapted the Illustrative Examples from IFRS 15 for use in [draft] IPSAS [X], using the following approach:
- (a) Where the underlying concepts illustrated by an example is applicable to the public sector, the example was modified to incorporate realistic fact patterns which could apply to public sector entities such as governments and intergovernmental organizations;
 - (b) Where the underlying concepts in an example only had limited or no applicability to the public sector, the example was removed. (This applied to examples involving price concessions granted by suppliers to distributors to preserve the supply chain relationship, additional goods or services in the telecommunications sector, “slotting fees” paid by a supplier to a retailer, warranties, franchise rights, and costs incurred in a competitive bidding scenario); and
 - (c) Developed new public sector-specific examples to illustrate the additional application guidance on scope, three-party arrangements, enforceability, and the additional disclosure requirements added to [draft] IPSAS [X].
- BC35. The IPSASB acknowledged that while the illustrative examples are not authoritative, an entity applying [draft] IPSAS [X] may find examples dealing with commercial transactions to be helpful if

it is a party to such transactions. The IPSASB expects such situations to be less prevalent, which led to the decision to remove the examples with limited applicability to the public sector. The IPSASB noted that if a public sector entity is a party to commercial transactions, it may refer to IFRS 15 for additional illustrative examples of how an entity might apply the requirements of the [draft] Standard.

Non-monetary Exchanges between Entities in the Same Line of Business

BC36. In the discussion of non-monetary exchanges in paragraph 3(h) of [draft] IPSAS [X], the IPSASB replaced the example of non-monetary exchanges of oil between entities in the same line of business to facilitate sales to potential customers used in IFRS 15 with the exchange of electricity, because it is more relevant to the public sector.

Highlighting the Relationship Between the [draft] IPSAS [X], Revenue and [draft] IPSAS [X], Transfer Expenses

BC37. The IPSASB considered clarifying the scope and interaction between [draft] IPSAS [X], *Revenue* and [draft] IPSAS [X], *Transfer Expenses*, by defining the term “Transfer Revenue” in order to mirror the definition of “Transfer Expense” in [draft] IPSAS [X], *Transfer Expenses*. Specifically, the IPSASB considered defining Transfer Revenue as a transaction, other than taxes, in which an entity receives a good, service, or other asset from another entity without directly providing any good, service, or other asset in return.

BC38. While the IPSASB acknowledged that the definition was accurate and that it would be conceptually sound to highlight the mirroring relationship between transfer revenue and transfer expenses, the IPSASB ultimately decided not to introduce these terms as formal definitions for the following reasons:

- (a) A number of members were concerned that introducing new definitions relating to revenue may confuse constituents; and
- (b) Transfer revenue would have been a subset of revenue in [draft] IPSAS [X]. Separately defining this term when their recognition and measurement would have been the same as other types of revenue seemed to add an unneeded level of complexity and duplication of guidance.

Compulsory Contributions and Levies to Social Security and Other Schemes

BC39. There is a variety of different arrangements for funding social security schemes across jurisdictions. Constituents commented that IPSAS 23 did not address the accounting for these funding arrangements. The IPSASB considered the issue in developing IPSAS 42, *Social Benefits*.

BC40. The IPSASB concluded that such contributions are revenue transactions without binding arrangements, and should be accounted for in accordance with this [draft] Standard. The one exception to this is where an entity elects to account for a social benefit scheme using the insurance approach in IPSAS 42. The insurance approach takes into account both cash inflows and cash outflows, and hence contributions to a social benefit scheme accounted for under the insurance approach are not accounted for as revenue under this [draft] Standard.

BC41. In developing IPSAS 42, the IPSASB also noted that some government programs that do not meet the definition of a social benefit in that Standard (for example, healthcare benefits in some jurisdictions) may also involve compulsory contributions or levies. The IPSASB concluded that the

same principles of revenue recognition applied to these transactions as applied to contributions for social benefits and to taxation. The IPSASB agreed to extend the requirement for recognizing taxation revenue to cover other compulsory contributions and levies, whether arising from social benefits or other government programs. The amended requirements were incorporated into this [draft] Standard.

Definitions (paragraphs 4–10)

General Alignment with Public Sector Terminology

BC42. In adapting IFRS 15 for use in the public sector, the IPSASB modified the following terms in [draft] IPSAS [X] to better align with terminology used in the public sector:

- (a) All the references to “sell” or “sold” were replaced with the terms “provide” and “provided”, respectively. In addition to general alignment with public sector terminology, this change also accommodates the fact that in three-party revenue arrangements, goods or services are provided, rather than sold, by an entity to a third-party beneficiary;
- (b) “Stand-alone selling price” was replaced with “stand-alone value”;
- (c) “Customary business practices” was replaced with an entity’s “customary practices”;
- (d) “Industry” was replaced with “sector”; and
- (e) Editorial changes were made to the definition of “transaction consideration”.

Other changes in terminology and new definitions were added for public sector-specific reasons. These changes and additions are explained in paragraphs BC43–BC60.

Binding Arrangements

BC43. The IPSASB replaced all references to “contracts” in IFRS 15 with references to the term “binding arrangements”. This change acknowledges that in some jurisdictions, entities may not have the power to enter into legal contracts but nevertheless may have the authority to enter into binding arrangements. The IPSASB agreed that binding arrangements, for the purpose of [draft] IPSAS [X], should encompass rights that arise from legislative or executive authority, cabinet or ministerial directives. For clarity, the IPSASB also decided to explicitly specify in the definition that a binding arrangement confers both enforceable rights and obligations on the parties to the arrangement. To assist with the expanded concept of binding arrangements, Application Guidance was added to [draft] IPSAS [X] in paragraphs AG9–AG30. As the concept of a contract may still be applicable in the public sector, the IPSASB specified in the binding arrangement definition that a contract is a type of binding arrangement. The definition of contract is in IPSAS 43, *Leases*, which was approved prior to this [draft] IPSAS.

BC44. Considering constituent comments from ED respondents on the concept and definition of a binding arrangement, the IPSASB:

- (a) Acknowledged that multi-party arrangements are common in the public sector, where more than two parties in the arrangement each have their own enforceable rights and obligations. The IPSASB revised the definition of a binding arrangement to better reflect that at least two parties must each have their own respective enforceable rights and obligations, thereby conferring at least two-way enforceability; and

- (b) Reconfirmed its decision that a binding arrangement includes both rights and obligations, and each party's enforceable right and obligation are interdependent and inseparable.

BC45. The IPSASB concluded that the use and definition of the term binding arrangement in IPSAS [X] is conceptually consistent with existing IPSAS and the difference in wording is intentional for the purposes of IPSAS [X]. The definition is retained, with minor wording revisions to clarify the concept and application in IPSAS [X].

BC46. Since a binding arrangement is, by definition, enforceable, and includes both rights and obligations for the parties, the IPSASB concluded that all binding arrangements will include at least one compliance obligation. In other words, a binding arrangement always includes at least one compliance obligation because the enforceability of binding arrangements provide each party the ability to enforce obligations agreed upon in that binding arrangement.

Unenforceable Transactions

BC47. The IPSASB discussed how to account for transactions that do not arise from a binding arrangement but have an implied requirement for how those resources are to be used (for example, limitations on the use of property taxes). The IPSASB concluded that an implied requirement needs to be enforceable by the resource provider. For example, taxpayers do not normally have enforceable rights, and the implied requirements may give rise to enforceable obligations of the resource recipient.

BC48. The IPSASB also noted that transactions which are not binding arrangements are not automatically unenforceable. For example, certain fines and taxes are not binding arrangements because they lack two-way enforceability, but these transactions are still enforceable by the authority imposing the fines or taxes.

Appropriations

BC49. The IPSASB noted that, in some jurisdictions, a revenue transaction might be made subject to authorization of an appropriation. The IPSASB considered whether such a limitation should affect the recognition of revenue. The IPSASB concluded that the impact of such a limitation would depend on whether the limitation had substance. The IPSASB agreed that where the limitation has substance, the entity has no enforceable claim and should not recognize an asset prior to the appropriation being authorized. The IPSASB also agreed to include guidance on determining whether the limitation has substance.

Compliance Obligation

BC50. As outlined in BC26–BC28, the IPSASB decided to adopt the new term “compliance obligation” to describe all obligations arising from revenue transactions with binding arrangements. The definition of “compliance obligation” reflects that an entity's obligation in binding arrangements require the entity to either use resources internally for a distinct good or service or transfer a distinct good or service to an external party (purchaser or third-party beneficiary). This definition, developed with the support of the Drafting Group, is intended to encapsulate the concept as presented in IFRS 15 (and proposed in ED 70 “performance obligations”), but revised to better capture public sector transactions arising from binding arrangements where an entity does not transfer distinct goods or services to an external party (proposed in ED 71 “present obligations”).

Binding Arrangement Asset and Binding Arrangement Liability

BC51. As a consequence of replacing all references to “contract” with references to “binding arrangement”, the IPSASB also replaced the terms “contract asset” and “contract liability” with “binding arrangement asset” and “binding arrangement liability”, respectively.

Resource Provider

BC52. The IPSASB, with the support of the Drafting Group, introduced the term “resource provider” as part of its decision to present guidance for all public sector revenue transactions in a single standard, to more clearly describe the other party in a revenue transaction. This party provides a resource, which encompasses various goods, services, assets, including in the form of transfers, to the entity applying [draft] IPSAS [X], *Revenue*. A resource provider may or may not be the party receiving goods or services from the reporting entity.

BC53. This [draft] Standard refers to the party providing resources in a revenue transaction as the ‘resource provider’, while [draft] IPSAS [X], *Transfer Expenses* refers to the party providing resources in a transfer expense transaction as the ‘transfer provider’. The IPSASB considered whether the same term should be used in both [draft] Standards and decided that because the scope of the revenue standard is broader and encompasses revenue from transfers and other transactions, a more generic term (resource provider) should be used for revenue.

Purchaser and Third-Party Beneficiary

BC54. The IPSASB replaced the term “customer” with “purchaser”, because the use of the term “purchaser” is widespread in IPSAS literature and is a broader term more suited to transactions involving the transfer of goods or services to either the purchaser or agreed third-party beneficiary. The IPSASB, with the support of the Drafting Group, revised the definition of a “purchaser” to clarify that it is a resource provider that receives goods or services from the entity. As the term “customer” may still be applicable in certain circumstances in the public sector, the IPSASB also retained the definition of a customer but clarified that a customer is a type of purchaser.

BC55. The IPSASB added the term “third-party beneficiary” following the term “purchaser” where appropriate to describe the transfer of goods or services in three-party arrangements, which are common in the public sector. The term “third-party beneficiary” was defined so that its meaning can be consistently applied to [draft] IPSAS [X], *Revenue* as well as [draft] IPSAS [X], *Transfer Expenses*.

Revenue and Customer

BC56. The IASB’s definition of revenue refers to income arising in the course of an entity’s ordinary activities, and income encompasses both revenues and gains. The IASB’s definition of customer also refers to obtaining goods or services that are an output of the entity’s ordinary activities. To be consistent with IPSAS 1, *Presentation of Financial Statements*, the IPSASB decided not to adopt the IASB’s definition of revenue. As a result, the definition of “revenue” in [draft] IPSAS [X] is consistent with IPSAS 1 and does not refer to “income arising in the course of an entity’s ordinary activities”.

BC57. As the IASB’s definition of “revenue” which refers to “ordinary activities” was not adopted, the IPSASB replaced the references to “ordinary activities” in the definition of “customer” with

references to “activities” to ensure consistency with the Conceptual Framework. The current IPSAS literature does not make a distinction between ordinary activities and activities outside the ordinary course of operations, primarily because of the multi-functional nature of many public sector entities.

- BC58. The IPSASB decided to replace the term “commercial substance” with “economic substance” which encompasses commercial substance. The public sector entities which apply IPSAS generally do not have commercial objectives. Therefore, the term “commercial substance” was considered to be inappropriate. As a result of this change, the IPSASB added application guidance on economic substance in paragraphs AG31–AG33.

Combining Binding Arrangements

- BC59. When considering the criteria for when an entity shall combine two or more binding arrangements, the IPSASB thought about replacing the term “commercial objective”, with “economic objective”, because the term “commercial objective” refers to the objective to make profit, whereas the primary objective of most public sector entities is to deliver services to the public. However, the IPSASB decided to simply replace the term “commercial objective” with “objective” because the term “economic objective” could have a different connotation for the public sector than the objective of delivering services to the public.

Economic Benefits and Service Potential from Distinct Goods or Services

- BC60. According to the Conceptual Framework, a resource provides benefits in the form of service potential or the capability to generate economic benefits. The IPSASB acknowledged that the explanation of a resource should include both the terms “service potential” and “economic benefits”. This approach acknowledges that the primary objective of most public sector entities is to deliver services, but also that public sector entities may carry out activities with the sole objective of generating net cash inflows. Therefore, the IPSASB replaced the term “benefits” with “economic benefits or service potential” in [draft] IPSAS [X].

Retained Terminology and Definitions

- BC61. The IPSASB considered whether any modification was required to the following terms and definitions but ultimately decided to retain them without modification as there was no public sector-specific reason to modify them:

- (a) Goods or services;
- (b) Consideration;
- (c) Exchange;
- (d) Distinct; and
- (e) Fair value.

Identifying the Revenue Transaction (paragraphs 11–18)

- BC62. In response to constituent comments in response to the EDs, outlined paragraphs BC14–BC17, the IPSASB restructured the guidance in [draft] IPSAS [X], *Revenue* to require an entity to consider up front whether the transaction arises without or with a binding arrangement. The enforceability of a binding arrangement necessitates different accounting principles in order to capture the nature

and risks of transactions with and without binding arrangements. The IPSASB also added Implementation Guidance to support the principles presented in the authoritative text, as this is an important and complex area of the revenue guidance.

Revenue from Transactions without Binding Arrangements (paragraphs 19–56)

BC63. The definition of a binding arrangement specifically requires several components, as each party in the arrangement must have both an enforceable right and enforceable obligation. If one of these components is not present in the arrangement, then it is not a binding arrangement. This means that various transactions are to be accounted for as revenue from transactions without binding arrangements, where the entity has:

- (a) An enforceable right, and unenforceable obligation;
- (b) An unenforceable right, and enforceable obligation; or
- (c) an unenforceable right and unenforceable obligation.

BC64. The IPSASB has included more explicit guidance to prompt an entity to consider whether any of its rights or obligations in the transaction may meet the definition of an asset or liability, respectively, in accordance with the Conceptual Framework. This additional guidance is consistent with existing accounting principles, and is included to better balance the accounting model for revenue without binding arrangements and overall ensures that the two accounting models are refined, comprehensive, and stand-alone for users of this [draft] Standard.

BC65. This [draft] Standard also does not establish different recognition requirements in respect of revenue received or receivable as monetary assets and revenue received or receivable as non-monetary assets. The IPSASB is of the view that, while non-monetary assets raise additional measurement concerns, they do not, of themselves, justify a different recognition point.

Entity Bank Accounts

BC66. This [draft] Standard assumes the requirement that all money deposited in a bank account of an entity satisfies the definition of an asset and meets the criteria for recognition of an asset of the entity. The IPSASB established this principle in paragraphs 1.2.6 and 1.2.7 of the Cash Basis IPSAS, *Financial Reporting under the Cash Basis of Accounting*. The [draft] Standard also requires the recognition of a liability in respect of any amount the entity has collected and deposited in its own bank account while acting as an agent of another entity.

Measurement of Assets and Liabilities

BC67. This [draft] Standard requires that assets acquired in revenue transactions be initially measured at their transaction consideration as at the date of acquisition. The IPSASB is of the view that this is appropriate to reflect the substance of the transaction and its consequences for the entity. The cost of acquisition is a measure of the fair value of the asset acquired. However, the consideration provided for the acquisition of an asset may not be equal to the fair value of the asset acquired. Transaction consideration most faithfully represents the actual value the entity accrues as a result of the transaction. Initial measurement of non-monetary assets acquired at their transaction consideration, which is fair value for non-monetary assets, is consistent with the approach taken in IPSAS 16, *Investment Property*, and IPSAS 17, *Property, Plant, and Equipment*, for assets acquired at no cost or for a nominal cost. The IPSASB has made consequential amendments to IPSAS 12,

Inventories, and IPSAS 16 and IPSAS 17 to fully align those IPSAS with the requirements of this [draft] Standard.

- BC68. This [draft] Standard requires that where an entity recognizes a liability in respect of an inflow of resources, that liability will initially be measured as the best estimate of the amount required to settle the obligation at the reporting date. This measurement basis is consistent with IPSAS 19. The IPSASB is also cognizant of the amendments proposed for IAS 37 (to be retitled *Non-financial Liabilities*), on which IPSAS 19 is based, and will monitor, and in due course consider, its response to any developments in IAS 37.

Taxable Event

- BC69. This [draft] Standard defines a taxable event as the past event that the government, legislature, or other authority has determined to be subject to taxation. The [draft] Standard notes that this is the earliest possible time to recognize assets and revenue arising from a taxation transaction, and is the point at which the past event that gives rise to control of the asset occurs. The IPSASB considered an alternative view that an entity only gains control of resources arising from taxation when those resources are received. While recognizing that there can be difficulties in reliably measuring certain taxation streams, the IPSASB rejected such an approach as inappropriate for the accrual basis of financial reporting.

Advance Receipts of Taxes

- BC70. This [draft] Standard requires an entity that receives resources in advance of the taxable event, or of an arrangement becoming enforceable, to recognize an asset and a liability of an equivalent amount. This is consistent with the principles of accrual accounting to recognize revenue in the period in which the underlying event that gives rise to the revenue occurs. In the event that the taxable event did not occur, or the arrangement did not become enforceable, the entity may need to return part or all of the resources. One common view is that, where resources are received in advance of the taxable event, an entity should only recognize a liability where it considers it probable that there will be a subsequent transfer of resources. The IPSASB supports the view that revenue should not be recognized until the taxable event occurs, and extends the principle to transfers, so that where resources are received prior to an arrangement becoming binding, the entity recognizes an asset and a liability for the advance receipt.

Expenses Paid Through the Tax System and Tax Expenditures

- BC71. This [draft] Standard requires that expenses paid through the tax system be distinguished from tax expenditures, and that the former should be recognized separately from revenue in the general purpose financial statements. This is because, as defined in this [draft] Standard, expenses paid through the tax system satisfy the definition of expenses and, according to the principles established in IPSAS 1, offsetting of expenses against revenue is generally not permitted. As defined in this [draft] Standard, tax expenditures are one of the many factors used to determine the amount of tax revenue received or receivable and are not recognized separately from revenue. The IPSASB is of the view that this treatment is consistent with the principles established in this [draft] Standard.
- BC72. The treatment prescribed in this [draft] Standard for expenses paid through the tax system is different to that currently prescribed by the Organization for Economic Co-operation and

Development (OECD) for member country statistical returns. The OECD currently requires tax revenue to be shown net of expenses paid through the tax system (or non-wastable tax credits) to the extent that an individual taxpayer's liability for tax is reduced to zero, payments to a taxpayer are shown as expenses.⁹ The IPSASB is of the view that the current OECD treatment does not conform to the conceptual principles underpinning the IPSASs and the IPSAS 1 requirement not to offset items of revenue and expense.

The Tax Gap

BC73. For some taxes, government entities will be aware that the amount it is entitled to collect under the tax law is higher than the amount that will be collected, but will not be able to reliably measure the amount of this difference. The amount collected is lower due to the underground economy (or black market), fraud, evasion, noncompliance with the tax law, and error. The difference between what is legally due under the law and what the government will be able to collect is referred to as the tax gap. Amounts previously included in tax revenue that are determined as not collectible do not constitute part of the tax gap.

BC74. The IPSASB is of the view that the tax gap does not meet the definition of an asset, as it is not expected that resources will flow to the government in respect of these amounts. Consequently, assets, liabilities, revenue, or expenses will not be recognized in respect of the tax gap.

Revenue from Transactions with Binding Arrangements (paragraphs 57–162)

Accounting for the Binding Arrangement

BC75. The IPSASB noted that the title and structure of Step 1 of the five-step model proposed in ED 70, previously titled “Identifying the Binding Arrangement”, caused confusion for some constituents. The criteria in paragraph 57 is not intended to identify whether an arrangement is a binding arrangement; an entity should identify a binding arrangement by assessing whether an arrangement meets the definition of a binding arrangement. Rather, an entity is to consider the criteria in paragraph 57 when determining if revenue from a binding arrangement should be accounted for using the five-step accounting model in IPSAS [X]. The IPSASB decided to reorder the authoritative guidance on binding arrangements and clarify when the five-step model should be considered in accounting for revenue transactions arising from binding arrangements.

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

BC76. Paragraph 57(e) is part of the criteria that must be met before an entity can apply the five-step accounting model in [draft] IPSAS [X]. Paragraph 57(e) requires the collection of consideration to which an entity is entitled to be probable.

BC77. One of the underlying assumptions in IFRS 15 is that collectability of consideration from customers is likely in the private sector because:

- (a) Entities generally only enter into contracts in which it is probable that the entity will collect the amount to which it is entitled; and
- (b) Unless there are significant penalties for exiting a contract, most entities would not continue to be in a contract with a customer in which there was significant credit risk associated with that

⁹ [OECD, Revenue Statistics \(Paris: OECD, 2000\): p. 267, §20-21.](#)

customer without adequate economic protection to ensure that it would collect the consideration.

BC78. The IPSASB acknowledged that the probability criterion for certain binding arrangements with resource providers is an issue for the public sector in some jurisdictions. Some public sector entities are required to enter into binding arrangements to provide certain goods or services (such as water and electricity) to all citizens in accordance with their legislative mandate, regardless of the resource provider's ability or intention to pay. As a result, public sector entities may enter into some binding arrangements where collectability of the consideration is not probable.

BC79. When the collection of consideration is not probable, (which can occur when an entity is compelled to deliver a good or service), application of paragraph 57(e) without modification could result in revenue not being recognized until the consideration has been collected and the conditions in paragraph 59 of [draft] IPSAS [X] are met.

BC80. The IPSASB decided to retain paragraph 57(e) because:

- (a) Transactions where the collection of consideration is not probable do not meet the definitions of revenue in paragraph 4 of [draft] IPSAS [X], paragraph 7 of IPSAS 1, *Presentation of Financial Statements*, and paragraph 5.29 of the Conceptual Framework; and
- (b) The probability criterion aligns with IFRS 15 requirements and prevents entities from recognizing revenue and large impairment losses at the same time.

BC81. The IPSASB acknowledged that arrangements an entity is compelled to enter into where the collectability of the consideration is in question could be prevalent and material in certain jurisdictions. The IPSASB noted that there is information value in disclosing in the notes to the financial statements the amounts invoiced for such binding arrangements where collection of consideration is not probable or only considered probable after accepting a price concession as described in paragraph AG36 (see paragraph BC107).

BC82. To assist with the application of paragraph 57(e), the IPSASB added paragraph AG36, which states that when an entity is providing goods or services and accepts a lower amount of consideration, the acceptance of the lower amount of consideration is generally considered an implicit price concession. This guidance is based on the concepts illustrated in Illustrative Examples 2 and 3 of IFRS 15, and the IPSASB decided that it would be appropriate to elevate the concept from these examples due to the potential prevalence of transactions with collections risk in the public sector. Once an entity has concluded that it has provided a price concession, the binding arrangement with the lowered transaction consideration meets the collectability criterion in paragraph 57(e) and the entity applies the five-step accounting model to the binding arrangement. The IPSASB also enhanced paragraph AG36 to address comments from ED respondents on how an entity should consider implicit price concessions in the assessment of collectability, and use its best estimate of risks associated with the resource provider at the inception of the binding arrangement.

Recognition of Consideration Received as Revenue when the Criteria in Paragraph 57 are not Met (Amendment of Paragraph 59)

BC83. In IFRS 15, if a transaction does not meet all the criteria for revenue recognition using the five-step accounting model and the entity receives consideration from a customer, the consideration is recognized as revenue when either:

- (a) The entity has no remaining obligations to transfer goods or services to the customer and all, or substantially all, of the consideration promised by the customer has been received by the entity and is non-refundable; or
- (b) The contract has been terminated and the consideration received from the customer is non-refundable.

BC84. In the public sector, because an entity may be compelled to continue to provide goods or services to parties who cannot pay for these goods or services, the IPSASB was concerned that the application of paragraph 15 of IFRS 15 may lead to situations where revenue is never recognized, even if an entity has collected a portion of the promised consideration and the amounts collected are non-refundable. To address this concern, the IPSASB amended paragraph 59(a) of [draft] IPSAS [X], so that an entity shall recognize the consideration received as revenue when the entity has transferred the goods or services to which the collected consideration relates, the entity has no obligation to transfer additional goods or services for the collected consideration, and the consideration received is non-refundable.

Overall Impact from the Application of Paragraphs 57(e), 59 and AG36

BC85. The IPSASB noted that the application of paragraphs 57(e), 59 and AG36 would lead to the following possible outcomes, and considered the accounting and disclosure implications of the outcomes when the requirements of this [draft] Standard are applied:

- (a) Criterion 57(e) is met and there are no collectability issues – In this scenario, the binding arrangement will be accounted for using the five-step accounting model and no specific disclosures regarding compelled transactions are required. As required by paragraph 58, if facts and circumstances have changed significantly since the initial assessment, the entity is required to reassess if the binding arrangement continues to meet all the criteria in paragraph 57.
- (b) Criterion 57(e) is met, but only after the transaction consideration has been reduced for the implicit price concession as noted in paragraph AG36 – In this scenario, the binding arrangement will be accounted for using the five-step accounting model but at the reduced transaction consideration. Specific disclosures regarding compelled transactions will be required by paragraph 172 (see paragraph BC107 below). Similar to the scenario in paragraph BC85(a), if facts and circumstances have changed significantly since the initial assessment, the entity is required by paragraph 58 to reassess if the binding arrangement continues to meet all the criteria in paragraph 57.
- (c) Criterion 57(e) is not met, and the entity has collected a portion of the consideration – This scenario can arise when there is not enough information to formulate an expectation of the amounts to be collected or when there is no discernable pattern of collection based on past history. In this scenario, paragraph 59 requires the entity to continue to reassess whether the binding arrangement meets all the criteria in paragraph 57. Any consideration received is subject to the revenue recognition criteria in paragraphs 59 and 87. Specific disclosures regarding compelled transactions will be required by paragraph 172.
- (d) Criterion 57(e) is not met, and no consideration has been collected – In this scenario, paragraph 59 requires the entity to continue to reassess whether the binding arrangement

meets all the criteria in paragraph 57. Specific disclosures regarding compelled transactions will be required by paragraph 172.

Based on the above, the IPSASB was satisfied that paragraphs 59, 172 and AG36 address the concerns discussed in paragraphs BC81, BC84 and paragraph BC107.

Breach of the Terms and Conditions of a Binding Arrangement

BC86. The IPSASB considered the accounting consequences arising from the breach of the terms and conditions of a binding arrangement. The IPSASB concluded that the guidance in IPSAS 3, *Accounting Policies, Changes in Accounting Estimates, and Errors*, should be considered to determine whether the breach resulted in an error as defined in IPSAS 3. Where the circumstances of the breach are such that the guidance in IPSAS 3 is not applicable, guidance included in this [draft] Standard should be applied.

Identifying Compliance Obligations in a Binding Arrangement

BC87. Further to its discussions outlined in paragraphs BC20–BC29, the IPSASB confirmed that a binding arrangement has at least one compliance obligation, and each compliance obligation is a unit of account to determine a distinct component within the binding arrangement and are mechanisms for the recognition and measurement of revenue. Since an entity's binding arrangement may have multiple compliance obligations, the IPSASB decided to revise existing guidance to help entities identify and account for each of its obligation in a binding arrangement separately, in accordance with the nature of each distinct obligation, and added Implementation Guidance to support the principles presented in the authoritative text. The IPSASB also confirmed that principles in this IPSAS are consistent with the Unit of Account guidance proposed in ED 81, *Conceptual Framework Update: Chapter 3, Qualitative Characteristics and Chapter 5, Elements*.

Existence and Recognition of a Liability

BC88. Some respondents to ED 71 provided comments related to the existence of a liability in a binding arrangement: for example, what gives rise to a liability in a binding arrangement, whether and when a liability is recognized, and if that liability only arises when there is a return (i.e., repayment) obligation, as previously presented in IPSAS 23. The IPSASB considered these comments in conjunction with the guidance proposed in ED 81, *Conceptual Framework Update: Chapter 3, Qualitative Characteristics, and Chapter 5, Elements of Financial Statements*.

BC89. Through its discussions, the IPSASB confirmed that the enforceability of a binding arrangement is a key element which may give rise to a liability (specifically, deferred revenue) for the entity, to the extent that the terms of the arrangement are not yet satisfied. An entity recognizes a liability (deferred revenue) in its transaction with binding arrangement when it has received resources prior to satisfying its compliance obligation(s), and the resource provider can enforce the terms of the binding arrangement, specifically, to enforce its right and require the entity to transfer resources to another party if it does not satisfy its compliance obligation(s). If the criterion in paragraph 83(b) is not met, it may indicate that the arrangement is not a binding arrangement and the entity should reconsider its analysis.

BC90. The IPSASB also confirmed that, after initial recognition, the liability (deferred revenue) is reduced over time as (or fully extinguished at a point in time when) the entity satisfies the compliance

obligation(s) associated with resources previously received and earns revenue. This liability is reduced or extinguished as the entity satisfies its compliance obligation(s) to earn revenue.

Recognition of Revenue Transactions with a Binding Arrangement

- BC91. The IPSASB confirmed that for revenue transactions with binding arrangements, there is no initial recognition when no party has started to satisfy its obligations under the binding arrangement, unless the binding arrangement is onerous, as the combined right and obligation constitute a single asset or liability in the statement of financial position. The accounting begins when the binding arrangement is at least partially satisfied (i.e., at least one party begins to satisfy one or more of its obligations).
- BC92. The IPSASB proposed in ED 71 that the present obligations in enforceable transactions would either be a specified activity, or requirement to incur eligible expenditure. Neither a specified activity nor eligible expenditure requires the entity to transfer a good or service to either the transfer provider or a third-party beneficiary. The entity would recognize an asset and a liability when it had control of, or right to, the resource transferred and the revenue would be recognized (and the liability decreased) when (or as) the present obligation was satisfied.
- BC93. Some respondents to ED 71 did not agree that specified activities and eligible expenditures are present obligations and give rise to liabilities as defined in the Conceptual Framework. Upon reflection the IPSASB acknowledged that the intention was not that the specified activities or eligible expenditures in and of itself give rise to a present [compliance] obligation, but that they are an entity's actions or spending associated for the purposes of satisfying a specific promise it agreed to by willingly entering into a binding arrangement. Specified activities and eligible expenditures are examples of ways in which an entity may satisfy its obligations in a binding arrangement in accordance with the requirements in that binding arrangement, thereby informing the recognition of earned revenue. An entity should apply the guidance in paragraphs 99–105 of the accounting model for binding arrangements to determine which method is appropriate for measuring its progress towards complete satisfaction of its compliance obligation. The IPSASB also added Implementation Guidance to support the principles presented in the authoritative text.

Determining the Transaction Consideration

- BC94. In responding to constituent's concerns relating to the fair value measurement of receivables where the amount collectible is uncertain, the IPSASB incorporated a constraint requiring measurement of revenue and the associated receivable only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur.
- BC95. Constituents noted that there are a number of revenue transactions within the scope of draft IPSAS [X] that are difficult to measure at fair value because of the uncertainty in timing and amount of cash flows. In general, this uncertainty is associated with long dated transactions where the amounts will be determined at a later date. For example, the time taken after a death (the tax point) to identify all assets liable to an inheritance tax can be considerable where the deceased's estate is complex. As a result, the amount of inheritance tax to which the tax authority is entitled is uncertain at the reporting date, even though there is certainty in collection.
- BC96. The IPSASB agreed these transactions presented measurement challenges. Incorporating a constraint limiting measurement to when it is highly probable a significant reversal in the amount of revenue recognized will not occur satisfied the IPSASB's objectives by limiting the onerous task of

estimating uncertain future cash flows until they become certain, which addressed concerns raised by constituents.

Allocating the Transaction Consideration to Compliance Obligations

BC97. IFRS 15 states that an entity should allocate the transaction price (consideration) to all IFRS 15 performance obligations in proportion to the stand-alone selling prices of the goods or services. The best evidence of a stand-alone selling price is the observable price of a good or service when the entity provides that good or service separately in similar circumstances and to similar customers. If a stand-alone selling price is not directly observable, an entity shall estimate the stand-alone selling price using either the:

- (a) **Adjusted market assessment approach** – an entity could evaluate the market in which it sells goods or services and estimate the price that a customer in that market would be willing to pay for those goods or services;
- (b) **Expected cost plus a margin approach** – an entity could forecast its expected costs of satisfying a performance obligation and then add an appropriate margin for that good or service; or
- (c) **Residual approach** – an entity may estimate the stand-alone selling price by reference to the total transaction price less the sum of the observable stand-alone selling prices of other goods or services promised in the contract.

BC98. The IPSASB retained the methods of determining a stand-alone value in [draft] IPSAS [X] as they were appropriate for the transactions that would be covered in the [draft] Standard, and added Implementation Guidance to provide additional guidance on application in the public sector. However, the IPSASB replaced the term “expected cost plus a margin approach”, with the term “expected cost approach”, because certain goods or services are purchased or produced by public sector entities for no charge or for a nominal charge (‘cost recovery’ or ‘noncommercial basis’). The IPSASB noted that generally, the expected cost approach is likely more relevant in public sector for non-exchange type transactions, whereas adjusted market assessment approach is likely more relevant for exchange-type transactions.

BC99. These methods are used to estimate the stand-alone price in order to allocate the transaction consideration to each compliance obligation.

Considering Changes in an Entity’s Revenue Arrangement

BC100. Although an entity has the ability to enforce its binding arrangement, a change in internal or external factors, such as the entity’s choice to partially or fully exercise its ability to enforce, may have accounting implications. These factors may vary based on the relationship with the other party or parties in the binding arrangement, jurisdictional considerations, specific circumstances subsequent to initially entering the binding arrangement, or other considerations.

BC101. The IPSASB highlighted the importance of appropriately assessing the implications of changes in internal and external factors from a public financial management perspective. Appropriately reporting and disclosing information related to these arrangements enables public sector entities to be transparent to its constituents. Changes that do not impact the economic substance of the arrangement (i.e., whether the entity has a binding arrangement) would inform the subsequent remeasurement of any receivables or binding arrangement assets. This assessment requires

professional judgment and consideration of all elements of the transaction in order to determine whether and how factors impact subsequent measurement. The IPSASB also added Implementation Guidance to support the principles presented in the authoritative text.

Subsequent Measurement of Non-Contractual Receivables

- BC102. Receivables arising from contractual agreements would be within the scope of the financial instrument standards. However, it is possible for receivables to arise from other revenue arrangements (specifically, revenue from binding arrangements that are not contracts, or arrangements that are not binding arrangements), which would fall outside the scope of IPSAS 41, *Financial Instruments*. To address the lack of guidance for subsequent measurement of these receivables, the IPSASB proposed guidance in ED 70 and ED 71 that an entity should initially measure such receivables at the transaction consideration, as required by paragraphs 57–60 and AG115–AG117 of IPSAS 41.
- BC103. While the majority of respondents to ED 70 and ED 71 agreed with the proposed measurement of receivables, some respondents noted that the application of IPSAS 41 to subsequently measure of non-contractual receivables was unclear and potentially difficult in practice. The IPSASB acknowledged that while a non-contractual receivables would not strictly meet the definition of a financial asset, the substance and risks are consistent with those of contractual receivables, and these receivables should be accounted for with a consistent set of principles. The Board reaffirmed that consistency in accounting for transactions with the same substance is necessary from a stronger public financial management perspective, and noted that constituents did not challenge the IPSASB's conclusion that there are no public sector specific reasons which warrant a different accounting treatment for subsequent measurement of non-contractual receivables compared to contractual receivables. The IPSASB also reaffirmed that, as previously expressed by CP respondents, these receivables are generally expected to be classified and measured at amortized cost, as the entity's management model is likely to hold financial assets to collect cash flows (consideration owed in the revenue arrangement) and not to sell financial assets, and the cash flows are solely payments of the principal and any interest outstanding.
- BC104. A few constituents also requested a simplified approach or practical expedient for non-contractual receivables, to address potential difficulties in applying IPSAS 41 in practice. The Board acknowledged that the availability of certain information may pose some difficulties in applying amortized cost which may not be sufficiently eased by the use of the simplified approach for receivables in paragraphs 87-89 of IPSAS 41. However, non-contractual receivables, by nature of the revenue arrangements from which they arise, are typically held to collect expected cash flows related to the revenue transaction (rather than to sell and trade), and have shorter maturity periods (i.e., when consideration become due from the resource provider), similar to short-term receivables, and the required estimates would not span a long uncertain time period. Consideration of the time value of money and expected credit losses are necessary to appropriately reflect the economic substance of both contractual and non-contractual receivables. The IPSASB concluded that a simplified approach or practical expedient would not be appropriate, as an inconsistent application of accounting principles for transactions of the same substance and risks would not reflect the economic substance of these transactions.

BC105. Based on its analysis, the IPSASB added Implementation Guidance to support the principles presented in the authoritative text, and address constituent comments and clarify how IPSAS 41 principles can be applied by analogy to subsequently measure non-contractual receivables.

Presentation (paragraphs 163–194)

Approach to Disclosure Requirements

BC106. The IPSASB noted the objective of the disclosure requirements is to provide information which enables users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows. As all of the concepts from IFRS 15 on recognition and measurement of revenue were retained in ED 70, the IPSASB decided that there was no public sector-specific reason to remove any of the disclosures requirements from IFRS 15, and incorporated into ED 71 for consistent disclosure of revenues from binding arrangements with present obligations. The IPSASB acknowledges that the retention of all disclosure requirements from IFRS 15 will result in significantly more requirements than required in the existing IPSAS 23.

BC107. In response to the concerns noted in paragraph BC81 regarding the potential loss of information on transactions where an entity is compelled to enter a transaction by legislation or other governmental policy decisions, and where the collection of consideration is not probable or only assessed as probable after accepting a price concession as noted in paragraph AG36, the IPSASB decided to require disclosure of the information (in this [draft] IPSAS as paragraph 172). The IPSASB noted that these additional disclosures will provide users of the financial statements with details on why an entity was compelled to enter into such transactions, as well as the level of goods or services that were provided by the entity in such transactions for which revenue was not recognized.

BC108. As part of the exposure drafts, the IPSASB requested constituent responses on whether they agreed with the inclusion of disclosure requirements aligned with IFRS 15, and a public sector specific disclosure requirement for transactions which an entity is compelled to enter into by legislation or other governmental policy decisions.

BC109. The majority of respondents to ED 70 and ED 71 generally agreed with the proposed disclosures and the assertion that there was no public sector-specific reason to deviate from IFRS 15 alignment for transactions with the same substance. The Board acknowledged feedback from respondents about volume of disclosures in the two EDs, and decided to take a principle-based approach in reassessing disclosure requirements, focusing on the nature of the transactions and their risks. With this approach in mind, the IPSASB noted that its decisions since the issuance of ED 70 and ED 71, in particular to present revenue guidance in a single standard with a revised order, partially address constituent comments as the overall volume of disclosures has been reduced and resulted in a more succinct and clear set of disclosures.

BC110. The IPSASB noted that the key purpose of disclosures, as presented in the IPSASB's Conceptual Framework, is to provide financial information that supports accountability and is useful for decision-making purposes. In the context of revenue, an entity's disclosures should provide information that is useful in understanding the nature, amount, timing, and uncertainty of the entity's revenue for material revenue transactions, and disclosure requirements should prompt entities to disclose (or consider disclosing) such information about its revenue transactions. This means that, similar to other IPSAS, not all disclosure requirements in [draft] IPSAS [X] may be applicable for

an entity in its preparation of financial statement note disclosures, and in practice, it is likely that fewer than the full range of possible disclosures may be made by an entity.

BC111. Furthermore, under a principle-based approach, disclosures should align with the accounting principles set by the IPSASB within the respective accounting models.

- (a) Transactions arising without binding arrangements are expected to comprise a majority of public sector revenues. IPSAS 23 disclosures (all brought into ED 71) remain relevant, useful, and appropriate for public sector revenues arising without binding arrangements; and
- (b) Transactions arising with binding arrangements are accounted for under the same model because the enforceability of binding arrangements drives the accounting principles to capture the substance and risks of revenue with binding arrangements. To maintain a principle-based approach, all transactions accounted for under the binding arrangement model should be subject to the same set of disclosure requirements. The proposed disclosures, based on IFRS 15 and adapted for the public sector, are consistent with the concepts and principles in the binding arrangement accounting model that may be applied to public sector revenue transactions with binding arrangements. Thus, they remain relevant, useful, and appropriate for public sector revenues arising with binding arrangements.

BC112. Based on its analysis, the IPSASB decided to retain the disclosures previously proposed in ED 70 and ED 71 as they meet the disclosure objective and remain appropriate and consistent with the principles for the respective accounting models. An entity may apply all disclosure requirements if they are relevant for any specific transaction, but need not apply any requirements that are not relevant. This is consistent with the application of the accounting models themselves, where an entity may apply the principles and guidance in each accounting model for any revenue transaction, but need not apply any that are not relevant for a specific transaction. A public sector entity will need to consider and determine which disclosure requirements apply to their revenue transactions.

BC113. The IPSASB acknowledged that a few respondents requested specific additional disclosures and highlighted that IPSAS disclosure requirements do not prohibit entities from disclosing any information not formally required in any IPSAS. An entity can choose to provide additional disclosures at own discretion, for example, if it deems the information would meet overall objective of disclosure requirement and provides relevant, useful, and appropriate information for decision-making purposes.

BC114. The IPSASB noted that some constituents who provide goods, services, or other assets to third-party beneficiaries would like to disclose information in their financial statements regarding their programs. As a result, the IPSASB decided to revise paragraph AG209, which provides suggestions for the categories used to disaggregate revenue disclosures, to include a category for revenue earned from the provision of goods or services to third-party beneficiaries.

Application Guidance (paragraphs AG1–AG209)

Scope Exclusions

BC115. This [draft] Standard identifies examples of some types of documentation that may evidence contributions from owners in the public sector (paragraph AG6). Many public sector entities receive inflows of resources from entities that control them, own them, or are members of them. In certain circumstances, the inflow of resources will be designated as a contribution from owners.

Notwithstanding the documentation that evidences the form of the inflow of resources or its designation by a controlling entity, this [draft] Standard reflects the view that for an inflow of resources to be classified as a contribution from owners, the substance of the transaction must be consistent with that classification.

Enforceability

Assessment of Enforceability

BC116. Some respondents to ED 70 and ED 71 noted that the accounting guidance mentioned several mechanisms or factors of enforceability, but were unclear on whether certain factors are considered more demonstrative than others. The IPSASB considered these comments and debated whether the presence or absence of specific factors, such as past history of enforceability, demonstrates the enforceability of a binding arrangement. The IPSASB concluded that the impact of specific factors on the assessment of enforceability will be specific to each jurisdiction and the respective binding arrangement. In other words, the principle related to enforceability of a binding arrangement remains appropriate but acknowledge that application of this principle in practice may vary depending on the relevant mechanisms for the entity.

BC117. The IPSASB also confirmed that the assessment of enforceability is based on the ability to enforce. This assessment is to be completed when the entity first enters into the arrangement and when a significant change in external or internal factors indicates that there may be a change in the enforceability of that binding arrangement (i.e., change in the substance of the arrangement).

BC118. Based on these discussions, the IPSASB decided to revise guidance to emphasize that an entity should assess all relevant factors at the transaction date to determine whether the parties in the arrangement have the ability to enforce the rights and obligations in the arrangement. Judgment is required to determine which factors of enforceability are more demonstrative in the respective jurisdiction and binding arrangement. The IPSASB decided to provide additional authoritative guidance on the concept of enforceability in a binding arrangement.

Enforceability through Equivalent Means

BC119. The IPSASB noted that some binding arrangements in the public sector are enforceable not by legal means but by equivalent means (i.e., like legal) through other enforcement mechanisms. Equivalent means of enforceability are legally-binding, as described in the Conceptual Framework, and is intended to capture ways in which entities that cannot enter legal arrangements can still enforce like the force of law. The CP proposed the following as possible enforcement mechanisms by equivalent means:

- (a) Legislation;
- (b) Cabinet and ministerial decisions; and
- (c) Reduction of future funding.

BC120. The IPSASB agreed that cabinet and ministerial decisions, including executive authority, were subsets of legislation and may in some circumstances be valid enforcement mechanisms. Paragraphs AG19–AG22 of [draft] IPSAS [X] discusses the equivalent enforcement mechanisms.

- BC121. Constituents were generally supportive but questioned the validity of a reduction of future funding as an enforcement mechanism. The IPSASB decided that a reduction of future funding could only be used to enforce a binding arrangement if the resource provider had a compliance obligation to provide future funding in another binding arrangement. Without this binding arrangement and its compliance obligation, the threat of a reduction of future funding is not a valid enforcement mechanism, as there is no future funding that could be reduced.
- BC122. The IPSASB also discussed sovereign rights and agreed that by themselves, sovereign rights do not establish a valid enforcement mechanism. However, if details on how sovereign rights would be used to enforce an agreement were included in the binding arrangement, then this could create a valid enforcement mechanism.
- BC123. In addition, the IPSASB discussed whether economic coercion or political necessity could be a valid enforcement mechanism. The IPSASB noted that paragraph 5.26 of the Conceptual Framework states “economic coercion, political necessity or other circumstances may give rise to situations where although the public sector entity is not legally obligated to incur transfer of resources, the economic or political consequences of refusing to do so are such that the entity may have little or no realistic alternative to avoid a transfer of resources. Economic coercion, political necessity or other circumstances may lead to a liability arising from a non-legally binding obligation”.
- BC124. However, the IPSASB was of the view that a liability arising from a non-legally binding obligation is not equivalent to a binding arrangement for the purposes of [draft] IPSAS [X] because a non-legally binding obligation as cited in the Conceptual Framework is binding only for the party to whom the obligation exists, whereas a binding arrangement as used in [draft] IPSAS [X] requires both parties to agree to both the enforceable rights and obligations within that agreement.
- BC125. The IPSASB also discussed whether a statement made by a government to spend money or use assets in a particular way (e.g., a general policy statement or announcement following a natural disaster) would create a binding arrangement for a potential resource recipient. The IPSASB decided that such an announcement does not create enforceable rights and obligations on parties as there is no agreement with other parties, and therefore there is no binding arrangement. Such an announcement may be accounted for by the government under IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*.

Determination of Stand-Alone Value

- BC126. The determination of stand-alone selling price in IFRS 15 is largely based on the price at which an entity would sell a promised good or service separately to a customer. The IPSASB noted that in the public sector, the determination of stand-alone value may be challenging in situations where an entity is providing goods or services to third-party beneficiaries for no consideration, and some may interpret the requirements on determination of stand-alone value to only consider amounts received directly from the party receiving the goods or services. To address the issue, the IPSASB added guidance in paragraph AG112, which states that a stand-alone value in such situations shall be estimated based on the amount that would be paid in market terms to acquire the economic benefits or service potential of the goods or services. Where market information is not available, the stand-alone value is based on an estimate using the expected cost approach.

Capital Transfers

BC127. The CP noted that there was little guidance in IPSAS 23 on accounting for capital grants (now referred to as capital transfers). The CP gave a preliminary view from the IPSASB that accounting for capital transfers should be explicitly addressed within IPSAS, which respondents to the CP supported. This [draft] Standard includes guidance on accounting for capital transfers. The IPSASB noted that the accounting for capital transfers, which by definition arise from binding arrangements, would be the same as for any other revenue transaction from a binding arrangement: revenue from capital transfers would be recognized as the compliance obligations are satisfied.

BC128. When developing the approach above, the IPSASB decided not to adopt the IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance* accounting requirements for capital transfers. This approach provides accounting for 'grants related to assets' which is defined as: "Government grants whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long-term assets. Subsidiary conditions may also be attached restricting the type or location of the assets or the periods during which they are to be acquired or held".

BC129. IAS 20 requires government grants to be recognized in profit or loss on a systematic basis over the period in which the entity recognizes as expenses the related costs for which the grants are intended to compensate. Under IAS 20, grants relating to assets may be presented as either deferred income or as a reduction of the carrying amount of the related asset. The grant is only recognized in profit or loss as deferred income is amortized or as the related asset is depreciated.

BC130. The IPSASB agreed that this approach did not provide useful or representationally faithful information for users and therefore decided to develop an accounting approach for capital transfers which recognized that transfer in revenue as the non-financial asset (capital) asset is either acquired or constructed.

BC131. As the IPSASB revised revenue guidance in response to constituent comments on ED 70 and ED 71, the Board assessed whether the accounting principles in the binding arrangement model remain appropriate for capital transfers. The IPSASB concluded that the accounting principles remain appropriate, and revised and enhanced the Illustrative Examples to help illustrate the application of the accounting principles.

BC132. The IPSASB considered that some capital transfers may include multiple compliance obligations, one being the acquisition or construction of a capital asset and another being the operation of the capital asset in a particular way for a specified period of time. In these circumstances, the IPSASB decided that the accounting for each compliance obligation should be considered separately in accordance with the nature of each obligation.

Services In-Kind

BC133. This [draft] Standard permits, but does not require, recognition of services in kind. This [draft] Standard takes the view that many services in-kind do meet the definition of an asset and should, in principle, be recognized. In such cases there may, however, be difficulties in obtaining reliable measurements. In other cases, services in-kind do not meet the definition of an asset because the entity has insufficient control of the services provided. The IPSASB concluded that due to difficulties related to measurement and control, recognition of services in-kind should be permitted but not required.

BC134. However, the IPSASB encourages entities to disclose qualitative information about services in-kind received particularly if those services were integral to the operations of the entity.

Disclosures: Materiality and Aggregation

BC135. The IPSASB also discussed the need for entities to apply the concept of materiality when providing the disclosures required by [draft] IPSAS [X]. Based on feedback from constituents on previously issued IPSAS and in response to ED 70 and ED 71, the Board noted that it would be helpful to include an explicit reference to the materiality and aggregation guidance from paragraphs 45–47 of IPSAS 1. This reference was added to paragraph AG206 of [draft] IPSAS [X].

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Implementation Guidance

This guidance accompanies, but is not part of, [draft] IPSAS [X], *Revenue*.

Section A: Definitions

A.1 Capital Transfers

When is a transfer of a physical asset a ‘capital transfer’?

It depends. Public sector entities receive resources through various types of transfer transactions, in the form of cash or another asset, and which may arise with or without a binding arrangement. An entity should consider whether there are any specifications related to the transfer of the physical asset to determine whether it meets the definition of a ‘capital transfer’ in paragraph 4 of this [draft] Standard.

A transfer of a physical asset is a ‘capital transfer’ if the entity received this transfer within a binding arrangement and is required by the binding arrangement to acquire or construct a non-financial asset that will be controlled by the entity.

Section B: Identifying the Revenue Transaction

B.1 Identify Whether a Binding Arrangement Exists

Does the way in which an entity transacts with others impact the accounting?

Yes. Public sector entities may transact in different ways. These may vary in form, include multiple parties, confer rights and/or obligations on one or more of the involved parties, and have varying degrees of enforceability, which overall determine the economic substance of the transaction. Binding arrangements, in particular, confer both enforceable rights and enforceable obligations on the parties to the arrangement through legal or equivalent means. The enforceability of binding arrangements necessitates differences in accounting principles to capture the unique nature and risks of such transactions (in comparison with transactions without binding arrangements), thereby informing the recognition and measurement of revenue to ensure fair presentation of such transactions.

It is important to correctly identify whether the revenue transaction arises from a binding arrangement. The entity is required to determine what type of arrangement it has entered into, by considering the terms of its revenue transaction and all relevant facts and circumstances, to apply the appropriate accounting principles to reflect the economic substance of the transaction (see paragraphs 13–18).

B.2 Enforceability

What should an entity consider in assessing enforceability?

Determining whether an arrangement, and each party’s rights and obligations in that arrangement, are enforceable may be complex and requires professional judgment. This assessment is integral to identifying whether an entity has a binding arrangement (i.e., with both enforceable rights and enforceable obligations), only enforceable rights, or only enforceable obligations, through legal or equivalent means. In cases where an entity does not have a binding arrangement, it may still have an enforceable right, or an enforceable obligation, which should be accounted for appropriately. Enforceability may arise from various mechanisms, so long as the mechanism(s) provide the entity

with the ability to enforce the terms of the arrangement and hold the parties accountable for the satisfaction of their obligations in accordance with the terms of the arrangement.

At inception, an entity shall use its judgment and objectively assess all relevant factors and details to determine if it has enforceable rights and/or obligations (i.e., what is enforced), and the implicit or explicit consequences of not satisfying those rights and/or satisfying those obligations (i.e., how it is enforced). Relevant factors include, but are not limited to:

- (a) The substance, rather than the form, of the arrangement;
- (b) Terms that are written, oral, or implied by an entity's customary practices;
- (c) Whether it is legally binding through legal means (e.g., by the legal system, enforced through the courts, judicial rulings, and case law precedence), or compliance through equivalent means (e.g., by legislation, executive authority, cabinet or ministerial directives);
- (d) Implicit or explicit consequences of not satisfying the obligations in the arrangement;
- (e) The specific jurisdiction, sector, and operating environment; and
- (f) Past experience with the other parties in the arrangement.

Some mechanisms (for example, sovereign rights or reductions of future funding) may constitute a valid mechanism of enforcement. An entity should apply judgment and consider all facts and circumstances objectively, within the context of their jurisdiction, sector, and operating environment, in making this assessment. Paragraphs AG13–AG24 provide further guidance on assessing enforceability through legal or equivalent means.

B.3 Enforceability: Revenue Subject to Appropriations

How should an entity consider the impact of appropriations on its revenue transactions?

An appropriation is defined in IPSAS 24, *Presentation of Budget Information in Financial Statements*, as an authorization granted by a legislative body to allocate funds for purposes specified by the legislature or similar authority. Appropriations may come in different forms and vary by jurisdiction, for example as capped funding amounts, or as a tool to rescind funding at the discretion of the resource provider (which would be similar in substance to a unilateral termination clause without penalty).

Appropriations on their own do not prove nor refute the existence of enforceability within an arrangement. An entity should consider any appropriation clauses as one of the relevant factors in its overall assessment of enforceability, in the context of their specific jurisdiction and the unique terms and conditions of each arrangement.

A binding arrangement may specify that the resources to be transferred are subject to the completion of an appropriation process as an explicit term or condition (either in writing, orally, or implied through customary practices). In such circumstances, the entity considers whether, in substance, the arrangement is enforceable because mechanisms of enforceability enable the entity to require the resource provider to transfer resources, or, if the resource provider fails to do so, to impose consequences on the resource provider, prior to the completion of the appropriation process. The limitation (that the resources to be transferred are subject to the completion of the appropriation process) does not have substance when the entity can establish an enforceable right to those

resources, before the appropriation process is completed. In such cases, the arrangement is enforceable and may be a binding arrangement.

In some jurisdictions, the authorization for a transfer of resources may go through a multiple step process. For example:

- (a) The enabling authority to provide a transfer is in place, which is conveyed through approved legislation, regulations or by-laws of a resource provider;
- (b) The exercise of that authority has occurred. In essence, a decision has been made by the resource provider under the approved enabling authority that clearly demonstrates that it has lost its discretion to avoid proceeding with the transfer, for example through entering into a binding arrangement; and
- (c) The authority to pay is evidenced by the completion of an appropriation process.

The enabling authority together with the exercise of that authority may be sufficient for an entity to conclude that it has an enforceable right to resources in the arrangement to require the resource provider to transfer the resources or, if the resource provider fails to do so, to impose consequences on the resource provider prior to the completion of the appropriation process. In such a circumstance, the limitation (that the future transfer is subject to the completion of the appropriation process) does not have substance.

In other cases, the completion of the appropriation process may determine when a resource provider has lost its discretion to avoid proceeding with the transfer of resources. In such a circumstance, the limitation (that the future transfer is subject to the appropriation process being completed) has substance.

B.4 Changes in Factors Related to the Enforceability of a Binding Arrangement

Does a change in internal or external factors, after the inception of a binding arrangement, have accounting implications?

At inception, an entity considers the terms and conditions of an arrangement to determine whether it meets the definition of a binding arrangement in paragraph 4. If it does meet the definition, the entity accounts for the binding arrangement in accordance with paragraphs 57–148.

After inception, an entity should assess whether any changes in internal or external factors affect the enforceability of the binding arrangement (i.e., the substance of the arrangement), or the likelihood of enforcing the binding arrangement (i.e., the subsequent measurement of any assets or liabilities associated with the entity's right(s) and obligation(s) in the binding arrangement). Examples of such factors include, but are not limited to:

- (a) Changes in the legal framework impact the ability of the entity, or other party or parties in the arrangement to enforce their respective rights through legal or equivalent means; and
- (b) Changes in any party's choice to partially or fully exercise its ability to enforce its rights in the binding arrangement.

The implication on subsequent measurement of the respective asset or liability depends on whether the impact is not likely to be reversed and should be accounted for in accordance with IPSAS 41.

Section C: Revenue from Transactions without Binding Arrangements

C.1 Recognition of Revenue from Various Types of Taxes

What is the taxable event that triggers the recognition of revenue from various types of taxes levied in a jurisdiction?

An entity recognizes revenue from a transaction without binding arrangements when it receives or has the right to receive an inflow of resources that meets the definition of an asset (paragraphs 20–27), and there are no unsatisfied enforceable obligations associated with those resources (paragraph 31).

Resources arising from taxes that are presently controlled by the entity as a result of past events meet the definition of an asset. An entity should assess the taxation law in its own jurisdiction to determine the past event for these transactions (i.e., the taxable event), and consider all relevant facts and circumstances to determine when tax revenue should be recognized. The following table provides a non-exhaustive list of examples of tax revenues, and the likely taxable event (unless otherwise specified in laws and/or regulations):

Revenue Type	Likely Taxable Event
Tax on personal income earned within a jurisdiction.	The earning of assessable income by taxpayers in the current reporting period.
Tax imposed on businesses for the value added from sales of goods or services.	The sale of value-added goods or services (i.e., undertaking of taxable activity) during the reporting period.
Tax imposed on sales of goods or services.	The sale of taxable goods or services during the reporting period.
Duty on imports of specific goods to ensure that domestically produced goods are cheaper in the retail market.	The movement of goods subject to duties across the customs boundary during the reporting period.
Duty on taxable property.	The death of the person owning taxable property.
Tax on assessed property within a jurisdiction.	The passing of the date on which the taxes are levied, or the period for which the tax is levied (if the tax is levied on a periodic basis).

C.2 Measurement of Revenue from Various Types of Taxes

How does an entity measure the amount of revenue it has earned from its tax transactions without binding arrangements?

In many circumstances, the taxation period will not coincide with the entity's reporting period. An entity may also receive estimated tax payments in installments on a periodic basis before the taxable amount is finalized, which may require additional taxes owed, or a refund to the taxpayer for any excess. An entity shall recognize the inflow of resources (or the right to an inflow of resources) as an asset, and recognize revenue earned in the current reporting period, to the extent that it can be reliably measured. The best estimate is consistent with the most likely amount (see paragraphs 46–51).

To reliably measure the asset and revenue, the entity should consider all relevant data from various sources to arrive at its best estimate. Paragraph 47 describes factors that an entity should take into account in its estimation models. Sources of relevant data and inputs for an entity's estimation model include, but are not limited to: historical data (e.g., collection history and other taxation statistics), observable and other phenomena (e.g., forecasts, economic and banking statistics, installment), and the use of experts.

Estimates of tax revenue for the reporting period may be revised in a subsequent period. Changes in estimates are recognized prospectively in accordance with IPSAS 3.

Section D: Revenue from Transactions with Binding Arrangements

D.1 Identifying Compliance Obligations in a Binding Arrangement

Binding arrangements in the public sector vary substantially. Some binding arrangements may require the entity, as the resource recipient, to achieve a specific wholistic service objective, while other binding arrangements may impose requirements related to specific goods and services. How does an entity determine the individual compliance obligations in a binding arrangement in order to appropriately apply the accounting model for transactions with binding arrangements?

A binding arrangement has at least one compliance obligation. A compliance obligation, as defined in paragraph 4, is a unit of account to determine distinct components or elements within a binding arrangement. Identifying a meaningful unit of account is fundamental to the appropriate recognition and measurement of revenue. An entity must use professional judgment as it applies paragraphs 68–77 to determine the individual compliance obligations in its binding arrangement.

An entity should first identify all of the promises in its binding arrangement to use resources in a specific manner. Promises are goods or services promised in a binding arrangement with a resource provider, and may be explicit or implicit in the binding arrangement. A promise may require the entity to use resources internally for a good or service, or to transfer a good or service to an external party or parties (i.e., the purchaser or third-party beneficiary). A thorough assessment is necessary to identify all promises of goods or services (paragraphs 71–72).

An entity then considers each identified promise to determine if a promise is itself a compliance obligation, or whether it should be grouped with other promises to be a compliance obligation. In other words, a compliance obligation is a unit of account that represents a distinct promise or distinct group of promises to which recognition criteria and measurement concepts are applied (paragraph 73). A good or service (or a bundle of goods or services) promised in a binding arrangement is distinct if both criteria are met:

- (a) The promised good or service (or a bundle of goods or services) is *capable of being distinct*; and
- (b) The promise is *distinct within the context of the binding arrangement*.

Whether a good or service is *capable of being distinct* is generally based on the characteristics of the good or service (see paragraph 75 for additional guidance). However, determining whether the promise is *distinct within the context of the binding arrangement* will require judgment to ensure that the grouping of promises, and thus identification of individual compliance obligations, will

meaningfully represent the nature of the entity's transaction with the resource provider and provide a useful depiction of the entity's performance (see paragraph 76 for additional guidance).

Any distinct promise, or distinct group of promises, identified by the entity through this analysis would be an individual compliance obligation.

In cases where multiple parties are involved in the arrangement, the entity will also need to consider whether the nature of its promise in a compliance obligation indicates that the entity is a principal or agent (in accordance with paragraphs AG119–AG127).

D.2 Satisfaction of Compliance Obligations: Methods of Measuring Progress

When an entity satisfies a compliance obligation over time, how does it determine a measure of progress that depicts the entity's performance to satisfy its compliance obligation?

Methods of measuring progress include output methods and input methods (see paragraphs AG88–AG97). After the entity identifies its compliance obligations in its binding arrangement, an entity shall consider the nature of the entity's promise and the specific terms of the binding arrangement to determine the appropriate method of measuring progress.

An entity may first consider all observable and available information associated with satisfying the compliance obligation. This information would be useful for all parties in the binding arrangement to confirm whether the terms of the binding arrangement are being met, and may be explicitly required in the binding arrangement. Observable and available information includes, but is not limited to:

- (a) The performance of specified activities;
- (b) The incurrence of eligible expenditures;
- (c) The requirement to track progress towards achieving outlined milestones;
- (d) The production or delivery of specific quantities of goods or services; and
- (e) The volume of resources consumed (e.g., labor, materials, machine hours, etc.).

Some types of information are output methods (as they are based on the outputs and outcomes from the satisfaction of the compliance obligation), while other types of information are input methods (as they are based on the entity's efforts or inputs into the satisfaction of the compliance obligation).

The entity should use professional judgment to determine what information, and thus method of measuring progress, most faithfully depicts the entity's performance towards full satisfaction of the compliance obligation. In making this assessment, the entity should also consider which method of measuring progress:

- (a) Better reflects the nature and intent of the entity's promise in the binding arrangement;
- (b) More clearly captures the relationship with, and communicates the progress toward, the satisfaction of the compliance obligation;
- (c) Uses information that is more reliable and directly observable;
- (d) Reflects all relevant performance associated with satisfying the compliance obligation; and
- (e) Provides benefits that outweigh the costs of obtaining and tracking the necessary information.

There may be situations in the public sector where resources are passed through a series of entities before being received by the ultimate resource recipient. In these situations, where the entity is one of multiple parties involved in the arrangement, the entity will need to consider whether the nature of its promise and whether satisfaction of its compliance obligation depends on satisfaction by other parties in the binding arrangement, thereby informing revenue recognition as a principal or agent.

D.3 Satisfaction of Compliance Obligations: Measuring Progress for Capital Transfers

Public sector entities often receive capital transfers for multi-year capital projects. These projects generally include multiple stages of completion and deliverables. Are different principles required to measure an entity's progress on capital transfers?

No. Capital transfers, which arise from transactions with binding arrangements, typically include substantial detail about the various stages in the project (e.g., conception and planning, design, procurement, construction, etc.). As such, these binding arrangements typically entail a large range of available information related to the inputs and outputs of the transaction. For example, the binding arrangement may include specific detailed activities related to the construction, such as clearing the site, building foundations and framing, and pouring concrete. However, the application of the accounting principles for capital transfers is consistent with the accounting for other revenue transactions with binding arrangements. The entity must first identify the individual compliance obligations in the binding arrangement, and carefully determine the appropriate measure of progress for each compliance obligation. The entity shall apply the accounting guidance in paragraphs 99–105 and paragraphs AG88–AG97 to consider all observable and available information. The use of professional judgment is crucial in determining what information, and thus method of measuring progress, most faithfully depicts the entity's progress to fully satisfy the compliance obligation. An entity should also consider revenue recognition independently from the timing of the receipt of resources from the resource provider.

D.4 Allocation Based on Stand-Alone Values

An entity is required to allocate the transaction consideration to each compliance obligation on a relative stand-alone value basis. However, stand-alone value is not always directly observable, and must then be estimated. How should a public sector entity determine the suitable method for estimating the stand-alone value of a good or service?

To estimate stand-alone value, an entity shall first consider all reasonably available information (including but not limited to reasonably available data points, entity-specific factors, information about the resource provider or class of resource provider, and the effects of market considerations where relevant).

Based on the reasonably available information, the entity shall determine which method for estimating the stand-alone value most faithfully represents the value of the goods or services promised in the binding arrangement. Paragraph 140 includes examples of suitable methods for estimating the stand-alone value and is not a prescriptive list.

The most suitable method will depend on the quality and type of information available to the entity. For example, the adjusted market assessment approach may be more suitable when the binding arrangement promises goods or services that are readily available in the market, as the price that other entities in the market would be willing to pay may provide a proxy for the value of those goods or services in the binding arrangement. However, the expected cost approach may be more suitable

when the binding arrangement promises goods or services that are unique to the entity or the binding arrangement, or which are not readily available in the market. In such cases, the entity's expected costs of satisfying a compliance obligation may provide a more useful estimation of the value of the goods or services in the binding arrangement.

The entity shall be comprehensive in its assessment to maximize the use of observable inputs and be consistent in its application of estimation methods to similar circumstances.

Paragraph 140 also notes that the entity may also incorporate a margin in its estimation approach, if appropriate. This may occur if the public sector entity has engaged in a revenue transaction that is exchange-type in nature.

Section E: Multi-Year Arrangements

E.1 Accounting for Multi-Year Arrangements

Are different principles required to account for, and recognize revenue from, multi-year arrangements?

Multi-year arrangements, which may arise from transactions with binding arrangements, generally involve the provision of resources over multiple years for a specific purpose (for example, the publication of research findings on a specified topic). The provision of resources (i.e., funding) may occur at multiple dates throughout a year and/or across multiple years.

While these arrangements are longer term, the application of accounting principles is consistent with the accounting for other revenue transactions. An entity shall consider whether the multi-year arrangement is a binding arrangement and apply the principles in the applicable accounting model to reflect the substance of the transaction. The entity shall consider whether an inflow, or a right to a future inflow, of resources gives rise to an asset in accordance with paragraphs 20–27, and carefully consider revenue recognition independently from the timing of funding when applying paragraph 31 (if without a binding arrangement) or paragraphs 88–105 (if with a binding arrangement). The entity may need to consider whether any expected inflow of resources in subsequent years meets the definition of an asset, and whether it is interdependent and inseparable from any associated unsatisfied obligations in accordance with paragraph AG56.

Section F: Subsequent Measurement

F.1 Subsequent Measurement for Non-Contractual Receivables

How should an entity subsequently account for receivables from revenue transactions arising outside of contracts?

An entity may recognize a contractual receivable (i.e., a receivable asset that arises from a contract) or a non-contractual receivable. A non-contractual receivable is a receivable asset that does not arise from a contract, such as a binding arrangement that is not a contract or a revenue transaction that is not a binding arrangement (e.g., taxes and other statutory receivables).

After initial recognition, a contractual receivable, which meets the definition of a financial asset per IPSAS 28, is subsequently measured by applying IPSAS 41.

A non-contractual receivable does not strictly meet the definition of financial asset because it does not arise from a contract. While non-contractual receivables and contractual receivables arise from

different types of arrangements, they are consistent in substance and risk exposure, and should be subsequently measured by applying IPSAS 41 by analogy to ensure that transactions with the same substance are accounted for using consistent principles. When applying IPSAS 41 principles by analogy, the entity should use judgment to consider the substance of the receivable, and all relevant and readily available data, to form the basis of the revenue “contract by analogy” for which it has a receivable (e.g., legislation, payment terms, etc.). The entity should consider whether it holds the receivable to collect expected cash flows (in lieu of contractual cash flows) representing the entity’s right to consideration in the revenue transaction in order to determine whether its non-contractual receivable meets the criteria in paragraph 40 of IPSAS 41 to be subsequently measured at amortized cost. If met, the entity should consider inputs into its impairment analysis under IPSAS 41 accordingly to ensure it appropriately reflects the economic substance of the receivable, including but not limited to the passage of time before the consideration is collectable (i.e., maturity period) and any receivable amounts the entity no longer expects to collect (i.e., expected credit losses). If the criteria in paragraph 40 of IPSAS 41 are not met, the entity would subsequently measure the non-contractual receivable at fair value in accordance with paragraph 33 of this [draft] Standard.

Illustrative Examples

These examples accompany, but are not part of, [draft] IPSAS [X], *Revenue*. They illustrate aspects of IPSAS [X] but are not intended to provide interpretative guidance.

IE1. [Pending]

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