Exposure Draft 72
February 2020
Comments due: September 15, 2020

IPSAS®

Proposed International Public Sector Accounting Standard®

Transfer Expenses

IPSASB
International Public Sector Accounting Standards Board®

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

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

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REQUEST FOR COMMENTS

This Exposure Draft, *Transfer Expenses*, was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by September 15, 2020.**

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

Objective of the Exposure Draft

The objective of this Exposure Draft is to propose improvements to the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about transfer expenses.

Guide for Respondents

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

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

Specific Matter for Comment 1:

The scope of this [draft] Standard is limited to transfer expenses, as defined in paragraph 8. The rationale for this decision is set out in paragraphs BC4–BC15.

Do you agree that the scope of this [draft] Standard is clear? If not, what changes to the scope or definition of transfer expense would you make?

Specific Matter for Comment 2:

Do you agree with the proposals in this [draft] Standard to distinguish between transfer expenses with performance obligations and transfer expenses without performance obligations, mirroring the distinction for revenue transactions proposed in ED 70, *Revenue with Performance Obligations*, and ED 71, *Revenue without Performance Obligations*?

If not, what distinction, if any, would you make?

Specific Matter for Comment 3:

Do you agree with the proposal in this [draft] Standard that, unless a transfer provider monitors the satisfaction of the transfer recipient's performance obligations throughout the duration of the binding arrangement, the transaction should be accounted for as a transfer expense without performance obligations?

Specific Matter for Comment 4:

This [draft] Standard proposes the following recognition and measurement requirements for transfer expenses with performance obligations:

(a) A transfer provider should initially recognize an asset for the right to have a transfer recipient transfer goods and services to third-party beneficiaries; and

(b) A transfer provider should subsequently recognize and measure the expense as the transfer recipient transfers goods and services to third-party beneficiaries, using the public sector performance obligation approach.

The rationale for this decision is set out in paragraphs BC16–BC34.

Do you agree with the recognition and measurement requirements for transfer expenses with performance obligations? If not, how would you recognize and measure transfer expenses with performance obligations?

Specific Matter for Comment 5:

If you consider that there will be practical difficulties with applying the recognition and measurement requirements for transfer expenses with performance obligations, please provide details of any anticipated difficulties, and any suggestions you have for addressing these difficulties.

Specific Matter for Comment 6:

This [draft] Standard proposes the following recognition and measurement requirements for transfer expenses without performance obligations:

(a) A transfer provider should recognize transfer expenses without performance obligations at the earlier of the point at which the transfer provider has a present obligation to provide resources, or has lost control of those resources (this proposal is based on the IPSASB's view that any future benefits expected by the transfer provider as a result of the transaction do not meet the definition of an asset); and

(b) A transfer provider should measure transfer expenses without performance obligations at the carrying amount of the resources given up?

Do you agree with the recognition and measurement requirements for transfer expenses without performance obligations?

If not, how would you recognize and measure transfer expenses without performance obligations?

Specific Matter for Comment 7:

As explained in SMC 6, this [draft] Standard proposes that a transfer provider should recognize transfer expenses without performance obligations at the earlier of the point at which the transfer provider has a present obligation to provide resources, or has lost control of those resources. ED 71, *Revenue without Performance Obligations*, proposes that where a transfer recipient has present obligations that are not performance obligations, it should recognize revenue as it satisfies those present obligations. Consequently, a transfer provider may recognize an expense earlier than a transfer recipient recognizes revenue.

Do you agree that this lack of symmetry is appropriate? If not, why not?

Specific Matter for Comment 8:

This [draft] Standard proposes that, when a binding arrangement is subject to appropriations, the transfer provider needs to consider whether it has a present obligation to transfer resources, and should therefore recognize a liability, prior to the appropriation being authorized. Do you agree with this proposal?

If not, why not? What alternative treatment would you propose?

Specific Matter for Comment 9:

This [draft] Standard proposes disclosure requirements that mirror the requirements in ED 70, *Revenue with Performance Obligations*, and ED 71, *Revenue without Performance Obligations*, to the extent that these are appropriate.

Do you agree the disclosure requirements in this [draft] Standard are appropriate to provide users with sufficient, reliable and relevant information about transfer expenses? In particular,

(a) Do you think there are any additional disclosure requirements that should be included?

(b) Are any of the proposed disclosure requirements unnecessary?

EXPOSURE DRAFT 72, TRANSFER EXPENSES

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Objective

1. **The objective of this [draft] Standard is to establish the principles that an entity (a transfer provider) 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.**

   Paragraphs AG2–AG3 provide additional guidance on meeting the objective.

2. To meet the objective in paragraph 1, the core principle of this [draft] Standard is that a transfer provider shall recognize expenses as follows:

   (a) For transfer expenses where the transfer recipient is required to satisfy performance obligations by transferring goods or services to a third-party beneficiary, to depict the transfer of resources in an amount that reflects the consideration which the transfer provider expects to be obligated to pay in exchange for those goods or services; and

   (b) For transfer expenses where the transfer recipient is not required to satisfy performance obligations, at the earlier of the date at which the transfer provider has a present obligation to transfer resources to a transfer recipient, and the date when the transfer provider ceases to control the resources (i.e., when it transfers those resources to the transfer recipient).

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. **An entity shall also apply this [draft] Standard in accounting for the subsequent measurement of other non-contractual payables, except where the subsequent measurement of the payable is within the scope of another Standard. This [draft] Standard does not apply to the recognition and initial measurement of other non-contractual payables.**

5. **This [draft] Standard does not apply to:**

   (a) **Operating leases as defined in IPSAS 13, *Leases*;**

   (b) **Provisions as defined in IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*;**

   (c) **Collective services and individual services as defined in IPSAS 19;**

   (d) **Employee benefits as defined in IPSAS 39, *Employee Benefits*;**

   (e) **Concessionary loans as defined in IPSAS 41, *Financial Instruments*;**

   (f) **Social benefits as defined in IPSAS 42, *Social Benefits*;**

   (g) **Insurance contracts (see the international or national accounting standard dealing with insurance contracts); and**

(h) **Share-based payments (see the international or national accounting standard dealing with share-based payments).**

6. Contributions from owners and distributions to owners are defined in IPSAS 1, *Presentation of Financial Statements*. Contributions from owners and distributions to owners do not meet the definition of a transfer expense, for the following reasons.

   (a) Contributions from owners establish a controlling entity's or an investor's financial interest in the net assets/equity of the controlled entity or investee. This financial interest is recognized as an asset in the controlling entity's or the investor's separate financial statements, and therefore does not satisfy the definition of a transfer expense, which requires that the transfer provider provides a good or service to another entity without directly receiving any good or service in return.

   (b) Distributions to owners are future economic benefits or service potential distributed by the entity to all or some of its owners, either as a return on investment or as a return of investment. Distributions to owners are transfers in response to earlier investments by owners, and therefore do not satisfy the definition of a transfer expense, which requires that the transfer provider provides a good or service to another entity without directly receiving any good or service in return.

   Consequently, contributions from owners and distributions to owners are outside the scope of this [draft] Standard. An entity shall account for contributions from owners and distributions to owners in accordance with IPSAS 1.

7. A binding arrangement may be partially within the scope of this [draft] Standard and partially within the scope of other Standards.

   (a) If the other Standards specify how to separate and/or initially measure one or more parts of the binding arrangement, then an entity shall first apply the separation and/or measurement requirements in those Standards. An entity shall exclude from the transaction 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 72–85 (transfer expenses with performance obligations) or paragraphs 102–114 (transfer expenses without performance obligations) to account for the amount of the transaction consideration or other transfer of resources that remains (if any).

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

   Paragraphs AG4–AG5 provide additional guidance on the scope of this Standard.

Definitions

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

Stand-alone purchase price (of a good or service) is the price at which a transfer provider would purchase a promised good or service[1] separately from a transfer recipient.

The transaction consideration (for a binding arrangement which imposes one or more performance obligations on a transfer recipient) is the amount of consideration to which the transfer provider expects to be obligated to pay in exchange for the transfer recipient transferring promised goods or services to a third-party beneficiary.

A transfer expense is an expense arising from a transaction, other than taxes[2], in which an entity provides a good, service, or other asset to another entity (which may be an individual) without directly receiving any good, service, or other asset[3] in return (paragraphs AG6–AG7 provide additional guidance).

A transfer provider's binding arrangement asset is a transfer provider's right to have goods or services transferred to a third-party beneficiary in exchange for consideration provided.

A transfer provider's binding arrangement liability is a transfer provider's obligation to pay consideration in exchange for goods or services that the transfer recipient has transferred to a third-party beneficiary when that obligation is conditioned on something other than the passage of time (for example, the transfer recipient's future performance).

9. The following terms are defined in [draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*, and are used in this [draft] Standard with the same meaning as in [draft] IPSAS X (ED 70):

(a) Binding arrangement;

(b) Contract;

(c) Control of an asset;

(d) Performance obligation; and

(e) Third-party beneficiary.

Paragraphs AG9–AG14 provide additional guidance on binding arrangements. Paragraphs AG15–AG23 provide additional guidance on the enforceability of binding arrangements.

The following terms are defined in [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*, and are used in this [draft] Standard with the same meaning as in [draft] IPSAS X (ED 71):

(f) Capital Transfer;

(g) Eligible expenditure;

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1 References to goods and services or to goods or services are to be read as incorporating references to assets. This is because a transfer recipient will consider any item transferred to a third-party beneficiary to be a good or service, even if in some cases a third-party beneficiary would classify the item as a non-current asset on initial recognition.

2 Taxes include other compulsory contributions and levies, as defined in [draft] IPSAS [X] (ED 71).

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

(h) Specified activity;

(i) Fines;

(j) Taxes;

(k) Transfer provider; and

(l) Transfer recipient.

Paragraph AG8 provides additional guidance on the transfer recipient.

Expenses are defined in IPSAS 1.

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.

Transfer Expenses with Performance Obligations (Public Sector Performance Obligation Approach)

10. **A transfer provider may incur transfer expenses in accordance with a binding arrangement it has entered into with a transfer recipient, which requires the transfer recipient to provide goods or services to a third-party beneficiary. Requirements that a transfer recipient provide goods or services to a third party are a subset of performance obligations as defined in [draft] IPSAS [X] (ED 70). Where such a requirement satisfies the definition of a performance obligation, the transfer provider shall recognize and measure the related expenses by applying the Public Sector Performance Obligation Approach in paragraphs 13–89 below.**

11. The definition of a performance obligation in [draft] IPSAS [X] (ED 70) requires the transfer of goods or services, either to third-party beneficiaries or to the purchaser. Only those performance obligations which require the transfer of goods or services to third-party beneficiaries are within the scope of this [draft] Standard.

12. To meet the requirements in paragraph 2(a), this [draft] Standard requires a transfer provider to recognize transfer expenses with performance obligations by applying the following steps:

    (a) Step 1: Identifying the binding arrangement with a transfer recipient (see paragraphs 13–23);

    (b) Step 2: Identifying the transfer recipient's performance obligations in the binding arrangement (see paragraphs 24–32);

    (c) Step 3: Determining the transaction consideration (see paragraphs 47–71);

    (d) Step 4: Allocating the transaction consideration to the transfer recipient's performance obligations in the binding arrangement (see paragraphs 47 and 72–85); and

    (e) Step 5: Recognizing expenses when (or as) the transfer recipient satisfies a performance obligation (see paragraphs 33–46).

Recognition

Identifying the Binding Arrangement (Step 1)

13. **A transfer provider shall account for a transfer expense which imposes performance obligations to provide goods or services to a third-party beneficiary on the transfer recipient**

in accordance with the Public Sector Performance Obligation Approach in this [draft] Standard only when all of the following criteria are met:

(a) **The parties to the binding arrangement have approved the binding arrangement (in writing, orally or in accordance with other customary practices) and are committed to perform their respective obligations;**

(b) **The transfer provider can identify each party's rights regarding the goods or services to be transferred;**

(c) **The transfer provider can identify the payment terms for the goods or services to be transferred; and**

(d) **The transfer provider can identify the transfer recipient's performance obligations and monitors the satisfaction of those performance obligations throughout the duration of the binding arrangement.**

Paragraphs AG26 and AG27 provide additional guidance. Where one or more of the criteria are not met, the transfer provider shall account for the transfer expense in accordance with paragraphs 90–114 (i.e., as a transfer expense without performance obligations). Consequently, unless a transfer provider monitors the satisfaction of the transfer recipient's performance obligations throughout the duration of the binding arrangement, the transaction is accounted for as a transfer expense without performance obligations.

14. A binding arrangement may include one or more components that meet the criteria in paragraph 13, and another component or components that do not meet the criteria in paragraph 13. A transfer provider shall recognize and measure such a binding arrangement as follows:

(a) The component or components of the binding arrangement that meet the criteria in paragraph 13 shall be treated as a separate binding arrangement, and recognized and measured in accordance with paragraphs 13–89; and

(b) The component or components of the binding arrangement that do not meet the criteria in paragraph 13 shall be treated as a separate binding arrangement for a transfer expense without performance obligations, and recognized and measured in accordance with paragraphs 91–114.

Paragraphs AG53–AG54 provide guidance on determining the transaction consideration where components of the binding arrangement do not relate to the transfer recipient's performance obligations.

15. A binding arrangement creates both enforceable rights and obligations on both parties to the arrangement through legal or equivalent means. Factors that determine enforceability may differ between jurisdictions and some enforcement mechanisms may be outside the legal system. Binding arrangements can be written, oral or implied by a transfer provider'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 a transfer provider (for example, they may depend on the class of transfer recipient or third-party beneficiary, or the nature of the promised goods or services). A transfer provider shall consider those practices and processes in determining whether and when an agreement with a transfer recipient creates enforceable rights and obligations.

16. Some binding arrangements with transfer recipients 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. A transfer provider shall apply this [draft] Standard to the duration of the binding arrangement in which the parties to the binding arrangement have present enforceable rights and obligations.

17. For the purpose of applying this [draft] Standard, a binding arrangement does not exist if each party to the binding arrangement has the unilateral enforceable right to terminate a wholly unperformed binding arrangement without compensating the other party (or parties). A binding arrangement is wholly unperformed if both of the following criteria are met:

    (a) The transfer provider has not yet paid, and is not yet obligated to pay, consideration to the transfer recipient in exchange for promised goods or services to be provided to third-party beneficiaries; and

    (b) The transfer recipient has not yet transferred any promised goods or services to a third-party beneficiary.

18. If a binding arrangement with a transfer recipient meets the criteria in paragraph 13 at the inception of the binding arrangement, a transfer provider shall not reassess those criteria unless there is an indication of a significant change in facts and circumstances. For example, if a transfer recipient's ability to transfer the promised goods or services deteriorates significantly, a transfer provider would reassess whether it is probable that a third-party beneficiary will receive the goods or services promised in exchange for the consideration.

Combination of Binding Arrangements

19. A transfer provider 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 economic objective;

    (b) The amount of consideration to be paid in one binding arrangement depends on the price or performance of the other binding arrangement; or

    (c) The goods or services promised in the binding arrangements (or some goods or services promised in each of the binding arrangements) are a single performance obligation in accordance with paragraphs 24–32.

Modifications to a Binding Arrangement

20. A modification to a binding arrangement is a change in the scope or price (or both) of a binding arrangement that is approved by the parties to the binding arrangement. In some sectors and jurisdictions, a modification to a binding arrangement may be described as a variation, an amendment, or a change order. A modification to a binding arrangement exists when the parties to a binding arrangement approve a modification that either creates new or changes existing enforceable rights and obligations of the parties to the binding arrangement. A modification to a binding arrangement could be approved in writing, by oral agreement or implied by a transfer provider's customary practices. If the parties to the binding arrangement have not approved a modification to a binding arrangement, a transfer provider shall continue to apply this [draft]

Standard to the existing binding arrangement until the modification to a binding arrangement is approved.

21. A modification to a binding arrangement may exist even though the parties to the binding arrangement have a dispute about the scope or price (or both) of the modification or the parties have approved a change in the scope of the binding arrangement but have not yet determined the corresponding change in price. In determining whether the rights and obligations that are created or changed by a modification are enforceable, a transfer provider shall consider all relevant facts and circumstances including the terms of the binding arrangement and other evidence. If the parties to a binding arrangement have approved a change in the scope of the binding arrangement but have not yet determined the corresponding change in price, a transfer provider shall estimate the change to the transaction consideration arising from the modification in accordance with paragraphs 51–55 on estimating variable consideration and paragraphs 56–58 on constraining estimates of variable consideration.

22. A transfer provider shall account for a modification to a binding arrangement as a separate binding arrangement if both of the following conditions are present:

    (a) The scope of the binding arrangement increases because of the addition of promised goods or services to be transferred to third-party beneficiaries that are distinct (in accordance with paragraphs 28–32); and

    (b) The price of the binding arrangement increases by an amount of consideration that reflects the transfer provider's stand-alone purchase prices of the additional promised goods or services and any appropriate adjustments to that price to reflect the circumstances of the particular binding arrangement. For example, a transfer provider may adjust the stand-alone purchase price of an additional good or service for a discount that the transfer provider receives for repeat purchases.

23. If a modification to a binding arrangement is not accounted for as a separate binding arrangement in accordance with paragraph 22, a transfer provider shall account for the promised goods or services not yet received by the third-party beneficiary at the date of the modification to a binding arrangement (i.e., the remaining promised goods or services) in whichever of the following ways is applicable:

    (a) A transfer provider shall account for the modification to a binding arrangement as if it were a termination of the existing binding arrangement and the creation of a new binding arrangement, if the remaining goods or services are distinct from the goods or services received by the third-party beneficiary on or before the date of the modification to a binding arrangement. The amount of consideration to be allocated to the remaining performance obligations (or to the remaining distinct goods or services in a single performance obligation identified in accordance with paragraph 24(b)) is the sum of:

        (i) The consideration promised to the transfer recipient (including amounts already received by the transfer recipient) that was included in the estimate of the transaction consideration and that had not been recognized as an expense; and

        (ii) The consideration promised as part of the modification to a binding arrangement.

    (b) A transfer provider shall account for the modification to a binding arrangement as if it were a part of the existing binding arrangement if the remaining goods or services are not distinct and, therefore, form part of a single performance obligation that is partially satisfied at the date of the modification to a binding arrangement. The effect that the modification to a binding arrangement has on the transaction consideration, and on the transfer recipient's progress towards complete satisfaction of the performance obligation, is recognized as an adjustment to expense (either as an increase in or a reduction of expense) at the date of the modification of a binding arrangement (i.e., the adjustment to expense is made on a cumulative catch-up basis).

(c) If the remaining goods or services are a combination of items (a) and (b), then the transfer provider shall account for the effects of the modification on the unsatisfied (including partially unsatisfied) performance obligations in the modified binding arrangement in a manner that is consistent with the objectives of this paragraph.

Identifying Performance Obligations (Step 2)

24. **At the inception of the binding arrangement, a transfer provider shall assess the goods or services promised by the transfer recipient in a binding arrangement and shall identify as a performance obligation of the transfer recipient each promise to transfer to a third-party beneficiary either:**

(a) **A good or service (or a bundle of goods or services) that is distinct; or**

(b) **A series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the third-party beneficiary (see paragraph 25).**

Paragraphs AG28–AG38 provide additional guidance on identifying performance obligations.

25. A series of distinct goods or services has the same pattern of transfer to the third-party beneficiary if both of the following criteria are met:

(a) Each distinct good or service in the series that the transfer recipient promises to transfer to the third-party beneficiary would meet the criteria in paragraph 36 to be a transfer recipient's performance obligation satisfied over time; and

(b) In accordance with paragraphs 40–41, the same method would be used to measure the transfer recipient's progress towards complete satisfaction of the performance obligation to transfer each distinct good or service in the series to the third-party beneficiary.

Promises in Transfer Expenses with Performance Obligations

26. A binding arrangement with a transfer recipient generally explicitly states the goods or services that a transfer recipient promises to transfer to a third-party beneficiary. However, the performance obligations identified in a binding arrangement with a transfer recipient may not be limited to the goods or services that are explicitly stated in that binding arrangement. This is because a binding arrangement with a transfer recipient may also include promises that are implied by a transfer recipient'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 transfer provider that the transfer recipient will transfer a good or service to the third-party beneficiary.

27. Performance obligations of the transfer recipient do not include activities that a transfer recipient must undertake to fulfil a binding arrangement unless those activities transfer a good or service to a third-party beneficiary. For example, a transfer recipient may need to perform various administrative tasks to set up a binding arrangement. The performance of those tasks does not transfer a service

to a third-party beneficiary as the tasks are performed. Therefore, those setup activities are not a performance obligation of the transfer recipient.

Distinct Goods or Services

28. Depending on the binding arrangement, goods or services promised to be delivered by a transfer recipient to a third-party beneficiary may include, but are not limited to, the following:

    (a) Transfer of goods produced by a transfer recipient to a third-party beneficiary (for example, inventory of a manufacturer);

    (b) Transfer of goods purchased by a transfer recipient to a third-party beneficiary (for example, merchandise of a retailer);

    (c) Transfer of rights to goods or services purchased by a transfer recipient to a third-party beneficiary (for example, emission allowances purchased and subsequently transferred by a transfer recipient);

    (d) A transfer recipient performing a task for a third-party beneficiary that is agreed upon in the binding arrangement (for example, a supplier providing computer maintenance services to schools);

    (e) A transfer recipient providing a service of standing ready to provide goods or services to third party beneficiaries (for example, paramedics on site at an athletic competition organized by a community group);

    (f) A transfer recipient providing a service of arranging for another party to transfer goods or services to a third-party beneficiary (for example, acting as an agent of another party);

    (g) A transfer recipient constructing, manufacturing or developing an asset on behalf of a third-party beneficiary (for example, a residential development constructed for a housing association); and

    (h) A transfer recipient granting licenses (see paragraphs AG70–AG83).

29. A good or service that is promised by a transfer recipient is distinct if both of the following criteria are met:

    (a) The transfer provider has assessed that the third-party beneficiary can receive economic benefits or service potential from the good or service either on its own or together with other resources that are readily available to the third-party beneficiary (i.e., the good or service is capable of being distinct); and

    (b) The transfer recipient's promise to transfer the good or service to the 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).

30. A third-party beneficiary can receive economic benefits or service potential from a good or service in accordance with paragraph 29(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 third-party beneficiary may be able to receive the economic benefits or service potential from a good or service on its own. For other goods or services, a third-party beneficiary may be able to receive the economic benefits or service potential from the good or service only in conjunction with other readily available resources. A

readily available resource is a good or service that is sold separately (by the transfer recipient or another entity) or a resource that the third-party beneficiary has already obtained from the transfer recipient (including goods or services that the transfer recipient will have already transferred to the third-party beneficiary under the binding arrangement) or from other transactions or events. Various factors may provide evidence that the third-party beneficiary can receive the economic benefits or service potential from the good or service either on its own or in conjunction with other readily available resources. For example, the fact that the transfer recipient regularly provides a good or service separately would indicate that a third-party beneficiary can receive the economic benefits or service potential from the good or service on its own or with other readily available resources.

31. In assessing whether a transfer recipient's promises to transfer goods or services to the third-party beneficiary are separately identifiable in accordance with paragraph 29(b), the objective is to determine whether the nature of the promise, within the context of the binding arrangement, is to transfer each of those goods or services individually or, instead, to transfer a combined item or items to which the promised goods or services are inputs. Factors that indicate that two or more promises to transfer goods or services to a third-party beneficiary are not separately identifiable include, but are not limited to, the following:

    (a) The transfer recipient 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 transfer provider has entered into binding arrangements. In other words, the transfer recipient is using the goods or services as inputs to produce or deliver the combined output or outputs specified by the transfer 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 transfer recipient would not be able to fulfil its promise by transferring each of the goods or services independently.

32. If a promised good or service is not distinct, a transfer provider 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 transfer provider accounting for all the goods or services promised in a binding arrangement as a single performance obligation of the resource recipient.

Satisfaction of Performance Obligations (Step 5)

33. **A transfer provider shall recognize an expense when (or as) the transfer recipient satisfies a performance obligation by transferring a promised good or service (i.e., an asset) to a third-party beneficiary. An asset is transferred when (or as) the third-party beneficiary obtains control of that asset. A transfer provider may determine the point at which the third-party beneficiary obtains control of the asset by reference to the transfer recipient losing control of that asset.**

Paragraphs AG39–AG52 provide additional guidance on the satisfaction of performance obligations.

34. For each performance obligation identified in accordance with paragraphs 24–32, a transfer provider shall determine at the inception of the binding arrangement whether the transfer recipient satisfies the performance obligation over time (in accordance with paragraphs 36–38) or satisfies the performance obligation at a point in time (in accordance with paragraph 39). If the transfer recipient does not satisfy a performance obligation over time, the performance obligation is satisfied at a point in time.

35. Goods and services are assets, even if only momentarily, when they are received and used by the third-party beneficiary (as in the case of many services). Control of an asset, which is defined in [draft] IPSAS [X] (ED 70), refers to the ability of the third-party beneficiary to direct the use of, and obtain substantially all of the remaining 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, an asset. The economic benefits or service potential embodied in the asset are the potential cash flows (inflows or savings in outflows), or the capacity to provide services that contribute to achieving the third-party beneficiary's objectives, that can be obtained directly or indirectly in many ways, such as by:

    (a) Using the asset to produce goods or provide services (including public services);

    (b) Using the asset to enhance the value of other assets;

    (c) Using the asset to settle liabilities or reduce expenses;

    (d) Selling or exchanging the asset;

    (e) Pledging the asset to secure a loan; and

    (f) Holding the asset.

Performance Obligations Satisfied Over Time

36. A transfer provider recognizes an expense over time when the transfer recipient satisfies a performance obligation over time. A transfer recipient transfers control of a good or service over time and, therefore, satisfies a performance obligation over time, if one of the following criteria is met:

    (a) The third-party beneficiary simultaneously receives and consumes the economic benefits or service potential provided by the transfer recipient's performance as the transfer recipient performs (see paragraphs AG40–AG41);

    (b) The transfer recipient's performance creates or enhances an asset (for example, work in progress) that the third-party beneficiary controls as the asset is created or enhanced (see paragraph AG42); or

    (c) The transfer recipient's performance does not create an asset with an alternative use to the transfer recipient (see paragraph 37) and the transfer recipient has an enforceable right to payment for performance completed to date (see paragraph 38).

37. An asset created by a transfer recipient's performance does not have an alternative use for the transfer recipient if the transfer recipient 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 transfer recipient is made at the inception of the binding arrangement. After the inception of the binding arrangement, a transfer provider shall not update the assessment of the transfer recipient's alternative use of an asset unless the parties to the binding arrangement approve a modification to a binding arrangement that substantively changes the performance obligation. Paragraphs AG43–AG45 provide guidance for assessing whether an asset has an alternative use to a transfer recipient.

38. A transfer provider shall consider the terms of the binding arrangement, as well as any laws that apply to the binding arrangement, when evaluating whether the transfer recipient has an enforceable right to payment for performance completed to date in accordance with paragraph 36(c). The transfer recipient's right to payment for performance completed to date does not need to be for a fixed amount. However, at all times throughout the duration of the binding arrangement, the transfer recipient must be entitled to payment for performance completed to date if the binding arrangement is terminated by the transfer provider or another party for reasons other than the transfer recipient's failure to perform as promised. Paragraphs AG46–AG49 provide guidance for assessing the existence and enforceability of a transfer recipient's right to payment and whether a transfer recipient's right to payment would entitle it to be paid for its performance completed to date.

Performance Obligations Satisfied at a Point in Time

39. A transfer provider recognizes an expense at a point in time when the transfer recipient satisfies a performance obligation at a point in time. If a performance obligation is not satisfied over time in accordance with paragraphs 36–38, a transfer recipient satisfies the performance obligation at a point in time. To determine the point in time at which a third-party beneficiary obtains control of a promised asset and the transfer recipient satisfies a performance obligation, the transfer provider shall consider the requirements for control in paragraphs 33–35. In addition, a transfer provider shall consider indicators of the transfer of control (from the transfer recipient to the third-party beneficiary), which include, but are not limited to, the following:

    (a) The transfer recipient has a present right to payment for the asset—if a transfer provider is presently obliged to pay for an asset, then that may indicate that the third-party beneficiary 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 third-party beneficiary has legal title to the asset—legal title may indicate which party 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 a third-party beneficiary has obtained control of the asset. If a transfer recipient retains legal title solely as protection against the transfer provider's failure to pay, those rights of the transfer recipient would not preclude the third-party beneficiary from obtaining control of an asset.

    (c) The transfer recipient has transferred physical possession of the asset—the third-party beneficiary's physical possession of an asset may indicate that the third-party beneficiary 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 bill-and-hold arrangements, the transfer recipient may have physical possession of an asset that the third-party beneficiary controls. Paragraphs AG84–AG87 provide guidance on accounting for bill-and-hold arrangements.

(d) The 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 third-party beneficiary may indicate that the third-party beneficiary 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, a transfer provider shall exclude any risks that give rise to a separate performance obligation of the transfer recipient in addition to the performance obligation to transfer the asset. For example, a transfer recipient may have transferred control of an asset to a third-party beneficiary but not yet satisfied an additional performance obligation to provide maintenance services related to the transferred asset.

(e) The third-party beneficiary has accepted the asset—the third-party beneficiary's acceptance of an asset may indicate that it has obtained the ability to direct the use of, and obtain substantially all of the remaining economic benefits and service potential from, the asset. To evaluate the effect of the acceptance clause in a binding arrangement on when control of an asset is transferred, a transfer provider shall consider the guidance in paragraphs AG88–AG89.

Measuring Progress Towards Complete Satisfaction of a Performance Obligation

40. For each performance obligation satisfied over time by a transfer recipient in accordance with paragraphs 36–38, a transfer provider shall recognize an expense over time by measuring the transfer recipient's progress towards complete satisfaction of that performance obligation. The objective when measuring progress is to depict a transfer recipient's performance in transferring control of goods or services promised to the third-party beneficiary (i.e., the satisfaction of the transfer recipient's performance obligation).

41. A transfer provider shall apply a single method of measuring the transfer recipient's progress for each of the transfer recipient's performance obligations satisfied over time and the transfer provider shall apply that method consistently to similar performance obligations and in similar circumstances. At the end of each reporting period, a transfer provider shall remeasure a transfer recipient's progress towards complete satisfaction of a performance obligation satisfied over time.

Methods for Measuring Progress

42. Appropriate methods for a transfer provider to measure the transfer recipient's progress are usually output methods. Input methods may also be used where such information is both available to the transfer provider and relevant to the assessment of an expense. Paragraphs AG50–AG52 provide guidance for using output methods and input methods to measure a transfer recipient's progress towards complete satisfaction of a performance obligation. In determining the appropriate method for measuring progress, a transfer provider shall consider the nature of the good or service that the transfer recipient promised to transfer to the third-party beneficiary.

43. When applying a method for measuring a transfer recipient's progress, a transfer provider shall exclude from the measure of progress any goods or services for which the transfer recipient does not transfer control to a third-party beneficiary. Conversely, a transfer provider shall include in the

measure of progress any goods or services for which the transfer recipient does transfer control to a third-party beneficiary when satisfying that performance obligation.

44. As circumstances change over time, a transfer provider shall update its measure of a transfer recipient's progress to reflect any changes in the outcome of the transfer recipient's performance obligation. Such changes to a transfer provider'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

45. A transfer provider shall recognize an expense for a transfer recipient's performance obligation satisfied over time only if the transfer provider can reasonably measure the transfer recipient's progress towards complete satisfaction of the performance obligation. A transfer provider would not be able to reasonably measure a transfer recipient's progress towards complete satisfaction of a performance obligation if the transfer provider lacks reliable information that would be required to apply an appropriate method of measuring progress. Except where paragraph 46 applies, if the transfer provider cannot reasonably measure the transfer recipient's progress towards complete satisfaction of the performance obligation, the transfer provider shall recognize an expense for a transfer recipient's performance obligation recognized at a point in time, or a transfer expense without performance obligations, whichever more faithfully represents the transfer provider's obligations to transfer resources to the transfer recipient.

46. In some circumstances (for example, in the early stages of a binding arrangement), a transfer provider may not be able to reliably measure the outcome of a transfer recipient's performance obligation at that point. Where the transfer provider expects to be able to measure the outcome of a transfer recipient's performance obligation at a later date, the transfer provider shall not recognize an expense until such time that it can reasonably measure the outcome of the transfer recipient's performance obligation.

Measurement

47. **When (or as) a transfer recipient satisfies a performance obligation, a transfer provider shall recognize as an expense the amount of the transaction consideration (which excludes estimates of variable consideration that are constrained in accordance with paragraphs 56–58) that is allocated to that performance obligation.**

Determining the Transaction Consideration (Step 3)

48. A transfer provider shall consider the terms of the binding arrangement and its customary practices to determine the transaction consideration. The transaction consideration is the value of the resources (i.e., the consideration) that the transfer provider expects to transfer to the transfer recipient, in exchange for transfer recipient transferring the promised goods or services to the third-party beneficiary. The consideration promised in a binding arrangement with performance obligations may include fixed amounts, variable amounts, or both.

49. The nature, timing and amount of consideration promised by a transfer provider affect the estimate of the transaction consideration. When determining the transaction consideration, a transfer provider shall consider the effects of all of the following:

(a) Variable consideration (see paragraphs 51–55 and 59);

(b) Constraining estimates of variable consideration (see paragraphs 56–58);

(c) The existence of a significant financing component in the binding arrangement (see paragraphs 60–65);

(d) Non-cash consideration (see paragraphs 66–68); and

(e) Consideration receivable by a transfer provider (see paragraphs 69–71).

50. For the purpose of determining the transaction consideration, a transfer provider shall assume that the goods or services will be transferred by the transfer recipient to the third-party beneficiary as promised in accordance with the existing binding arrangement and that the binding arrangement will not be cancelled, renewed or modified.

Variable Consideration

51. If the consideration promised in a binding arrangement includes a variable amount, a transfer provider shall estimate the amount of consideration to which the transfer recipient will be entitled (and which the transfer provider will be obligated to pay) in exchange for transferring the promised goods or services to the third-party beneficiary.

52. An amount of consideration can vary because of discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties or other similar items. The promised consideration can also vary if a transfer recipient's entitlement to the consideration is contingent on the occurrence or non-occurrence of a future event. For example, an amount of consideration would be variable if either a product was provided with a right of return or a fixed amount is promised as a performance bonus on achievement of a specified milestone.

53. The variability relating to the consideration promised by a transfer provider may be explicitly stated in the binding arrangement. In addition to the terms of the binding arrangement, the promised consideration is variable if either of the following circumstances exists:

(a) The transfer provider has a valid expectation arising from a transfer recipient's customary practices, published policies or specific statements that the transfer recipient will accept an amount of consideration that is less than the price stated in the binding arrangement. That is, it is expected that the transfer recipient will offer a price concession. Depending on the jurisdiction, sector or transfer recipient this offer may be referred to as a discount, rebate, refund or credit.

(b) Other facts and circumstances indicate that the transfer recipient's intention, when entering into the binding arrangement with the transfer provider, is to offer a price concession to the transfer provider.

54. A transfer provider shall estimate an amount of variable consideration by using either of the following methods, depending on which method the transfer provider expects to better predict the amount of consideration which it will be required to pay to the transfer recipient:

(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 a transfer provider has a large number of binding arrangements with similar characteristics.

(b) The most likely amount—the most likely amount is the single most likely amount in a range of possible consideration amounts (i.e., the single most likely outcome of the binding arrangement). The most likely amount may be an appropriate estimate of the amount of variable consideration if the binding arrangement has only two possible outcomes (for example, a transfer recipient either achieves a performance bonus or does not).

55. A transfer provider shall apply one method consistently throughout the binding arrangement when estimating the effect of an uncertainty on an amount of variable consideration which the transfer provider will be required to pay to the transfer recipient. In addition, a transfer provider shall consider all the information (historical, current and forecast) that is reasonably available to the transfer provider and shall identify a reasonable number of possible consideration amounts. The information that a transfer provider uses to estimate the amount of variable consideration would typically be similar to the information that the transfer provider's management uses during the bid-and-proposal assessment process.

Constraining Estimates of Variable Consideration

56. A transfer provider shall include in the transaction consideration some or all of an amount of variable consideration estimated in accordance with paragraph 54 only to the extent that it is probable that a significant reversal in the amount of cumulative expense recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

57. In assessing whether it is probable that a significant reversal in the amount of cumulative expense recognized will not occur once the uncertainty related to the variable consideration is subsequently resolved, a transfer provider shall consider both the likelihood and the magnitude of the expense reversal. Factors that could increase the likelihood or the magnitude of an expense reversal include, but are not limited to, any of the following:

    (a) The amount of consideration is highly susceptible to factors outside the transfer provider's influence. Those factors may include volatility in a market, the judgment or actions of third parties, weather conditions and a high risk of obsolescence of the promised good or service.

    (b) The uncertainty about the amount of consideration is not expected to be resolved for a long period of time.

    (c) The transfer provider'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 transfer recipient has a practice of either offering a broad range of price concessions or changing the payment terms and conditions of similar binding arrangements in similar circumstances.

    (e) The binding arrangement has a large number and broad range of possible consideration amounts.

58. A transfer provider shall apply paragraph AG81 to account for an expense in the form of a usage-based royalty that is promised in exchange for a license of intellectual property.

Reassessment of Variable Consideration

59. At the end of each reporting period, a transfer provider shall update the estimated transaction consideration (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period. The transfer provider shall account for changes in the transaction consideration in accordance with paragraphs 86–89.

The Existence of a Significant Financing Component in the Binding Arrangement

60. In determining the transaction consideration, a transfer provider shall adjust the promised amount of consideration for the effects of the time value of money if the timing of payments agreed to by the parties to the binding arrangement (either explicitly or implicitly) provides the transfer provider or the transfer recipient with a significant benefit of financing the transfer of goods or services to the third-party beneficiary. In those circumstances, the binding arrangement contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the binding arrangement or implied by the payment terms agreed to by the parties to the binding arrangement.

61. The objective when adjusting the promised amount of consideration for a significant financing component is for a transfer provider to recognize an expense at an amount that reflects the price that the transfer provider would have paid for the promised goods or services if the transfer provider had paid cash for those goods or services when (or as) they transfer to the third-party beneficiary (i.e., the cash price). A transfer provider shall consider all relevant facts and circumstances in assessing whether a binding arrangement contains a financing component and whether that financing component is significant to the binding arrangement, including both of the following:

    (a) The difference, if any, between the amount of promised consideration and the cash price of the promised goods or services; and

    (b) The combined effect of both of the following:

        (i) The expected length of time between when the transfer recipient transfers the promised goods or services to the third-party beneficiary and when the transfer provider pays for those goods or services; and

        (ii) The prevailing interest rates in the relevant market.

62. Notwithstanding the assessment in paragraph 61, a binding arrangement with a transfer recipient would not have a significant financing component if any of the following factors exist:

    (a) The transfer provider paid for the goods or services in advance and the timing of the transfer of those goods or services is at the discretion of the transfer provider or a third-party beneficiary.

    (b) A substantial amount of the consideration promised by the transfer 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 transfer provider or the transfer recipient (for example, if the consideration is a third-party beneficiary usage-based royalty).

    (c) The difference between the promised consideration and the cash price of the good or service (as described in paragraph 61) arises for reasons other than the provision of finance to either the transfer provider or the transfer recipient, and the difference between those amounts is proportional to the reason for the difference. For example, the payment terms might provide the transfer provider or the transfer recipient with protection from the other party failing to adequately complete some or all of its obligations under the binding arrangement.

63. As a practical expedient, a transfer provider need not adjust the promised amount of consideration for the effects of a significant financing component if the transfer provider expects, at the inception of the binding arrangement, that the period between when the transfer recipient transfers a

promised good or service to a third-party beneficiary and when the transfer provider pays for that good or service will be one year or less.

64. To meet the objective in paragraph 61 when adjusting the promised amount of consideration for a significant financing component, a transfer provider shall use the discount rate that would be reflected in a separate financing transaction between the transfer provider and the transfer recipient at the inception of the binding arrangement. That rate would reflect the credit characteristics of the party receiving financing in the binding arrangement, as well as any collateral or security provided by the transfer provider or the transfer recipient, including assets transferred in the binding arrangement. A transfer provider may be able to determine that rate by identifying the rate that discounts the nominal amount of the promised consideration to the price that the transfer provider would pay in cash for the goods or services when (or as) they transfer to a third-party beneficiary. After the inception of the binding arrangement, a transfer provider shall not update the discount rate for changes in interest rates or other circumstances.

65. A transfer provider shall present the effects of financing (interest expense or interest revenue) separately from transfer expenses with performance obligations in the statement of financial performance. Interest expense or interest revenue is recognized only to the extent that a transfer provider’s binding arrangement liability (or payable) or a transfer provider’s binding arrangement asset is recognized in accounting for a transfer expense with performance obligations.

Non-Cash Consideration

66. To determine the transaction consideration for binding arrangements in which the transfer provider promises consideration in a form other than cash, the transfer provider shall measure the non-cash consideration (or promise of non-cash consideration) at the carrying amounts of the assets transferred or to be transferred.

67. If the carrying amount of the asset is not known, for example because the transfer provider has promised to provide services, and the costs of those services will not be known until the services have been provided, the transfer provider shall apply paragraphs 51–58 in measuring the non-cash consideration.

68. If the transfer provider contributes goods or services (for example, materials, equipment or labor) to facilitate a transfer recipient’s fulfillment of the binding arrangement, the transfer provider shall assess whether it loses control of those contributed goods or services. If so, the transfer provider shall account for the contributed goods or services as non-cash consideration transferred to the transfer recipient.

Consideration Receivable by a Transfer Provider

69. Consideration receivable by a transfer provider includes cash amounts that a transfer recipient pays, or expects to pay, to the transfer provider. Consideration receivable by a transfer provider also includes credit or other items (for example, a coupon or voucher) that can be applied against amounts owed to the transfer recipient. A transfer provider shall account for consideration receivable from a transfer recipient as a reduction of the transaction consideration and, therefore, of an expense unless the receipt by the transfer provider is in exchange for a distinct good or service (as described in paragraphs 28–32) that the transfer provider transfers to the transfer recipient. If the consideration receivable by a transfer provider includes a variable amount, the transfer provider shall estimate the transaction consideration (including assessing whether the estimate of variable consideration is constrained) in accordance with paragraphs 51–58.

70. If consideration receivable by a transfer provider is a payment for a distinct good or service transferred to a transfer recipient, then the transfer provider shall account for the sale of the good or service in accordance with [draft] IPSAS [X] (ED 70). However, if the amount of consideration receivable by the transfer provider exceeds the carrying amount of the distinct good or service that the transfer provider transfers to the transfer recipient (or, where the carrying amount is not known, the estimated cost of the distinct good or service), then the transfer provider shall account for such an excess as a reduction of the transaction consideration.

71. Accordingly, if consideration receivable by a transfer provider is accounted for as a reduction of the transaction consideration, a transfer provider shall recognize the reduction of an expense when (or as) the later of either of the following events occurs:

    (a) The transfer provider recognizes an expense for the receipt by the third-party beneficiary of the related goods or services from the transfer recipient; and

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

Allocating the Transaction Consideration to Performance Obligations (Step 4)

72. **The objective when allocating the transaction consideration is for a transfer provider to allocate the transaction consideration to each of the transfer recipient's performance obligations (or distinct goods or services) in an amount that depicts the cost which the transfer provider expects to incur in exchange for the promised goods or services being transferred to a third-party beneficiary.**

73. To meet the allocation objective, a transfer provider shall allocate the transaction consideration to each of the transfer recipient's performance obligations identified in the binding arrangement on a relative stand-alone purchase price basis in accordance with paragraphs 75–79, except as specified in paragraphs 80–82 (for allocating discounts) and paragraphs 83–85 (for allocating consideration that includes variable amounts).

74. Paragraphs 75–85 do not apply if a binding arrangement only imposes one performance obligation on the transfer recipient. However, paragraphs 83–85 may apply if a transfer recipient promises to transfer a series of distinct goods or services identified as a single performance obligation in accordance with paragraph 24(b) and the promised consideration includes variable amounts.

Allocation Based on Stand-Alone Purchase Prices

75. To allocate the transaction consideration to each of the transfer recipient's performance obligations on a relative stand-alone purchase price basis, a transfer provider shall determine the stand-alone purchase price at the inception of the binding arrangement of the distinct good or service underlying each of the transfer recipient's performance obligation in the binding arrangement and allocate the transaction consideration in proportion to those stand-alone purchase prices.

76. The best evidence of a stand-alone purchase price is the observable price of a good or service when the transfer provider purchases that good or service separately in similar circumstances and from similar transfer recipients. In a binding arrangement, stated price or a list price for a good or service may be (but shall not be presumed to be) the stand-alone purchase price of that good or service.

77. If a stand-alone purchase price is not directly observable, a transfer provider shall estimate the stand-alone purchase price at an amount that would result in the allocation of the transaction consideration meeting the allocation objective in paragraph 72. When estimating a stand-alone purchase price, a transfer provider shall consider all information (including entity-specific factors, information about the transfer recipient or class of transfer recipient, and market conditions where relevant) that is reasonably available to the transfer provider. In doing so, a transfer provider shall maximize the use of observable inputs and apply estimation methods consistently in similar circumstances.

78. Suitable methods for estimating the stand-alone purchase price of a good or service include, but are not limited to, the following:

   (a) Adjusted market assessment approach—a transfer provider could evaluate the market in which it purchases goods or services to be transferred to third-party beneficiaries and estimate the price that a transfer recipient in that market would be willing to accept for those goods or services. That approach might include referring to prices from the other entities providing similar goods or services.

   (b) Residual approach—a transfer provider may estimate the stand-alone purchase price by reference to the total transaction consideration less the sum of the observable stand-alone purchase prices of other goods or services promised in the binding arrangement. However, a transfer provider may use a residual approach to estimate, in accordance with paragraph 77, the stand-alone purchase price of a good or service only if one of the following criteria is met:

      (i) The transfer provider purchases the same good or service from different transfer recipients (at or near the same time) for a broad range of amounts (i.e., the purchase price is highly variable because a representative stand-alone purchase price is not discernible from past transactions or other observable evidence); or

      (ii) The transfer provider has not previously purchased the good or service on a stand-alone basis (i.e., the purchase price is uncertain).

79. A combination of methods may need to be used to estimate the stand-alone purchase prices of the goods or services promised by the transfer recipient in the binding arrangement if two or more of those goods or services have highly variable or uncertain stand-alone purchase prices. For example, a transfer provider may use a residual approach to estimate the aggregate stand-alone purchase price for those promised goods or services with highly variable or uncertain stand-alone purchase prices and then use another method to estimate the stand-alone purchase prices of the individual goods or services relative to that estimated aggregate stand-alone purchase price determined by the residual approach. When a transfer provider uses a combination of methods to estimate the stand-alone purchase price of each promised good or service in the binding arrangement, the transfer provider shall evaluate whether allocating the transaction consideration at those estimated stand-alone purchase prices would be consistent with the allocation objective in paragraph 72 and the requirements for estimating stand-alone purchase prices in paragraph 77.

Allocation of a Discount

80. A transfer provider receives a discount for purchasing a bundle of goods or services if the sum of the stand-alone purchase prices of those promised goods or services in the binding arrangement exceeds the promised consideration in a binding arrangement. Except when a transfer provider has observable evidence in accordance with paragraph 81 that the entire discount relates to only one or

more, but not all, of the transfer recipient’s performance obligations in a binding arrangement, the transfer provider shall allocate a discount proportionately to all performance obligations in the binding arrangement. The proportionate allocation of the discount in those circumstances is a consequence of the transfer provider allocating the transaction consideration to each of the transfer recipient’s performance obligations on the basis of the relative stand-alone purchase prices of the underlying distinct goods or services.

81. A transfer provider shall allocate a discount entirely to one or more, but not all, of the transfer recipient’s performance obligations in the binding arrangement if all of the following criteria are met:

    (a) The transfer provider regularly purchases each distinct good or service (or each bundle of distinct goods or services) in the binding arrangement on a stand-alone basis;

    (b) The transfer provider also regularly purchases on a stand-alone basis a bundle (or bundles) of some of those distinct goods or services at a discount to the stand-alone purchase prices of the goods or services in each bundle; and

    (c) The discount attributable to each bundle of goods or services described in paragraph 81(b) is substantially the same as the discount in the binding arrangement and an analysis of the goods or services in each bundle provides observable evidence of the transfer recipient’s performance obligation (or performance obligations) to which the entire discount in the binding arrangement belongs.

82. If a discount is allocated entirely to one or more of the transfer recipient’s performance obligations in the binding arrangement in accordance with paragraph 81, a transfer provider shall allocate the discount before using the residual approach to estimate the stand-alone purchase price of a good or service in accordance with paragraph 78(b).

Allocation of Variable Consideration

83. Variable consideration that is promised in a binding arrangement may be attributable to the entire binding arrangement or to a specific part of the binding arrangement, such as either of the following:

    (a) One or more, but not all, of the transfer recipient’s performance obligations in the binding arrangement (for example, a bonus may be contingent on a third-party beneficiary receiving a promised good or service within a specified period of time); or

    (b) One or more, but not all, distinct goods or services promised by the transfer recipient in a series of distinct goods or services that forms part of a single performance obligation in accordance with paragraph 24(b) (for example, the consideration promised for the second year of a two-year cleaning service binding arrangement will increase on the basis of movements in a specified inflation index).

84. A transfer provider shall allocate a variable amount (and subsequent changes to that amount) entirely to one of a transfer recipient’s performance obligations or to a distinct good or service that forms part of a transfer recipient’s single performance obligation in accordance with paragraph 24(b) if both of the following criteria are met:

    (a) The terms of a variable payment relate specifically to the transfer recipient’s efforts to satisfy the performance obligation or transfer the distinct good or service to a third-party beneficiary (or to a specific outcome from satisfying the performance obligation or transferring the distinct good or service to a third-party beneficiary beneficiary); and

(b) Allocating the variable amount of consideration entirely to one of the transfer recipient's performance obligations or the distinct good or service is consistent with the allocation objective in paragraph 72 when considering all of the performance obligations and payment terms in the binding arrangement.

85. The allocation requirements in paragraphs 72–82 shall be applied to allocate the remaining amount of the transaction consideration that does not meet the criteria in paragraph 84.

Changes in the Transaction Consideration

86. 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 which a transfer provider expects to pay in exchange for the promised goods or services to be transferred to third-party beneficiaries.

87. A transfer provider shall allocate to the transfer recipient's performance 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, a transfer provider shall not reallocate the transaction consideration to reflect changes in stand-alone purchase prices after the inception of the binding arrangement. Amounts allocated to a satisfied performance obligation shall be recognized as an expense, or as a reduction of an expense, in the period in which the transaction consideration changes.

88. A transfer provider shall allocate a change in the transaction consideration entirely to one or more, but not all, of the transfer recipient's performance obligations or distinct goods or services promised in a series that forms part of a single performance obligation in accordance with paragraph 24(b) only if the criteria in paragraph 84 on allocating variable consideration are met.

89. A transfer provider 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 20–23. However, for a change in the transaction consideration that occurs after a modification to a binding arrangement, a transfer provider shall apply paragraphs 86–88 to allocate the change in the transaction consideration in whichever of the following ways is applicable:

(a) A transfer provider shall allocate the change in the transaction consideration to the transfer recipient's performance 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 23(a).

(b) In all other cases in which the modification was not accounted for as a separate binding arrangement in accordance with paragraph 22, a transfer provider shall allocate the change in the transaction consideration to the transfer recipient's performance obligations in the modified binding arrangement (i.e., the transfer recipient's performance obligations that were unsatisfied or partially unsatisfied immediately after the modification).

Transfer Expenses without Performance Obligations

90. **A transfer provider shall recognize and measure transfer expenses without performance obligations in accordance with paragraphs 91–119 below. Transfer expenses without performance obligations may arise:**

(a) **Where the transfer provider incurs expenses in accordance with a binding arrangement it has entered into with a transfer recipient, and the binding arrangement imposes present obligations other than performance obligations on the transfer recipient; or**

(b) **Where the transfer provider incurs expenses without the existence of a binding arrangement.**

[Draft] IPSAS [X] (ED 71) provides guidance on present obligations other than performance obligations.

Recognition

91. **A transfer provider shall recognize a transfer expense without performance obligations at the earlier of the following dates:**

(a) **When the transfer provider has a present obligation to transfer resources to a transfer recipient. In such cases, the transfer provider shall recognize a liability representing its obligation to transfer the resources; and**

(b) **When the transfer provider 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 transfer provider derecognizes the resources it ceases to control in accordance with other Standards.**

92. For a present obligation to exist, the transfer recipient must be able to enforce the transfer of resources by the transfer provider, i.e., there must be a binding arrangement that imposes present obligations on the transfer recipient. For a binding arrangement to exist, the following conditions must be 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 transfer provider can identify each party's rights regarding the obligations to be performed; and

(c) The transfer provider can identify the payment terms for the contribution to be transferred.

93. Transfers to be made outside of a binding arrangement are not enforceable by the transfer recipient, and no expense is recognized prior to the transfer provider transferring the resources. Paragraphs AG15–AG23 provide additional guidance on enforceability.

94. For the purpose of applying this [draft] Standard, where a transfer expense without performance obligations is to be made under a binding arrangement, the transfer expense without performance obligations does not exist if each party to the binding arrangement has the unilateral enforceable right to terminate a wholly unperformed binding arrangement without compensating the other party (or parties). A binding arrangement is wholly unperformed if both of the following criteria are met:

(a) The transfer provider has not yet transferred, and is not yet obligated to transfer, any resources to the transfer recipient; and

(b) The transfer recipient has not yet performed any activities that it agreed to perform as part of the binding arrangement.

Debt Forgiveness

95. **A transfer provider may waive its right to collect a debt owed by a transfer recipient, effectively canceling the debt. The transfer provider shall recognize an expense at the date that it derecognizes (in accordance with IPSAS 41) the financial asset, or portion of the financial asset, that it has waived its right to collect.**

96. Where a transfer provider is a controlling entity and the transfer provider forgives debt owed by a wholly-owned controlled entity, or assumes its liabilities, the transaction may be a contribution from owners, as described in paragraph 6. In accordance with paragraph 6, contributions from owners are outside the scope of this [draft] Standard.

Transfer Expenses without Performance Obligations Made as a Series of Transfers

97. Transfer expenses without performance obligations may be made as a series of transfers of resources, for example where the transfer provider enters into a binding arrangement to provide annual funding over a three-year period. A transfer provider applies the requirements of paragraphs 91–94 to each transfer of resources to determine whether an expense is to be recognized.

Transfer Expenses without Performance Obligations Subject to Appropriations

98. Where a binding arrangement specifies that the resources to be transferred to a transfer recipient by a transfer provider are subject to an appropriation being authorized, the transfer provider considers substance over form in determining whether it has a present obligation to transfer the resources prior to the appropriation being authorized.

99. This limitation (that the resources to be transferred are subject to the appropriation being authorized) does not have substance where the transfer recipient can establish an enforceable right to those resources (and as a consequence the transfer provider has a present obligation to transfer the resources) before the appropriation is authorized. Paragraphs AG98–AG102 provide additional guidance on appropriations.

Modifications to a Binding Arrangement

100. A modification to a binding arrangement is a change in the scope or price (or both) of a binding arrangement that is approved by the parties to the binding arrangement. In some sectors and jurisdictions, a modification to a binding arrangement may be described as a variation, an amendment, or a change order. A modification to a binding arrangement exists when the parties to a binding arrangement approve a modification that either creates new or changes existing enforceable rights and obligations of the parties to the binding arrangement. A modification to a binding arrangement could be approved in writing, by oral agreement or implied by a transfer provider's customary practices. If the parties to the binding arrangement have not approved a modification to a binding arrangement, a transfer provider shall continue to apply this [draft] Standard to the existing binding arrangement until the modification to a binding arrangement is approved.

101. A transfer provider shall account for modifications to a binding arrangement for transfer expenses without performance obligations as follows:

    (a) No adjustment is recognized for resources already transferred by the transfer provider to the transfer recipient and for which an expense has been recognized; and

(b) A transfer provider shall reassess the extent to which it has a present obligation to transfer resources to the transfer recipient at the date of the modification, based on the terms of the modified binding arrangement. Any difference between the present obligation based on the terms of the modified binding arrangement and the amount previously recognized as a liability shall be accounted for as an adjustment to expenses at the date of the modification.

Measurement

Initial Measurement

102. **Where a transfer provider recognizes an expense at the date it transfers the resources to the transfer recipient, the transfer provider shall measure the expense at the carrying amount of the resources transferred.**

103. **Where a transfer provider recognizes an expense prior to transferring the resources to the transfer recipient, it shall measure the expense and liability at the best estimate of the costs that the transfer provider will incur in settling the liability. The costs that the transfer provider will incur in settling the liability may include fixed costs, variable costs, or both.**

104. When determining the costs that the transfer provider will incur in settling the liability, a transfer provider shall consider the effects of all of the following:

(a) Variable costs;

(b) Constraining estimates of variable costs;

(c) Time value of money; and

(d) Non-cash transfers.

Variable Costs

105. A transfer expense without performance obligations may include variable costs where, for example, the transfer provider has agreed to meet the costs, or a portion of the costs, incurred by the transfer recipient in carrying out a specified activity. Such arrangements may also specify a maximum amount for the transfer expense without performance obligations. A transfer provider's best estimate of the amount it will incur to settle the liability reflects the transfer provider's assessment of the costs that the transfer recipient is likely to incur.

106. A transfer provider shall estimate an amount of variable costs by using either of the following methods, depending on which method the transfer provider expects to better predict the amount of costs it will incur:

(a) The expected value—the expected value is the sum of probability-weighted amounts in a range of possible cost amounts. An expected value may be an appropriate estimate of the amount of variable costs if a transfer provider has a large number of binding arrangements with similar characteristics.

(b) The most likely amount—the most likely amount is the single most likely amount in a range of possible cost 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 costs if the binding arrangement has only two possible outcomes (for example, a transfer recipient either purchases a new asset or refurbishes an existing asset).

107. For the purpose of determining the best estimate of the costs it will incur in settling the liability, a transfer provider shall assume that the transfer recipient will carry out the specified activities as promised in accordance with the existing binding arrangement and that the binding arrangement will not be cancelled or modified.

Constraining Estimates of Variable Consideration

108. Where a transfer provider's best estimate of the amount it will incur to settle the liability includes an element of variable consideration in accordance with paragraph 106, that element shall be included in the transfer provider's best estimate only to the extent that it is highly probable that a significant reversal in the amount of cumulative expense recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Time Value of Money

109. A transfer provider shall adjust the promised amount of resources to be transferred to the transfer recipient for the effects of the time value of money if the timing of payments agreed to by the parties to the binding arrangement (either explicitly or implicitly) provides the transfer recipient with a significant benefit of financing the activities the transfer recipient has agreed to perform. In those circumstances, the binding arrangement contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the binding arrangement or implied by the payment terms agreed to by the parties to the binding arrangement.

110. A transfer provider 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 the combined effect of both of the following:

    (a) The expected length of time between when the transfer recipient performs the activities it has promised to perform and when the transfer provider transfers the promised resources; and

    (b) The prevailing interest rates in the relevant market.

111. To meet the objective in paragraph 110 when adjusting the promised transfer or resources for a significant financing component, a transfer provider shall use the discount rate that would be reflected in a separate financing transaction between the transfer provider and the transfer recipient at the inception of the binding arrangement. That rate would reflect the credit characteristics of the transfer recipient, as well as any collateral or security provided by the transfer recipient. After the inception of the binding arrangement, a transfer provider shall not update the discount rate for changes in interest rates or other circumstances.

112. A transfer provider shall present the effects of financing (interest expense) separately from transfer expenses without performance obligations in the statement of financial performance. Interest expense is recognized only to the extent that a liability is recognized in accounting for a transfer expense without performance obligations.

113. As a practical expedient, a transfer provider need not adjust the expense and liability for the effects of the time value of money if the transfer provider expects, at the inception of the binding arrangement, that the period between when the transfer provider recognizes a liability and when the transfer provider transfers the resources to settle that liability will be one year or less.

Non-Cash Transfers

114. Where the resources transferred are non-cash assets, a transfer provider does not revalue the assets prior to derecognizing those assets.

Debt Forgiveness

115. Where a transfer provider forgives debt of a transfer recipient, the expense is measured at the carrying amount of the debt forgiven, in accordance with IPSAS 41.

Subsequent Measurement

116. **Where the liability for a transfer expense without performance obligations is a financial liability as defined in IPSAS 41, the transfer provider shall account for the liability in accordance with IPSAS 41.**

117. **Where the liability for a transfer expense without performance obligations is not a financial liability as defined in IPSAS 41, the liability shall be reduced as the transfer provider transfers resources to the transfer recipient. Any difference between the carrying amount of the resources transferred and the carrying amount of that liability is recognized in surplus or deficit in the period in which the liability is settled.**

118. Where a liability is discounted in accordance with paragraph 109, the liability is increased and interest expense recognized in each reporting period until the liability is settled, to reflect the unwinding of the discount.

119. Where a liability has yet to be settled, the liability shall be reviewed at each reporting date, and adjusted to reflect the current best estimate of the costs that the transfer provider will incur in settling the liability.

Subsequent Measurement of Other Non-Contractual Payables

120. Where a transfer provider has recognized a payable arising out of the operation of legislation or regulation that does not meet the definition of a transfer expense in paragraph 8, a transfer provider applies the principles in paragraphs 116–119 to the measurement of that payable after initial recognition, except where the payable is within the scope of another Standard, in which case the transfer provider shall apply the measurement requirements in that Standard.

Presentation

Transfer Expenses with Performance Obligations

121. **When either party to a binding arrangement has performed, a transfer provider shall present the binding arrangement in the statement of financial position as a transfer provider's binding arrangement asset or a transfer provider's binding arrangement liability, depending on the relationship between the transfer recipient's performance and the transfer provider's payment. A transfer provider shall present any unconditional obligations to pay consideration separately as a payable.**

122. If a transfer provider pays consideration, or has an obligation to pay an amount of consideration that is unconditional (i.e., a payable), before the transfer recipient transfers a good or service to the third-party beneficiary, the transfer provider shall present the binding arrangement as a transfer provider's binding arrangement asset when the payment is made or the payment is due (whichever

is earlier). A transfer provider's binding arrangement asset is a transfer provider's right to have the goods or services transferred to a third-party beneficiary for which the transfer recipient has received consideration (or an amount of consideration is due) from the transfer provider. A transfer provider shall assess a transfer provider's binding arrangement asset for impairment in accordance with IPSAS 21 *Impairment of Non-Cash-Generating Assets*.

123. If a transfer recipient performs by transferring goods or services to a third-party beneficiary before the transfer provider pays consideration or before payment is due, the transfer provider shall present the binding arrangement as a transfer provider's binding arrangement liability, excluding any amounts presented as a payable. A transfer provider's binding arrangement liability is a transfer provider's obligation to pay consideration in exchange for goods or services that the transfer recipient has transferred to a third-party beneficiary.

124. A payable is a transfer provider's obligation to pay consideration that is unconditional. An obligation to pay consideration is unconditional if only the passage of time is required before payment of that consideration is due. For example, a transfer provider would recognize a payable if it has a present obligation to make payment even though that amount may be subject to refund in the future. A transfer provider shall account for a payable in accordance with IPSAS 41.

125. This [draft] Standard uses the terms 'transfer provider's binding arrangement asset' and 'transfer provider's binding arrangement liability' but does not prohibit a transfer provider from using alternative descriptions in the statement of financial position for those items. If a transfer provider uses an alternative description for a transfer provider's binding arrangement liability, the transfer provider shall provide sufficient information for a user of the financial statements to distinguish between payables and transfer provider's binding arrangement liabilities.

Transfer Expenses without Performance Obligations

126. A transfer provider shall present payables from transfer expenses without performance obligations separately from other payables, either in the statement of financial position or in the notes.

Disclosure

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

(a) **Expenses from transfer expenses (see paragraph 131);**

(b) **Binding arrangements for transfer expenses with performance obligations (see paragraphs 132–141);**

(c) **The significant judgments, and changes in the judgments, made in applying this [draft] Standard to those binding arrangements for transfer expenses with performance obligations (see paragraphs 142–145);**

(d) **Binding arrangements for transfer expenses without performance obligations (see paragraph 146); and**

(e) **The significant judgments, and changes in the judgments, made in applying this [draft] Standard to those binding arrangements for transfer expenses without performance obligations (see paragraph 152).**

128. A transfer provider shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. A transfer provider 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.

129. A transfer provider need not disclose information in accordance with this [draft] Standard if it has provided the information in accordance with another Standard.

130. In making the disclosures required by this [draft] Standard, a transfer provider 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.

Transfer Expenses

131. A transfer provider shall disclose all of the following amounts for the reporting period, unless those amounts are presented in the statement of financial performance separately from its other expenses:

(a) Expenses recognized from binding arrangements for transfer expenses with performance obligations by major classes;

(b) Expenses recognized from binding arrangements for transfer expenses without performance obligations by major classes; and

(c) Expenses recognized from transfer expenses without binding arrangements by major classes.

Transfer Expenses with Performance Obligations

132. A transfer provider shall disclose any impairment losses recognized in accordance with IPSAS 21 on any transfer provider’s binding arrangement assets (i.e., rights to have goods or services transferred to a third-party beneficiary), which the transfer provider shall disclose separately from other impairment losses from other binding arrangements.

Disaggregation of Expenses

133. A transfer provider shall disaggregate expenses recognized from binding arrangements for transfer expenses with performance obligations into categories that depict how the nature, amount, timing and uncertainty of expense and cash flows are affected by economic factors. A transfer provider shall apply the guidance in paragraphs AG109–AG111 when selecting the categories to use to disaggregate expenses.

134. In addition, a transfer provider shall disclose sufficient information to enable users of financial statements to understand the relationship between the disclosure of disaggregated expenses (in accordance with paragraph 133) and expense information that is disclosed for each reportable segment, if the transfer provider applies IPSAS 18, *Segment Reporting*.

Binding Arrangement Balances

135. A transfer provider shall disclose all of the following:

(a) The opening and closing balances of transfer provider's binding arrangement assets, payables and transfer provider's binding arrangement liabilities from binding arrangements for transfer expenses with performance obligations, if not otherwise separately presented or disclosed;

(b) Expenses recognized in the reporting period that were included in the transfer provider's binding arrangement asset balance at the beginning of the period; and

(c) Expenses recognized in the reporting period from performance obligations satisfied (or partially satisfied) by the transfer recipient in previous periods (for example, changes in transaction consideration).

136. A transfer provider shall explain how the timing of satisfaction of performance obligations by the transfer recipient (see paragraph 138(a)) relates to the typical timing of payment (see paragraph 138(b)) and the effect that those factors have on the transfer provider's binding arrangement asset and the transfer provider's binding arrangement liability balances. The explanation provided may use qualitative information.

137. A transfer provider shall provide an explanation of the significant changes in the transfer provider's binding arrangement asset and the transfer provider's binding arrangement liability balances during the reporting period. The explanation shall include qualitative and quantitative information. Examples of changes in the transfer provider's balances of transfer provider's binding arrangement assets and transfer provider's binding arrangement liabilities include any of the following:

(a) Changes due to public sector combinations;

(b) Cumulative catch-up adjustments to expense that affect the corresponding transfer provider's binding arrangement asset or transfer provider's 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 transfer provider's binding arrangement asset;

(d) A change in the time frame for an obligation to pay consideration to become unconditional (i.e., for a transfer provider's binding arrangement liability to be reclassified to a payable); and

(e) A change in the time frame for a performance obligation of the transfer recipient to be satisfied (i.e., for the recognition of an expense arising from a transfer provider's binding arrangement asset).

Transfer Recipient's Performance Obligations

138. A transfer provider shall disclose information about the transfer recipient's performance obligations in its binding arrangements for transfer expenses with performance obligations, including a description of all of the following:

(a) 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 56–58); and

(b) The nature of the goods or services that have been or will be transferred to the third-party beneficiary.

Transaction Consideration Allocated to the Transfer Recipient's Remaining Performance Obligations

139. A transfer provider shall disclose the following information about a transfer recipient's remaining performance obligations:

(a) The aggregate amount of the transaction consideration allocated to the transfer recipient's performance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period; and

(b) An explanation of when the transfer provider expects to recognize as an expense the amount disclosed in accordance with paragraph 139(a), which the transfer provider 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 resource recipient's remaining performance obligations; or

(ii) By using qualitative information.

140. As a practical expedient, a transfer provider need not disclose the information in paragraph 139 for a transfer recipient's performance obligation if the transfer recipient's performance obligation is part of a binding arrangement that has an original expected duration of one year or less.

141. A transfer provider shall explain qualitatively whether it is applying the practical expedient in paragraph 140 and whether any consideration from binding arrangements for transfer expenses with performance obligations is not included in the transaction consideration and, therefore, not included in the information disclosed in accordance with paragraph 139. For example, an estimate of the transaction consideration would not include any estimated amounts of variable consideration that are constrained (see paragraphs 56–58).

Significant Judgments in the Application of this [draft] Standard to Binding Arrangements for Transfer Expenses with Performance Obligations

142. A transfer provider shall disclose the judgments, and changes in the judgments, made in applying this [draft] Standard that significantly affect the determination of the amount and timing of expenses from binding arrangements for transfer expenses with performance obligations. In particular, a transfer provider shall explain the judgments, and changes in the judgments, used in determining both of the following:

(a) The timing of satisfaction of performance obligations by the transfer recipient (see paragraphs 143–144); and

(b) The transaction consideration and the amounts allocated to the transfer recipient's performance obligations (see paragraph 145).

Determining the Timing of Satisfaction of Performance Obligations by the Transfer Recipient

143. For performance obligations that a transfer recipient satisfies over time, a transfer provider shall disclose both of the following:

  (a) The methods used to recognize an expense (for example, a description of the output methods or input methods used and how those methods are applied); and

  (b) An explanation of why the methods used provide a faithful depiction of the transfer of goods or services by the transfer recipient to third-party beneficiaries.

144. For performance obligations satisfied at a point in time, a transfer provider shall disclose the significant judgments made in evaluating when a third-party beneficiary obtains control of promised goods or services.

Determining the Transaction Consideration and the Amounts Allocated to the Transfer Recipient's Performance Obligations

145. A transfer provider 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; and

  (c) Allocating the transaction consideration, including estimating stand-alone purchase prices of promised goods or services and allocating discounts and variable consideration to a specific part of the binding arrangement (if applicable).

Transfer Expenses without Performance Obligations

146. A transfer provider shall disclose all of the following:

  (a) A reconciliation of the opening and closing balances of payables from binding arrangements for transfer expenses without performance obligations, if not otherwise separately presented or disclosed;

  (b) Where a transfer of resources is conditional on a transfer recipient undertaking specified activities, a description of those activities undertaken or to be undertaken;

  (c) The amount of any liabilities forgiven by the transfer provider;

  (d) Where a transfer provider cannot reliably measure a liability for a transfer expense without performance obligations, an explanation of the nature of the transfer expense and why a reliable measure is not possible; and

  (e) The accounting policies adopted for the recognition of transfer expenses without performance obligations.

Disaggregation of Expenses

147. A transfer provider shall disaggregate expenses recognized from binding arrangements for transfer expenses without performance obligations into categories that depict how the nature, amount, timing and uncertainty of expense and cash flows are affected by economic factors.

148. In addition, a transfer provider shall disclose sufficient information to enable users of financial statements to understand the relationship between the disclosure of disaggregated expenses (in accordance with paragraph 147) and expense information that is disclosed for each reportable segment, if the transfer provider applies IPSAS 18, *Segment Reporting*.

Payables Balances

149. A transfer provider shall disclose all of the following:

(a) The opening and closing balances of payables arising from transfer expenses without performance obligations, if not otherwise separately presented or disclosed; and

(b) Expenses recognized in the reporting period that were included in the payables arising from transfer expenses without performance obligations at the beginning of the period.

Transfer Expenses Subject to Appropriations

150. Where a transfer provider has agreed to provide a transfer of resources subject to appropriations being authorized, and has not recognized a liability or expense as the appropriation has not yet been authorized, the transfer provider shall consider whether to disclose a contingent liability by applying the requirements of IPSAS 19.

Transfer Expenses Where the Transfer Provider Cannot Monitor the Transfer Recipient's Satisfaction of Performance Obligations

151. Where a transfer provider has accounted for a binding arrangement as a transfer expense without performance obligations (in accordance with paragraph 13) because it does not monitor the satisfaction of the transfer recipient's performance obligations throughout the duration of the binding arrangement, the transfer provider shall disclose that fact along with an explanation of why it is unable to monitor the satisfaction of the transfer recipient's performance obligations.

Significant Judgments in the Application of this [draft] Standard to Binding Arrangements for Transfer Expenses without Performance Obligations.

152. A transfer provider shall disclose the judgments, and changes in the judgments, made in applying this [draft] Standard that significantly affect the determination of the amount and timing of expenses from binding arrangements for transfer expenses without performance obligations. In particular, a transfer provider shall explain the judgments, and changes in the judgments, used in determining both of the following:

(a) The determination of whether a promised transfer meets the criteria to be a present obligation; and

(b) The estimation of liabilities that include variable costs.

Practical Expedients

153. If a transfer provider elects to use the practical expedient about the existence of a significant financing component in paragraph 63 (transfer expenses with performance obligations) or paragraph 113 (transfer expenses without performance obligations) the transfer provider shall disclose that fact.

Effective Date and Transition

Effective Date

154. **A transfer provider shall apply this [draft] Standard for annual financial statements covering periods beginning on or after January 1, [Year]. Earlier adoption is encouraged. If a transfer provider applies this [draft] Standard for a period beginning before January 1, [Year], it shall disclose that fact and shall apply [draft] IPSAS [X] (ED 70) and [draft] IPSAS [X] (ED 71) at the same time.**

155. When a transfer provider 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 transfer provider's annual financial statements covering periods beginning on or after the date of adoption of IPSAS.

Transition

156. For the purposes of the transition requirements in paragraphs 157–163:
    (a) The date of initial application is the start of the reporting period in which a transfer provider first applies this [draft] Standard; and
    (b) A completed binding arrangement for transfer expenses with performance obligations is a binding arrangement for which the third-party beneficiary has received all of the goods or services specified in the binding arrangement.

Transfer Expenses with Performance Obligations

157. A transfer provider shall apply this [draft] Standard to binding arrangements for transfer expenses with performance obligations using one of the following two methods:
    (a) Retrospectively to each prior reporting period presented in accordance with IPSAS 3, subject to the expedients in paragraph 159; or
    (b) Retrospectively with the cumulative effect of initially applying this [draft] Standard recognized at the date of initial application in accordance with paragraphs 161–163.

158. Notwithstanding the requirements of paragraph 33 of IPSAS 3, when this [draft] Standard is first applied to binding arrangements for transfer expenses with performance obligations, a transfer provider need only present the quantitative information required by paragraph 33(f) of IPSAS 3 for the annual period immediately preceding the first annual period for which this [draft] Standard is applied (the 'immediately preceding period') and only if the transfer provider applies this [draft] Standard retrospectively in accordance with paragraph 157(a). A transfer provider may also present this information for the current period or for earlier comparative periods, but is not required to do so.

159. A transfer provider may use one or more of the following practical expedients when applying this [draft] Standard retrospectively to binding arrangements for transfer expenses with performance obligations, in accordance with paragraph 157(a):
    (a) For completed binding arrangements for transfer expenses with performance obligations, a transfer provider need not restate binding arrangements that:
        (i) Begin and end within the same annual reporting period; or
        (ii) Are completed at the beginning of the earliest period presented.

(b) For completed binding arrangements for transfer expenses with performance obligations that have variable consideration, a transfer provider 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 for transfer expenses with performance obligations that were modified before the beginning of the earliest period presented, a transfer provider need not retrospectively restate the binding arrangement for those modifications to a binding arrangement in accordance with paragraphs 22–23. Instead, a transfer provider shall reflect the aggregate effect of all of the modifications that occur before the beginning of the earliest period presented when:

(i) Identifying the transfer recipient's satisfied and unsatisfied performance obligations;

(ii) Determining the transaction consideration; and

(iii) Allocating the transaction consideration to the transfer recipient's satisfied and unsatisfied performance obligations.

(d) For all reporting periods presented before the date of initial application, a transfer provider need not disclose the amount of the transaction consideration allocated to the transfer recipient's remaining performance obligations and an explanation of when the transfer provider expects to recognize that amount as an expense (see paragraph 139).

160. For any of the practical expedients in paragraph 159 that a transfer provider uses, the transfer provider shall apply that expedient consistently to all binding arrangements for transfer expenses with performance obligations within all reporting periods presented. In addition, the transfer provider 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.

161. If a transfer provider elects to apply this [draft] Standard retrospectively in accordance with paragraph 157(b), the transfer provider shall recognize the cumulative effect of initially applying this [draft] Standard as an adjustment to the opening balance of accumulated surplus or deficit (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, a transfer provider may elect to apply this [draft] Standard retrospectively only to binding arrangements for transfer expenses with performance obligations that are not completed binding arrangements for transfer expenses with performance obligations at the date of initial application (for example, January 1, [Year] for a transfer provider with a December 31 year-end).

162. A transfer provider applying this [draft] Standard retrospectively in accordance with paragraph 157(b) may also use the practical expedient described in paragraph 159(c), either:

(a) For all modifications to a binding arrangement for transfer expenses with performance obligations that occur before the beginning of the earliest period presented; or

(b) For all modifications to a binding arrangement for transfer expenses with performance obligations that occur before the date of initial application.

If a transfer provider uses this practical expedient, the transfer provider shall apply the expedient consistently to all binding arrangements for transfer expenses with performance obligations and disclose the information required by paragraph 160.

163. For reporting periods that include the date of initial application, a transfer provider shall provide both of the following additional disclosures if this [draft] Standard is applied retrospectively in accordance with paragraph 157(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 the transfer provider's previous accounting policies; and

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

Transfer Expenses without Performance Obligations

164. A transfer provider shall apply this [draft] Standard to transfer expenses without performance obligations retrospectively, with the cumulative effect of initially applying this [draft] Standard recognized at the date of initial application.

165. A transfer provider shall recognize the cumulative effect of initially applying this [draft] Standard as an adjustment to the opening balance of accumulated surplus or deficit, or other component of net assets/equity, as appropriate, of the annual reporting period that includes the date of initial application. A transfer provider may elect to apply this [draft] Standard retrospectively only to binding arrangements where one or both parties have yet to perform all their obligations at the date of initial application (for example, January 1, [Year] for a transfer provider with a December 31 year-end).

166. For reporting periods that include the date of initial application, a transfer provider shall provide both of the following additional disclosures:

(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 the transfer provider's previous accounting policies; and

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

Appendix A

Application Guidance

This Appendix is an integral part of [draft] IPSAS [X] (ED 72)

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

(a) Objective (paragraphs AG2–AG3);

(b) Scope (paragraphs AG4–AG5);

(c) Definitions (paragraphs AG6–AG25);

(d) Public Sector Performance Obligation Approach:

(i) Recognition (paragraphs AG26–AG52);

(ii) Measurement (paragraphs AG53–AG89); and

(e) Transfer Expenses without Performance Obligations:

(i) Recognition (paragraphs AG91–AG102); and

(ii) Measurement (paragraphs AG104–AG108).

Objective (see paragraphs 1–2)

AG2. A transfer provider shall consider the terms of the transfer, and all relevant facts and circumstances, when applying this [draft] Standard. A transfer provider shall apply this [draft] Standard, including the use of any practical expedients, consistently to transfers with similar characteristics and in similar circumstances.

AG3. This [draft] Standard specifies the accounting for an individual transfer. However, as a practical expedient, a transfer provider may apply this [draft] Standard to a portfolio of transfers with similar characteristics if the transfer provider 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 with performance obligations and transfers without performance obligations do not have similar characteristics and are not accounted for in the same portfolio. When accounting for a portfolio, a transfer provider shall use estimates and assumptions that reflect the size and composition of the portfolio.

Scope (see paragraphs 3–7)

AG4. The scope of this [draft] Standard is focused on establishing principles and requirements when accounting for transfer expenses, where a transfer provider provides a good or service to another entity without directly receiving any good or service in return. The definitions of "*binding arrangement*", *"performance obligation"*, *"third-party beneficiary"*, *"transfer expense"*, *"transfer provider"* and *"transfer recipient"* in paragraph 8, or in other Standards as explained in paragraph 9, establish the key elements in applying the scope of the [draft] Standard.

AG5. This [draft] Standard does not address transactions where an entity receives any good or service in return for the good or service that it transfers to another party. Such transactions are accounted for in accordance with other Standards.

Definitions (see paragraphs 8–9)

Transfer Expense

AG6. This [draft] Standard defines a transfer expense as an expense arising from a transaction, other than taxes, in which an entity (the transfer provider) provides a good or service 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 or service in return. For the purposes of determining whether the entity has received a good or service, a transfer provider's binding arrangement asset is not considered to be an asset received by the transfer provider. This is because a transfer provider's binding arrangement asset is the right to have a good or service transferred to a third-party beneficiary. This is a temporary asset that will be derecognized as the transfer recipient fulfils its performance obligations.

AG7. In a transaction giving rise to a transfer expense, the transfer provider provides goods or services to a transfer recipient. Consequently, the transfer provider controls the goods or services prior to the transfer and is therefore acting as a principal. The accounting for a transfer expense by a transfer provider is the same whether the transfer provider transacts directly with the transfer recipient, or through an agent. Paragraph AG22 explains that a transfer recipient in a three-party transaction is not an agent, because it gains control of the goods or services transferred by the transfer provider, and are responsible for satisfying the performance obligations specified in the binding arrangement (i.e., for delivering different goods or services to third-party beneficiaries).

Transfer Recipient

AG8. A transfer recipient is defined in [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*. 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 transfer provider, it may provide a good or service to a third-party beneficiary in accordance with a binding arrangement between the transfer recipient and the transfer provider.

Binding Arrangement

AG9. A binding arrangement is defined in [draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*. The [draft] Standard relies on the definition of a binding arrangement, being an arrangement that confers both enforceable rights and obligations on both parties to the arrangement. In the public sector an arrangement is enforceable when the transfer provider and the transfer recipient are both able to enforce their respective rights and obligations through legal or equivalent means.

AG10. There are jurisdictions where public sector entities cannot enter into legal obligations, because they are not permitted to contract in their own name, but where there are alternative processes with equivalent effect to legal arrangements (described as enforceable through equivalent means).

AG11. For an arrangement to be enforceable through 'equivalent means', the presence of an enforcement mechanism outside the legal systems is required.

AG12. A transfer provider considers the substance rather than the legal form of an arrangement in determining whether it is an enforceable binding arrangement. An arrangement is enforceable by another party through legal or equivalent means if the agreement includes:

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

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

AG13. 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.

AG14. To be considered a binding arrangement for the purposes of this [draft] Standard, the rights and obligations in these arrangements must be enforceable by legal or equivalent means (discussed further in paragraphs AG15–AG23).

Enforceability

AG15. A key characteristic of a binding arrangement is the ability of both parties to enforce the rights and obligations of the arrangement. That is, the entity receiving the consideration (the transfer recipient) must be able to enforce the promise to receive funding (consideration). Similarly, the entity providing the funding (the transfer provider) must be able to enforce fulfillment of the obligations assumed by the transfer recipient.

AG16. Legal enforceability arises from the compulsion by a legal system, comprising the courts in a jurisdiction, to comply with the terms of the binding arrangement. Compliance with a binding arrangement is determined based on the principles set out in the laws of a jurisdiction, which includes legislation, executive authority or ministerial directives, as well as judicial rulings and case law precedence.

AG17. Executive authority (sometimes called an executive order) is an authority given to a member or selected members of a government administration to create legislation without ratification by the full parliament. This may be considered a valid enforcement mechanism if such an order was issued directing a transfer recipient to transfer the promised goods or services to a third-party beneficiary, or directing a transfer provider to transfer the promised consideration.

AG18. Sovereign rights are the authority to make, amend and repeal legal provisions. On its own, this authority does not establish enforceable rights and obligations for the purposes of applying this [draft] Standard. However, if the use of sovereign rights were detailed in the binding arrangement as a means of enforcing the satisfaction of performance obligations by an entity this may result in a valid enforcement mechanism.

AG19. Other forms of enforceability by 'equivalent means' may also exist in the public sector and may be jurisdictionally specific. Cabinet and ministerial directives may create an enforcement mechanism between different government departments or different levels of government of the same government structure. For example, a directive given by a minister or government department to a transfer recipient controlled by the government to transfer goods or services to third-party beneficiaries may be enforceable. Similarly, a directive given by a minister or government department to a transfer provider controlled by the government to transfer the promised consideration may be enforceable. The key determining factor is that each party must be able to enforce the promises made in the binding arrangement. Each party must have the ability and authority to compel the other party to fulfil the promises established within the arrangement or to seek redress should those promises not be fulfilled.

AG20. 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 transfer provider. In general, the transfer provider'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 [draft] Standard because there is no present obligation on the transfer provider 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.

AG21. When determining if a reduction of future funding would be an enforcement mechanism, the transfer provider shall apply judgment based on the facts and circumstances.

AG22. For the purposes of this [draft] Standard, transfer expenses with performance obligations involve three-party arrangements–transfer provider (the reporting entity in this [draft] Standard), transfer recipient and third-party beneficiaries. The third-party beneficiaries in three party 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. However, for these three-party arrangements to be classified as transfer expenses with performance obligations, the transfer provider must have the ability to force the transfer recipient to deliver goods and services to third-party beneficiaries. In these three-party arrangements the transfer recipient is not an agent of the transfer provider because the transfer recipient gains control of the consideration from the transfer provider and is responsible for providing goods or services to the third-party beneficiaries.

AG23. A statement of intent or public announcement by a transfer provider such as a government promise to spend money or deliver goods and services in a certain way is not, in and of itself, an enforceable arrangement for the purposes of this [draft] Standard. Such a declaration is general in nature and does not create a binding arrangement between a transfer provider and a transfer recipient under which both parties have rights and obligations. A transfer provider considers whether such a public announcement gives rise to a constructive obligation in accordance with IPSAS 19¸ *Provisions, Contingent Liabilities and Contingent Assets*.

Public Sector Performance Obligation Approach (see paragraphs 11–89)

AG24. Transfer expenses with performance obligations always require the transfer recipient to transfer goods or services to a third-party beneficiary. This is as a consequence of the interaction of the definition of a performance obligation in [draft] IPSAS [X] (ED 70), which requires the transfer of goods or services by the transfer recipient, and the scope of this [draft] Standard, which excludes transactions where the transfer recipient would transfer those goods or services to the transfer provider in return for consideration.

AG25. The public sector performance obligation approach used in this [draft] Standard applies the principles in [draft] IPSAS [X] (ED 70) to transfer expenses with performance obligations. The guidance in this [draft] Standard has been developed taking into account the information that is expected to be available to a transfer provider. An example of the information that a transfer provider is not expected to have access to is the transfer recipient's inputs to permit the use of an input method in measuring progress towards complete satisfaction of a performance obligation. However, where a transfer provider has access to such additional information, it may apply the guidance in [draft] IPSAS X (ED 70) for which there is no equivalent guidance in this [draft] Standard in accounting for transfer expenses with performance obligations, provided such guidance does not conflict with the requirements of this [draft] Standard and that the transfer provider makes any related disclosure required by [draft] IPSAS [X] (ED 70).

Recognition (see paragraphs 13–46)

Identifying the Binding Arrangement (Step 1) (see paragraphs 13–23)

AG26. The criteria a transfer provider considers in determining when to account for a transfer expense with performance obligations are similar to those an entity would consider in determining when to account for revenue in accordance with [draft] IPSAS [X] (ED 70). However, in determining when to account for a transfer expense with performance obligations, a transfer provider does not need to consider whether the binding arrangement has economic substance. A transfer expense is the transfer of a good or service by the transfer provider without the transfer provider directly receiving a good or service in return, and consequently all transfer expenses have economic substance.

AG27. In accordance with paragraph 13(d), a transfer provider may account for a transfer expense as a transfer expense with performance obligations only if it monitors the transfer recipient's satisfaction of its performance obligations. This is because, without such monitoring, the transfer provider would not have reliable information about when a transfer expense arises. Without such information, the recognition of an expense could be inappropriately delayed. Consequently, where the transfer provider does not monitor the transfer recipient's satisfaction of its performance obligations, a transfer provider shall account for the transfer expense as a transfer expense without performance obligations.

Identifying Performance Obligations (Step 2) (see paragraphs 24–32)

AG28. This [draft] Standard requires transfer expenses with performance obligations to be recognized as or when a performance obligation is fulfilled by a transfer recipient.

AG29. Paragraph 24 requires a transfer provider to identify any performance obligations when a binding arrangement is entered into (Step 2 of the recognition model). A performance obligation is a promise by the transfer recipient in a binding arrangement with a transfer provider to transfer to third-party beneficiaries either:

(a) A good or service (or a bundle of goods or services) that is distinct; or

(b) A series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the purchaser.

AG30. The key features of this definition of a performance obligation are that goods and services must be distinct and there must be a transfer of these goods and services to a third-party beneficiary. If goods or services (or a bundle of goods or services) are not transferred and/or are not distinct, the transaction is not a transfer expense with performance obligations, and is accounted for as a transfer expense without performance obligations (see paragraphs 90–120).

AG31. In the public sector, identifying performance obligations may require significant judgment. A necessary condition for identifying a performance obligation is that the promise must be distinct to be able to determine when that performance obligation is fulfilled by the transfer recipient. In identifying performance obligations which are distinct a transfer provider considers the following factors:

(a) The nature or type of the goods or services;

(b) The cost or value of the goods or services;

(c) The quantity of the goods or services; and

(d) The period over which the goods or services must be transferred.

AG32. The existence of performance indicators in relation to the delivery of goods and services does not necessarily indicate the existence of a performance obligation as defined in [draft] IPSAS [X] (ED 70). A performance obligation is a promise by a transfer recipient within a binding arrangement to transfer goods or services or a bundle of goods or services to a third-party beneficiary based on the terms and conditions agreed between two parties (the transfer provider and the transfer recipient).

AG33. A performance indicator is a type of performance measurement (either quantitative, qualitative or descriptive) used to evaluate the success and extent to which an entity is using resources, providing services and achieving its service performance objectives. A performance indicator does not typically specify the goods or services to be transferred and is often an internally imposed indicator of performance and therefore not a performance obligation.

Distinct Goods and Services

AG34. A good or service promised by a transfer recipient in a binding arrangement is distinct if the following two criteria are both met (see paragraph 29):

(a) The third-party beneficiary can derive the economic benefit or service potential from the good or service either on its own or together with other resources that are readily available to the third-party beneficiary (i.e., the good or service is capable of being distinct); and

(b) The transfer recipient’s promise to transfer the good or service to the 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).

AG35. When identifying a performance obligation, not only does the promised transfer of the goods and services by the transfer recipient in a promise need to be separately identifiable, but the promises in a binding arrangement must also be distinct from other promises in the same binding arrangement, to allow for the transfer provider to be able to determine when that performance obligation is fulfilled. Therefore, it is possible to have several performance obligations in one binding arrangement.

Transfer of Goods and Services

AG36. The second requirement of a performance obligation is that there must be a transfer of goods and services to the third-party beneficiary. If there is no requirement to transfer control of goods or services, the transaction is not a transfer expense with performance obligations, and is accounted for as a transfer expense without performance obligations (see paragraphs 90–120).

AG37. This [draft] Standard requires that transfer expenses are recognized when a transfer recipient satisfies a performance obligation by transferring a promised good or service to a third-party beneficiary. The transfer of the good or service is indicated when the third-party beneficiary gains control of the promised goods or services. A transfer provider can receive the economic benefits or service potential from the good or service transferred to a third-party beneficiary where the transfer of the good or service to the third-party beneficiary contributes to the transfer provider achieving its service objectives.

AG38. Key features of the definition of control of an asset in [draft] IPSAS [X] (ED 70) include:

(a) The ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the asset; and

(b) The ability to prevent others from directing the economic benefits or service potential embodied in the asset.

Step 5: Satisfaction of Performance Obligations (see paragraphs 33–46)

Performance Obligations Satisfied Over Time (see paragraph 36)

AG39. In accordance with paragraph 36, a performance obligation is satisfied over time if one of the following criteria is met:

(a) The third-party beneficiary simultaneously receives and consumes the economic benefits or service potential provided by the transfer recipient's performance as the transfer recipient performs (see paragraphs AG40–AG41);

(b) The transfer recipient's performance creates or enhances an asset (for example, work in progress) that a third-party beneficiary controls as the asset is created or enhanced (see paragraph AG42); or

(c) The transfer recipient's performance does not create an asset with an alternative use to the transfer recipient (see paragraphs AG43–AG45) and the transfer recipient has an enforceable right to payment for performance completed to date (see paragraphs AG46–AG49).

Simultaneous Receipt and Consumption of the Economic Benefits or Service Potential of the Transfer Recipient's Performance (see paragraph 36(a))

AG40. For some types of performance obligations, the assessment of whether a third-party beneficiary receives the economic benefit or service potential of a transfer recipient's performance as the transfer recipient performs, and the third-party beneficiary 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 third-party beneficiary of the economic benefits or service potential of the transfer recipient's performance can be readily identified.

AG41. For other types of performance obligations, a transfer provider may not be able to readily identify whether a third-party beneficiary simultaneously receives and consumes the economic benefits or service potential from the transfer recipient's performance as the transfer recipient performs. In those circumstances, a performance obligation is satisfied over time if a transfer provider determines that another entity (i.e., another supplier) would not need to substantially re-perform the work that the transfer recipient has completed to date if that other entity were to fulfill the remaining performance obligation to the transfer provider. In determining whether another entity would not need to substantially re-perform the work the transfer recipient has completed to date, a transfer provider shall make both of the following assumptions:

(a) Disregard potential restrictions or practical limitations in the binding arrangement that otherwise would prevent the transfer recipient from transferring the remaining performance obligation to another entity; and

(b) Presume that another entity fulfilling the remainder of the performance obligation would not have the economic benefit or service potential of any asset that is presently controlled by the transfer recipient and that would remain controlled by the transfer recipient if the performance obligation were to transfer to another entity.

Third-Party Beneficiary Controls the Asset as it is Created or Enhanced

AG42. In determining whether a third-party beneficiary controls an asset as it is created or enhanced by the transfer recipient in accordance with paragraph 36(b), a transfer provider shall apply the requirements in paragraphs 33–35 and 39. The asset that is being created or enhanced (for example, a work-in-progress asset) could be either tangible or intangible.

Transfer Recipient's Performance does not Create an Asset with an Alternative Use (see paragraph 36(c))

AG43. In assessing whether an asset has an alternative use to a transfer recipient in accordance with paragraphs 36(c) and 37, a transfer provider shall consider the effects of restrictions and practical limitations in the binding arrangement on the transfer recipient's ability to readily direct that asset for another use, such as providing it to a different purchaser. The possibility of the binding arrangement with the transfer provider being terminated is not a relevant consideration in assessing whether the transfer recipient would be able to readily direct the asset for another use.

AG44. A restriction in the binding arrangement on a transfer recipient's ability to direct an asset for another use must be substantive for the asset not to have an alternative use to the transfer recipient. A restriction in the binding arrangement is substantive if the transfer provider could enforce its rights to the promised asset if the transfer recipient 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 transfer recipient could transfer to another purchaser without breaching the binding arrangement and without incurring significant costs that otherwise would not have been incurred in relation to that binding arrangement.

AG45. A practical limitation on a transfer recipient's ability to direct an asset for another use exists if a transfer recipient would incur significant economic losses to direct the asset for another use. A significant economic loss could arise because the transfer recipient either would incur significant costs to rework the asset or would only be able to provide the asset at a significant loss. For example, a transfer recipient may be practically limited from redirecting assets that either have design specifications that are unique to a transfer provider or are located in remote areas.

Right to Payment for Performance Completed to Date (see paragraph 36(c))

AG46. A transfer recipient's right to payment for performance completed to date need not be a present unconditional right to payment. In many cases, a transfer recipient will have an unconditional right to payment only at an agreed-upon milestone or upon complete satisfaction of the performance obligation. In assessing whether a transfer recipient has a right to payment for performance completed to date, a transfer provider shall consider whether the transfer recipient would have an enforceable right to demand or retain payment for performance completed to date if the binding arrangement were to be terminated before completion for reasons other than the transfer recipient's failure to perform as promised.

AG47. In some binding arrangements, a transfer provider may have a right to terminate the binding arrangement only at specified times during the life of the binding arrangement or the transfer provider might not have any right to terminate the binding arrangement. If a transfer provider 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 perform its obligations as promised), the binding arrangement (or other laws) might entitle the transfer recipient to continue to transfer to the third-party beneficiary the goods or services promised in the binding arrangement and require the transfer provider to pay the consideration promised in exchange for those goods or services. In those circumstances, a transfer recipient has a right to payment for performance completed to date because the transfer recipient has a right to continue to perform its obligations in accordance with the binding arrangement and to require the transfer provider to perform its obligations (which include paying the promised consideration).

AG48. In assessing the existence and enforceability of a right to payment for performance completed to date, a transfer provider 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 transfer recipient a right to payment for performance to date even though that right is not specified in the binding arrangement with the purchaser;

(b) Relevant legal precedent indicates that similar rights to payment for performance completed to date in similar binding arrangements have no binding legal effect; or

(c) A transfer recipient's customary practices of choosing not to enforce a right to payment has resulted in the right being rendered unenforceable in that legal environment. However, notwithstanding that an entity may choose to waive its right to payment in similar binding arrangements, a transfer recipient would continue to have a right to payment to date if, in the binding arrangement with the transfer provider, its right to payment for performance to date remains enforceable.

AG49. The payment schedule specified in a binding arrangement does not necessarily indicate whether a transfer recipient has an enforceable right to payment for performance completed to date. Although the payment schedule in a binding arrangement specifies the timing and amount of consideration that is payable by a transfer provider, the payment schedule might not necessarily provide evidence of the transfer recipient's right to payment for performance completed to date. This is because, for example, the binding arrangement could specify that the consideration received from the transfer provider is refundable for reasons other than the transfer recipient failing to perform as promised in the binding arrangement.

Methods for Measuring Progress towards Complete Satisfaction of a Performance Obligation (see paragraphs 36–38)

AG50. Methods that can be used to measure a transfer recipient's progress towards complete satisfaction of a performance obligation satisfied over time include the following:

(a) Output methods (see paragraphs AG51–AG52); and

(b) Input methods.

Output Methods

AG51. Output methods recognize expenses on the basis of direct measurements of the value to the transfer provider of the goods or services transferred to date relative to the remaining goods or services promised under the binding arrangement. Output methods include methods such as surveys of performance completed to date, appraisals of results achieved, milestones reached, time elapsed and units produced or units delivered. Output methods are generally appropriate for recognizing expenses. When a transfer provider evaluates whether to apply an output method to measure a transfer recipient's progress, the transfer provider shall consider whether the output selected would faithfully depict the transfer recipient's performance towards complete satisfaction of the performance obligation. An output method would not provide a faithful depiction of the transfer recipient's performance if the output selected would fail to measure some of the goods or services for which control has transferred to the third-party beneficiary. For example, output methods based on units produced or units delivered would not faithfully depict a transfer recipient's performance in satisfying a performance obligation if, at the end of the reporting period, the transfer recipient's performance has produced work in progress or finished goods controlled by the third-party beneficiary that are not included in the measurement of the output. Similarly, output methods based on elapsed time would not faithfully depict a transfer recipient's performance in satisfying a performance obligation if goods or services are not delivered evenly over time. In evaluating whether to apply an output method to measure a transfer recipient's progress, a transfer provider has regard to materiality.

AG52. 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 a transfer provider without undue cost.

Measurement (see paragraphs 47–85)

Step 3: Determining the Transaction Consideration (see paragraphs 48–71)

Determining the Transaction Consideration where Components of the Binding Arrangement do not Relate to the Transfer Recipient's Performance Obligations

AG53. A transfer provider shall allocate the transaction consideration to each of the transfer recipient's performance obligations in the binding arrangement so that the allocation depicts the amount of consideration to which the transfer provider expects to be obligated to pay in exchange for the transfer recipient transferring the promised goods or services to the third-party beneficiary. This is based on the rebuttable presumption that all of the consideration is wholly related to the transfer of goods or services to the third-party beneficiary (i.e., that all of the consideration is transaction consideration).

AG54. In the public sector, a transfer provider may enter into a binding arrangement with a transfer recipient with a dual purpose of obtaining goods or services to be transferred to a third-party beneficiary and to help the transfer provider achieve its objectives. Such transactions may rebut the presumption that the transaction consideration is wholly related to the transfer of goods or services, as a portion of the consideration relates to helping the transfer provider achieve its objectives. To demonstrate that this presumption is rebutted, the terms of the binding arrangement must clearly specify that only a portion of the consideration is to be returned to the transfer provider in the event the transfer recipient does not deliver the promised goods or services to the third-party beneficiary. Where the presumption is rebutted, the transfer provider shall disaggregate the consideration and shall include the component that relates to the transfer of promised goods or services to the third-party beneficiary in the transition consideration in accordance with paragraphs 48–71. The remainder of the consideration (i.e., the amount that does not relate to the transfer of promised goods or services to the third-party beneficiary) shall be accounted for as a transfer expense without performance obligations in accordance with paragraphs 90–120. The existence of a component of the consideration that does not relate to the transfer of promised goods or services to the third-party beneficiary will often, but not always, be made explicit in the binding arrangement.

Step 4: Allocating the Transaction Consideration to Performance Obligations (see paragraphs 72–85)

Warranties

AG55. It is common for a transfer recipient to provide (in accordance with the binding arrangement, the law or the transfer recipient's customary practices) a warranty in connection with the provision 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 transfer provider with assurance that the related product will function as the parties intended because it complies with agreed-upon specifications. Other warranties provide the third-party beneficiary with a service in addition to the assurance that the product complies with agreed-upon specifications.

AG56. If a transfer 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 transfer recipient promises to provide the service to the third-party beneficiary in addition to the product that has the functionality described in the binding arrangement. In those circumstances, a transfer provider shall account for the promised warranty as a transfer recipient's performance obligation in accordance with paragraphs 24–32 and allocate a portion of the transaction consideration to that transfer recipient's performance obligation in accordance with paragraphs 72–85.

AG57. In assessing whether a warranty provides a third-party beneficiary with a service in addition to the assurance that the product complies with agreed-upon specifications, a transfer provider shall consider factors such as:

(a) Whether the warranty is required by law—if the transfer recipient is required by law to provide a warranty, the existence of that law indicates that the promised warranty is not a transfer recipient's performance obligation because such requirements typically exist to protect transfer providers and third-party beneficiaries 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 transfer recipient's performance obligation because it is more likely to provide a service to the third-party beneficiary in addition to the assurance that the product complies with agreed-upon specifications.

(c) The nature of the tasks that the transfer recipient promises to perform—if it is necessary for a transfer recipient 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 transfer recipient's performance obligation.

AG58. If a warranty, or a part of a warranty, provides a third-party beneficiary with a service in addition to the assurance that the product complies with agreed-upon specifications, the promised service is a transfer recipient's performance obligation. Therefore, a transfer provider shall allocate the transaction consideration to the product and the service. If a transfer provider is promised both an assurance-type warranty and a service-type warranty but cannot reasonably account for them separately, the transfer provider shall account for both of the warranties together as a transfer recipient's single performance obligation.

Options for Additional Goods or Services

AG59. Options for a transfer provider to acquire additional goods or services for free or at a discount come in many forms, including sales incentives, award credits (or points), renewal options in a binding arrangement for transfer expenses with performance obligations or other discounts on future goods or services.

AG60. If, in a binding arrangement for transfer expenses with performance obligations, a transfer recipient grants a transfer provider the option to purchase additional goods or services to be transferred to third-party beneficiaries, that option gives rise to a transfer recipient's performance obligation in the binding arrangement only if the option provides a material right to the transfer 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 transfer provider in that geographical area or market). If the option provides a material right to the transfer provider, the transfer provider in effect pays the transfer recipient in advance for future goods or services to be transferred to third-party beneficiaries and the transfer provider recognizes an expense when those future goods or services are transferred or when the option expires.

AG61. If a transfer provider has the option to acquire an additional good or service at a price that would reflect the stand-alone purchase price for that good or service, that option does not provide the transfer provider with a material right even if the option can be exercised only by entering into a previous binding arrangement. In those cases, the transfer provider shall recognize an expense for the additional goods or services in accordance with this [draft] Standard only when it exercises the option to purchase the additional goods or services.

AG62. Paragraph 73 requires a transfer provider to allocate the transaction consideration to a transfer recipient's performance obligations on a relative stand-alone purchase price basis. If the stand-alone purchase price for a transfer provider's option to purchase additional goods or services is not directly observable, a transfer provider shall estimate it. That estimate shall reflect the discount that the transfer provider would obtain when exercising the option, adjusted for both of the following:

(a) Any discount that the transfer provider could receive without exercising the option; and

(b) The likelihood that the option will be exercised.

AG63. If a transfer provider has a material right to purchase 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 a transfer provider may, as a practical alternative to estimating the stand-alone purchase price 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.

Purchasers' Unexercised Rights

AG64. In accordance with paragraph 122, where a transfer provider makes a payment to a transfer recipient prior to the promised goods and services being transferred to the third-party beneficiary, the transfer provider shall recognize a transfer provider's binding arrangement asset in the amount of the prepayment for the transfer recipient's performance obligation to transfer, or to stand ready to transfer, goods or services in the future. A transfer provider shall derecognize that transfer provider's binding arrangement asset (and recognize an expense) when the transfer recipient transfers those goods or services to the third-party beneficiary and, therefore, satisfies its performance obligation.

AG65. A transfer provider's non-refundable prepayment to a transfer recipient gives the transfer provider a right to have a good or service transferred to a third-party beneficiary in the future (and obliges the transfer recipient to stand ready to transfer a good or service). However, a transfer provider may not exercise all of its rights in the binding arrangement. Those unexercised rights are often referred to as breakage.

AG66. A transfer provider shall not derecognize a transfer provider's binding arrangement asset as a result of breakage until it is no longer entitled to exercise all of its rights. If a transfer provider expects breakage to occur, it shall assess the transfer provider's binding arrangement asset for impairment in accordance with IPSAS 21, *Impairment of Non-Cash-Generating Assets*.

Non-refundable Upfront Fees (and some Related Costs)

AG67. In some binding arrangements, a transfer recipient charges a transfer provider a non-refundable upfront fee at or near the inception of the binding arrangement. Examples include activation fees from telecommunication companies, setup fees for some services and initial fees for some supplies.

AG68. To identify the transfer recipient's performance obligations in such binding arrangements, a transfer provider shall assess whether the fee relates to the transfer of a promised good or service to a third-party beneficiary. In many cases, even though a non-refundable upfront fee relates to an activity that the transfer recipient is required to undertake at or near the inception of the binding arrangement, to fulfill the binding arrangement that activity does not result in the transfer of a promised good or service to the third-party beneficiary (see paragraph 27). Instead, the upfront fee is an advance payment for future goods or services to be provided to third-party beneficiaries and, therefore, would be recognized as an expense when those future goods or services are provided to the third-party beneficiaries. The expense recognition period would extend beyond the initial period of the binding arrangement if the transfer recipient grants the transfer provider the option to renew the binding arrangement and that option provides the transfer provider with a material right as described in paragraph AG60.

AG69. If the non-refundable upfront fee relates to a good or service transferred to a third-party beneficiary, the transfer provider shall evaluate whether to account for the good or service as a separate performance obligation in accordance with paragraphs 24–32.

Other Specific Application Issues

Licensing

AG70. A license establishes a third-party beneficiary's rights to the intellectual property of a transfer recipient. 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.

AG71. In addition to a promise to grant a license (or licenses) to a third-party beneficiary, a transfer recipient may also promise to transfer other goods or services to the third-party beneficiary. Those promises may be explicitly stated in the binding arrangement or implied by a transfer recipient's customary practices, published policies or specific statements (see paragraph 26). As with other types of binding arrangements, when a binding arrangement with a transfer recipient includes a promise by the transfer recipient to grant a license (or licenses) in addition to other promised goods or services, a transfer provider applies paragraphs 24–32 to identify each of the transfer recipient's performance obligations in the binding arrangement.

AG72. If the transfer recipient's promise to grant a license is not distinct from other promised goods or services in the binding arrangement in accordance with paragraphs 28–32, a transfer provider shall account for the transfer recipient's promise to grant a license to a third-party beneficiary and those other promised goods or services together as a single performance obligation. Examples of licenses that are not distinct from other goods or services promised in the binding arrangement include the following:

(a) A license that forms a component of a tangible good and that is integral to the functionality of the good; and

(b) A license that the 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 transfer recipient that enables, by granting a license, the third-party beneficiary to access content).

AG73. If the license is not distinct, a transfer provider shall apply paragraphs 33–39 to determine whether the transfer recipient's performance obligation (which includes the promised license) is a performance obligation that is satisfied over time or satisfied at a point in time.

AG74. If the promise to grant the license is distinct from the other promised goods or services in the binding arrangement and, therefore, the transfer recipient's promise to grant the license is a separate performance obligation, a transfer provider shall determine whether the license transfers to a third-party beneficiary either at a point in time or over time. In making this determination, a transfer provider shall consider whether the nature of the transfer recipient's promise in granting the license to a third-party beneficiary is to provide the third-party beneficiary with either:

(a) A right to access the transfer recipient's intellectual property as it exists throughout the license period; or

(b) A right to use the transfer recipient's intellectual property as it exists at the point in time at which the license is granted.

Determining the Nature of the Transfer Recipient's Promise

AG75. The nature of a transfer recipient's promise in granting a license is a promise to provide a right to access the transfer recipient's intellectual property if all of the following criteria are met:

(a) The binding arrangement requires, or the transfer provider reasonably expects, that the transfer recipient will undertake activities that significantly affect the intellectual property to which the third-party beneficiary has rights (see paragraphs AG76 and AG77);

(b) The rights granted by the license directly expose the third-party beneficiary to any positive or negative effects of the transfer recipient's activities identified in paragraph AG75(a); and

(c) Those activities do not result in the transfer by the transfer recipient of a good or a service to the third-party beneficiary as those activities occur (see paragraph 27).

AG76. Factors that may indicate that a transfer provider could reasonably expect that a transfer recipient will undertake activities that significantly affect the intellectual property include the transfer recipient's customary practices, published policies or specific statements.

AG77. A transfer recipient's activities significantly affect the intellectual property to which the third-party beneficiary 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 third-party beneficiary to obtain economic benefits or service potential from the intellectual property is substantially derived from, or dependent upon, those activities.

Accordingly, if the intellectual property to which the third-party beneficiary 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 third-party beneficiary to obtain economic benefits or service potential from that intellectual property would not be significantly affected by the transfer recipient'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).

AG78. If the criteria in paragraph AG75 are met, a transfer provider shall account for the transfer recipient's promise to grant a license to a third-party beneficiary as a performance obligation satisfied over time because the third-party beneficiary will simultaneously receive and consume the economic benefits or service potential from the transfer recipient's performance of providing access to its intellectual property as the performance occurs (see paragraph 36(a)). A transfer provider shall apply paragraphs 40–46 to select an appropriate method to measure the transfer recipient's progress towards complete satisfaction of the performance obligation to provide access.

AG79. If the criteria in paragraph AG75 are not met, the nature of a transfer recipient's promise is to provide a right to use the transfer recipient'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 third-party beneficiary. This means that the third-party beneficiary 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. A transfer provider shall account for the transfer recipient's promise to provide a right to use the transfer recipient's intellectual property as a performance obligation satisfied at a point in time. A transfer provider shall apply paragraph 39 to determine the point in time at which the license transfers to the third-party beneficiary. However, an expense cannot be recognized for a license that provides a right to use the transfer recipient's intellectual property before the beginning of the period during which the 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 a transfer recipient provides (or otherwise makes available) to the third-party beneficiary a code that enables the third-party beneficiary to immediately use the software, the transfer provider would not recognize an expense before that code has been provided (or otherwise made available).

AG80. A transfer provider shall disregard the following factors when determining whether a license provides a right to access the transfer recipient's intellectual property or a right to use the transfer recipient'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 transfer recipient satisfies its performance obligation at a point in time or over time.

(b) Guarantees provided by the transfer recipient that it has a valid patent to intellectual property and that it will defend that patent from unauthorized use—a promise to defend a patent right is not a performance obligation because the act of defending a patent protects the value of the transfer recipient's intellectual property assets and provides assurance to the transfer provider that the license transferred to the third-party beneficiary meets the specifications of the license promised in the binding arrangement.

Usage-Based Royalties

AG81. Notwithstanding the requirements in paragraphs 56–59, a transfer provider shall recognize an expense for a usage-based royalty promised in exchange for a license of intellectual property transferred to a third-party beneficiary only when (or as) the later of the following events occurs:

(a) The subsequent usage occurs; and

(b) The transfer recipient's performance obligation to which some or all of the usage-based royalty has been allocated has been satisfied (or partially satisfied).

AG82. The requirement for a usage-based royalty in paragraph AG81 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 transfer provider would ascribe significantly more value to the license than to the other goods or services to which the royalty relates).

AG83. When the requirement in paragraph AG82 is met, an expense for a usage-based royalty shall be recognized wholly in accordance with paragraph AG81. When the requirement in paragraph AG82 is not met, the requirements on variable consideration in paragraphs 51–59 apply to the sales-based or usage-based royalty.

Bill-and-Hold Arrangements

AG84. A bill-and-hold arrangement is a binding arrangement under which a transfer recipient bills a transfer provider for a product, but the transfer recipient retains physical possession of the product until it is transferred to the third-party beneficiary at a point in time in the future.

AG85. A transfer provider shall determine when the transfer recipient has satisfied its performance obligation to transfer a product to a third-party beneficiary by evaluating when the third-party beneficiary obtains control of that product (see paragraph 39). For some binding arrangements, control is transferred either when the product is delivered to the 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 third-party beneficiary may obtain control of a product even though that product remains in the transfer recipient's physical possession. In that case, the third-party beneficiary 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 transfer recipient does not control the product. Instead, the transfer recipient provides custodial services to the third-party beneficiary over the third-party beneficiary's asset.

AG86. In addition to applying the requirements in paragraph 39, for a third-party beneficiary 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 transfer provider has requested the arrangement);

(b) The product must be identified separately as belonging to the third-party beneficiary;

(c) The product currently must be ready for physical transfer to the third-party beneficiary; and

(d) The transfer recipient cannot have the ability to use the product or to direct it to another purchaser.

AG87. If a transfer provider recognizes an expense for the purchase of a product on a bill-and-hold basis, the transfer provider shall consider whether the transfer recipient has remaining performance obligations (for example, for custodial services) in accordance with paragraphs 24–32 to which the transfer provider shall allocate a portion of the transaction consideration in accordance with paragraphs 72–85.

Third-Party Beneficiary Acceptance

AG88. In accordance with paragraph 39(e), a third-party beneficiary's acceptance of an asset may indicate that the third-party beneficiary has obtained control of the asset. Third-party beneficiary acceptance clauses may allow the transfer provider to cancel a binding arrangement or require a transfer recipient to take remedial action if a good or service does not meet agreed-upon specifications. A transfer provider shall consider such clauses when evaluating when the third-party beneficiary obtains control of a good or service.

AG89. If a transfer recipient delivers products to a third-party beneficiary for trial or evaluation purposes and the transfer provider is not committed to pay any consideration until the trial period lapses, control of the product is not transferred to the third-party beneficiary until either the third-party beneficiary accepts the product or the trial period lapses.

Transfer Expenses without Performance Obligations (see paragraphs 90–120)

AG90. This [draft] Standard applies the principles in the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (the Conceptual Framework)* to transfer expenses without performance obligations. Where the transfer recipient of a transfer expense without performance obligations is a public sector entity, the transfer recipient will account for the revenue in accordance with [draft] IPSAS X (ED 71). Transfer expenses without performance obligations may arise from binding arrangements that impose present obligations other than performance obligations on the transfer recipient. Transfer expenses without performance obligations may also arise where there is no binding arrangement.

Recognition (see paragraphs 91–101)

AG91. In accordance with paragraph 91, a transfer provider shall recognize a transfer expense without performance obligations at the earlier of the following dates:

(a) When the transfer provider has a present obligation to transfer resources to a transfer recipient; and

(b) When the transfer provider ceases to control the resources it has agreed to transfer.

AG92. The point at which a transfer provider has a present obligation to transfer resources to a transfer recipient will depend upon the terms of the binding arrangement and the circumstances of the transfer expense. For example, a transfer provider may enter into a binding arrangement with a university (a transfer recipient), whereby the university undertakes a research project over several years. At the end of the project, the university retains the intellectual property generated by the research project; the binding arrangement is therefore a binding arrangement for a transfer expense without performance obligations, as no goods or services are transferred to a third-party beneficiary. Depending on the terms of the binding arrangement, the transfer provider may have a present obligation to transfer the promised resources:

(a) At the commencement of the research project;

(b) Periodically (i.e., at set dates) throughout the research project;

(c) As key project milestones are achieved; or

(d) At the completion of the research project.

AG93. In determining the point or points at which a transfer provider may have a present obligation to transfer the promised resources, a transfer provider shall consider all relevant facts and circumstances including substance over form, the terms of the binding arrangement and other evidence; and shall consider whether the promised resources are subject to appropriations (see paragraphs AG98–AG102).

AG94. Subject to the requirements of paragraph AG95, where a transfer provider transfers the promised resources before having a present obligation to do so, the transfer provider shall not recognize an asset, but shall recognize an expense in accordance with paragraph 91(b). The transfer provider does not recognize an asset as it does not have an enforceable right to the return of the resources. The binding arrangement may require the transfer recipient to return the resources to the transfer provider in the event of non-compliance with the terms of the binding arrangement. However, until such time as there is a breach of the terms of the binding arrangement, there are no resources that are presently controlled by the transfer provider. Consequently, the transfer provider does not have an asset at the point it transfers the resources, and hence it recognizes an expense.

AG95. A transfer provider usually ceases to control the resources it has agreed to transfer at the point it transfers those resources to the transfer recipient. However, in some circumstances, a transfer provider may retain control of the resources until a later date. For example, a transfer provider may make a prepayment, but be entitled to a refund of the prepayment on demand prior to the point at which the transfer provider has a present obligation to make the payment. In such circumstances, the transfer provider retains control of the resources. Consequently, the transfer provider does not derecognize the resources, nor recognize an expense, prior to the point at which it has a present obligation to transfer those resources. Where cash has been transferred, the transfer provider may reclassify the asset as a prepayment.

AG96. A binding arrangement may require the transfer recipient to return the resources to the transfer provider, either:

(a) In the event of non-compliance with the terms of the binding arrangement; or

(b) Where funds remain unspent at a specified date.

AG97. When such an event occurs, the transfer provider shall determine whether it has an enforceable right to have the resources returned, and whether the return of resources is probable. To the extent that the transfer provider has an enforceable right and the return of resources is probable, the transfer provider shall account for the return of resources as follows:

(a) Where the related expense was recognized in the current period, by recognizing an asset and an adjustment to expense; or

(b) Where the related expense was recognized in a previous period, by recognizing an asset and revenue, except where the transfer provider is instead required to restate amounts in a prior period to correct a prior period error in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Transfer Expenses without Performance Obligations Subject to Appropriations

AG98. An appropriation is defined in IPSAS 24, *Presentation of Budget Information in Financial Statements*, as an authorization granted by a legislative body to allocate funds for purposes specified by the legislature or similar authority. In some jurisdictions, a binding arrangement for a transfer expense without performance obligations may specify that any future transfer is subject to the appropriation being authorized.

AG99. In accordance with paragraphs 98–99, a transfer provider may be prohibited from transferring the promised resources until the appropriation is authorized. In such circumstances, the transfer provider considers substance over form in determining whether it has a present obligation to transfer the resources prior to the appropriation being authorized.

AG100. 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 the transfer provider;

(b) The exercise of that authority has occurred. In essence, the transfer provider has taken a decision under the approved enabling authority that clearly demonstrates that a transfer recipient has an enforceable right to the transfer of the promised resources, and consequently the transfer provider has lost its discretion to avoid proceeding with the transfer, for example through entering into a binding arrangement; and

(c) The authority to pay is evidenced by the authorization of an appropriation.

AG101. The enabling authority, together with the exercise of that authority, may be sufficient for a transfer provider to conclude that the transfer recipient has an enforceable right to those resources, and that the transfer provider consequently has a present obligation to transfer the resources, prior to the authorization of the appropriation. In such circumstances, the limitation (that the future transfer is subject to the appropriation being authorized) does not have substance, and the transfer provider recognizes a liability and an expense for future transfers prior to the appropriation being authorized.

AG102. In other cases, the authorization of the appropriation may determine when a transfer provider has lost its discretion to avoid proceeding with a transfer. In such circumstances, the limitation (that the future transfer is subject to the appropriation being authorized) has substance, and the transfer provider shall not recognize a liability and an expense for the transfer prior to the appropriation being authorized.

Fines

AG103. Fines are defined in IPSAS [X] (ED 71) as economic benefits or service potential received or receivable by public sector entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws and/or regulations. The past event for the recognition of a transfer expense without performance obligations in respect of a fine is the imposition of the fine by a court or other law enforcement body.

Measurement (see paragraphs 102–120)

AG104. In accordance with paragraph 102, where a transfer provider recognizes an expense at the date it transfers the resources to the transfer recipient, the transfer provider shall measure the expense at the carrying amount of the resources transferred. In many cases, the resource transferred will be cash, and the expense will be measured at the amount of the cash transferred. Where the resource transferred is a non-cash asset, the expense will be measured at the carrying amount of the asset transferred. In accordance with paragraph 114, the transfer provider does not revalue the assets prior to derecognizing them. For example, if a transfer provider transfers inventory to a transfer recipient, it measures the expense at the carrying amount of the inventory transferred, not the fair value of the inventory.

AG105. In accordance with paragraph 103, where a transfer provider recognizes an expense prior to transferring the resources to the transfer recipient, it shall measure the expense and liability at the best estimate of the costs that the transfer provider will incur in settling the liability. Where the resources to be transferred to the transfer recipient, for example where the transfer provider has a present obligation to transfer a fixed amount of cash, or a specific non-financial asset, the liability will be measured at the carrying amount of the cash or non-cash asset to be transferred, adjusted, where necessary, for the time value of money in accordance with paragraph 109.

AG106. A transfer expense without performance obligations may include variable costs where, for example, the transfer provider has agreed to meet the costs, or a portion of the costs, incurred by the transfer recipient in carrying out a specified activity. Such arrangements may also specify a maximum amount for the transfer expense without performance obligations. In accordance with paragraph 105, a transfer provider's best estimate of the amount it will incur to settle the liability reflects the transfer provider's assessment of the costs that the transfer recipient is likely to incur.

AG107. When the transfer provider makes its best estimate of the amount it will incur to settle the liability, the transfer provider shall consider all information that is reasonably available to the transfer provider. Where the binding arrangement that establishes a transfer expense without performance obligations that includes variable costs specifies the expected amount of the transfer expense, a transfer provider may use this figure as its best estimate where this is consistent with any other evidence available to the transfer provider. The figure specified in the binding arrangement is most likely to provide a reliable estimate in the early days of the binding arrangement. This may change as the transfer recipient undertakes the activities specified in the binding arrangement, and the transfer provider shall update its estimate as it obtains more recent evidence.

AG108. In rare cases, for example where the binding arrangement either does not specify an expected amount and where additional evidence (such as the costs incurred by the transfer recipient) is not available, the transfer provider may not be able to make a reliable estimate of the liability. In such cases, the recognition criteria for the liability are not met, and no liability or expense are recognized until such time as a reliable estimate can be made. This may be the point at which the transfer provider transfers the promised resources to the transfer recipient.

Disclosure (see paragraphs 127–153)

Disclosure of Disaggregated Expenses

AG109. Paragraph 133 requires a transfer provider to disaggregate expenses from binding arrangements for transfer expenses with performance obligations into categories that depict how the nature, amount, timing and uncertainty of expenses and cash flows are affected by economic factors. Consequently, the extent to which a transfer provider's expenses are disaggregated for the purposes of this disclosure depends on the facts and circumstances that pertain to the transfer provider's binding arrangements for transfer expenses with performance obligations. Some transfer providers may need to use more than one type of category to meet the objective in paragraph 133 for disaggregating expenses. Other transfer providers may meet the objective by using only one type of category to disaggregate expenses.

AG110. When selecting the type of category (or categories) to use to disaggregate expenses, a transfer provider shall consider how information about the transfer provider's expenses has been presented for other purposes, including all of the following:

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

(b) Information regularly reviewed for evaluating the financial performance of segments; and

(c) Other information that is similar to the types of information identified in paragraph AG110(a) and (b) and that is used by the transfer provider or users of the transfer provider's financial statements to evaluate the transfer provider's financial performance or make resource allocation decisions.

AG111. Examples of categories that might be appropriate include, but are not limited to, all of the following:

(a) Type of good or service (for example, major product lines);

(b) Geographical region (for example, country or region);

(c) Market or type of transfer recipient (for example, government and non-government transfer recipients);

(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); and

(f) Timing of transfer of goods or services (for example, transfer expenses for goods or services transferred to third-party beneficiaries at a point in time and transfer expenses for goods or services transferred over time).

Appendix B

Amendments to Other IPSAS

Amendments to IPSAS 1, *Presentation of Financial Statements*

Paragraph 88 is amended, and paragraph 153N is added. New text is underlined, and deleted text is struck through.

…

Structure and Content

…

Statement of Financial Position

…

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

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

(a) **Property, plant, and equipment;**

(b) **Investment property;**

(c) **Intangible assets;**

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

(e) **Investments accounted for using the equity method;**

(f) **Inventories;**

(g) **Recoverables from non-exchange transactions (taxes and transfers);**

(ga) **Transfer provider's binding arrangement assets;**

(h) **Receivables from exchange transactions;**

(i) **Cash and cash equivalents;**

(j) **Taxes and transfers payable;**

(ja) **Social benefits liabilities;**

(jb) **Transfer provider's binding arrangement liabilities;**

(k) **Payables under exchange transactions;**

(l) **Provisions;**

(m) **Financial liabilities (excluding amounts shown under (j), (k) and (l));**

(n) **Non-controlling interest, presented within net assets/equity; and**

(o) **Net assets/equity attributable to owners of the controlling entity.**

…

Effective Date

153N. **Paragraph 88 was amended by [draft] IPSAS [X] (ED 72), *Transfer Expenses*, issued in [Month] [Year]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, [Year]. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 72) at the same time.**

…

Implementation Guidance

…

Public Sector Entity—Statement of Financial Performance for the Year Ended December 31, 20X2

(Illustrating the Classification of Expenses by Nature)

(in thousands of currency units)

	20X2	20X1
Revenue		
…		
Expenses		
Wages, salaries, and employee benefits	(X)	(X)
Social benefits	(X)	(X)
~~Grants and other transfer payments~~ Transfer expenses	(X)	(X)
Supplies and consumables used	(X)	(X)
Depreciation and amortization expense	(X)	(X)
Impairment of property, plant, and equipment*	(X)	(X)
Other expenses	(X)	(X)
Finance costs	(X)	(X)
Total Expenses	(X)	(X)

* In a statement of financial performance in which expenses are classified by nature, an impairment of property, plant, and equipment is shown as a separate line item. By contrast, if expenses are classified by function, the impairment is included in the function(s) to which it relates

…

Amendments to IPSAS 2, *Cash Flow Statements*

Paragraph 22 is amended and paragraph 63H is added. New text is underlined, and deleted text is struck through.

…

Presentation of a Cash Flow Statement

…

Operating Activities

…

22. Cash flows from operating activities are primarily derived from the principal cash-generating activities of the entity. Examples of cash flows from operating activities are:

(a) Cash receipts from taxes, levies, and fines;

(b) Cash receipts from charges for goods and services provided by the entity;

(c) Cash receipts from grants or transfers and other appropriations or other budget authority made by central government or other public sector entities;

(d) Cash receipts from royalties, fees, commissions, and other revenue;

(da) Cash payments to beneficiaries of social benefit schemes;

(db) Cash payments for transfer expenses;

(e) Cash payments to other public sector entities to finance their operations (not including loans);

(f) Cash payments to suppliers for goods and services;

(g) Cash payments to and on behalf of employees;

(h) Cash receipts and cash payments of an insurance entity for premiums and claims, annuities, and other policy benefits;

(i) Cash payments of local property taxes or income taxes (where appropriate) in relation to operating activities;

(j) Cash receipts and payments from contracts held for dealing or trading purposes;

(k) Cash receipts or payments from discontinuing operations; and

(l) Cash receipts or payments in relation to litigation settlements.

Some transactions, such as the sale of an item of plant, may give rise to a gain or loss that is included in surplus or deficit. The cash flows relating to such transactions are cash flows from investing activities. However, cash payments to construct or acquire assets held for rental to others and subsequently held for sale as described in paragraph 83A of IPSAS 17, *Property, Plant, and Equipment* are cash flows from operating activities. The cash receipts from rents and subsequent sales of such assets are also cash flows from operating activities.

…

Effective Date

63H. **Paragraph 22 was amended by [draft] IPSAS [X] (ED 72), *Transfer Expenses*, issued in [Month] [Year]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, [Year]. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 72) at the same time.**

…

Amendments to IPSAS 12, *Inventories*

Paragraphs 11, 17, 43, and 44 are amended, and paragraph 51F is added. New text is underlined, and deleted text is struck through.

…

Inventories

11. Inventories encompass goods purchased and held for resale including, for example, merchandise purchased by an entity and held for resale, or land and other property held for sale. Inventories also encompass finished goods produced, or work-in-progress being produced, by the entity. Inventories also include (a) materials and supplies awaiting use in the production process, and (b) goods purchased or produced by an entity, which are for distribution to other parties for no charge (a transfer expense) or for a nominal charge, for example, educational books produced by a health authority for donation to schools. In many public sector entities, inventories will relate to the provision of services rather than goods purchased and held for resale or goods manufactured for sale. …

…

Measurement of Inventories

…

17. **Inventories shall be measured at the lower of cost and current replacement cost where they are held for:**

    (a) **Distribution at no charge (a transfer expense) or for a nominal charge; or**

    (b) **Consumption in the production process of goods to be distributed at no charge (a transfer expense) or for a nominal charge.**

…

Distributing Goods at No Charge or for a Nominal Charge

43. A public sector entity may hold inventories whose future economic benefits or service potential are not directly related to their ability to generate net cash inflows. These types of inventories may arise when a government has determined to distribute certain goods at no charge (a transfer expense) or for a nominal amount. In these cases, the future economic benefits or service potential of the inventory for financial reporting purposes is reflected by the amount the entity would need to pay to acquire the economic benefits or service potential if this was necessary to achieve the objectives of the entity. Where the economic benefits or service potential cannot be acquired in the market, an estimate of replacement cost will need to be made. If the purpose for which the inventory is held changes, then the inventory is valued using the provisions of paragraph 15.

Recognition as an Expense

44. **When inventories are sold, exchanged, or distributed, the carrying amount of those inventories shall be recognized as an expense in the period in which the related revenue is recognized. If there is no related revenue (i.e., the transaction gives rise to a transfer expense), the expense is recognized ~~when the goods are distributed or the related service is~~**

~~rendered~~ in accordance with [draft] IPSAS [X] (ED 72), *Transfer Expenses*. The amount of any write-down of inventories and all losses of inventories shall be recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories shall be recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

…

Effective Date

…

51F. **Paragraphs 11, 17, 43 and 44 were added by [draft] IPSAS [X] (ED 72), *Transfer Expenses*, issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, [Year]. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 72) at the same time.**

…

Amendments to IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)*

Paragraphs 41A, 43A, 43B and 154H are added. New text is underlined, and deleted text is struck through.

…

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

…

Three Year Transitional Relief Period for the Recognition and/or Measurement of Assets and/or Liabilities

Recognition and/or Measurement of Assets and/or Liabilities

…

41A. **To the extent that a first-time adopter applies the exemptions in paragraphs 36 and 38 which allow a three year transitional relief period to not recognize and/or measure financial liabilities, it is not required to recognize and/or measure any related expenses in terms of [draft] IPSAS [X] (ED 72), *Transfer Expenses.***

…

Recognition and/or Measurement of Transfer Expenses

43A. **A first-time adopter is not required to change its accounting policy in respect of the recognition and measurement of transfer expenses for reporting periods beginning on a date within three years following the date of adoption of IPSASs. A first-time adopter may change its accounting policy in respect of transfer expenses on a class-by-class basis.**

43B. The transitional provision in paragraph 43A is intended to allow a first-time adopter a period to develop reliable models for recognizing and measuring transfer expenses in accordance with [draft] IPSAS [X] (ED 72), *Transfer Expenses,* during the period of transition. The first-time adopter may apply accounting policies for the recognition and/or measurement of transfer expenses that do not comply with the provisions of [draft] IPSAS [X] (ED 72). The transitional provision in paragraph 43A allows a first-time adopter to apply [draft] IPSAS [X] (ED 72) incrementally to different classes of transfer expenses. For example, a first-time adopter may be able to recognize and measure transfer expenses without performance obligations in accordance with [draft] IPSAS [X] (ED 72) from the date of adoption of IPSASs, but may require three years to fully develop a reliable model for recognizing and measuring transfer expenses with performance obligations.

	Transitional exemption provided							
	NO	**YES**						
		Deemed cost	**3 year transitional relief for recognition**	**3 year transitional relief for measurement**	**3 year transitional relief for recognition and/or measurement**	**3 year transitional relief for disclosure**	**Elimination of transactions, balances, revenue and expenses**	**Other**
…								
[Draft] IPSAS [X] (ED 72), *Transfer Expenses*			✓ All transfer expenses not recognized under previous basis of accounting	✓ All transfer expenses recognized under previous basis of accounting	✓ To extent that 3-year relief period was adopted for assets and/or liabilities			

…

Effective Date

154H. **Paragraphs 41A, 43A and 43B were added by [draft] IPSAS [X] (ED 72), *Transfer Expenses*, issued in [Month] [Year]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, [Year]. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 72) at the same time.**

Amendments to IPSAS 42, *Social Benefits*

Paragraph IG2 is amended. New text is underlined, and deleted text is struck through.

…

This guidance accompanies, but is not part of, IPSAS 42

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Scope of IPSAS 42

IG2. The following diagram illustrates the scope of IPSAS 42 and the boundaries between social benefits and other transactions.

[Draft] IPSAS [X] (ED 72) | ~~Non-Exchange Expenses Project~~ | Social Benefits | Other IPSAS/IFRS

Category	~~Grants, Contributions and Other~~ Transfers Expenses	~~Emergency Relief~~	Collective Services	Individual Services	Social Benefits	Employee Benefits	Contracts for Insurance	Contracts for Goods and Services
Examples	~~Grants~~Transfers to other public sector entities ~~Grants~~Transfers to charities	~~Emergency relief Planning and preparation activities~~	Defense Street lighting	Education Healthcare	State pensions Unemployment benefits Income support	Employee pensions Healthcare Salaries	Vehicle insurance Private medical insurance	Purchase of goods Payment for services
Transactions with Performance Obligations?	Yes and No	~~Non-Exchange~~	No	No	No	Yes	Yes	Yes
Provided as cash transfers to specific individuals/households	Sometimes	~~Sometimes~~	No	No	Yes	Sometimes	No	No
Provided to specific individuals/households who meet eligibility criteria?	Sometimes	~~Sometimes~~	No	Sometimes	Yes	Yes	No	No
Mitigates effect of social risks?	No	~~No~~	No	Sometimes	Yes	Yes	No	No
Addresses needs of society as a whole?	Sometimes	~~No~~	Yes	Yes	Yes	No	No	No

Scope of Social Benefits in GFS

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, [draft] IPSAS X (ED 72), Transfer Expenses.

Objective (paragraph 1)

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 accounts for a significant portion of their expenditure.

BC2. Despite the importance of social benefits, collective and individual services and transfer expenses for most governments, until recently there had been little guidance in the IPSASB's literature on how to account for these transactions. The IPSASB undertook a phased program of work to address these transactions, beginning with IPSAS 42, *Social Benefits*, issued in January 2019 and continuing with *Collective and Individual Services* (Amendments to IPSAS 19) issued in January 2020. [Draft] IPSAS [X] (ED 72), *Transfer Expenses*, issued in [date], completed this program and filled a significant gap in the IPSASB's literature.

BC3. [Draft] IPSAS [X] (ED 72) establishes requirements for accounting for transfer expenses, and disclosing information about the nature, amount, timing and uncertainty of expenditure and cash flows arising from transfer expenses.

Scope (paragraphs 3–7)

BC4. Prior to [Draft] IPSAS [X] (ED 72) being issued, non-exchange transactions were defined in IPSAS 9, *Revenue from Exchange Transactions*, as follows:

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

BC5. This definition covered a wide range of transactions, including some that were addressed in other Standards. As an example, expenses associated with concessionary loans are addressed in IPSAS 29, *Financial Instruments: Recognition and Measurement*, and its successor Standard, IPSAS 41, *Financial Instruments*. It followed that a future Standard addressing non-exchange expenses would need to clearly set out which transactions would be within its scope and which transactions would be outside its scope.

BC6. The IPSASB issued its Consultation Paper (CP), *Accounting for Revenue and Non-Exchange Expenses*, in August 2017. The CP discussed various types of non-exchange expenses, including collective services, universally accessible services, and grants, contributions and other transfers, but did not discuss the scope of non-exchange expenses any further.

BC7. The CP did not discuss social benefits, which were being addressed in a separate project. Collective services and universally accessible services are now referred to as collective and individual services, and have been addressed in a separate project. As noted above, the IPSASB has issued final pronouncements addressing these transactions.

BC8. In developing [draft] IPSAS [X] (ED 72), the IPSASB considered the scope of the [draft] Standard, and came to the following conclusions:

(a) The IPSASB noted that respondents to the CP had identified practical difficulties with distinguishing between exchange transactions and non-exchange transactions. The IPSASB also noted that, in part because of these difficulties, the *Revenue* project that the IPSASB was undertaking simultaneously with its non-exchange project was proposing a distinction between transactions based on the presence (or absence) of a performance obligation. This distinction would largely replace the current exchange transaction/non-exchange transaction distinction. The IPSASB considered that it would be appropriate to apply this distinction to expenses as well as revenue. Requiring an entity to determine whether a transaction was an exchange transaction or a non-exchange transaction, prior to determining whether a transaction had performance obligation would introduce a level of complexity that was unwarranted. For these reasons, the IPSASB agreed that the scope of [draft] IPSAS [X] (ED 72) should not be based on the definition of a non-exchange expense.

(b) A 'residual expenses' Standard, addressing any expenses not covered in another Standard, was rejected as this would exceed the IPSASB's intentions when issuing the CP. The IPSASB also considered that including exchange transactions might raise additional issues that would require additional time and resources to resolve, but which were not seen as a priority by the IPSASB's stakeholders.

(c) The IPSASB noted that the main group of transactions discussed in the CP and not addressed by the IPSASB's other Standards or active projects was grants, contributions and other transfers. The IPSASB noted that this group of transactions was covered by the definition of 'transfers' in the statistical reporting frameworks (this definition is discussed further in paragraphs BC11–BC12). Aligning the scope of [draft] IPSAS [X] (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*. Consequently, the IPSASB agreed to align the scope of [draft] IPSAS [X] (ED 72) with the definition of 'transfers' in the statistical reporting frameworks.

BC9. Having agreed to base the scope of [draft] IPSAS [X] (ED 72) with the definition of 'transfers' in the statistical reporting frameworks, the IPSASB specifically considered research grants. The IPSASB noted that where the grantee retained the intellectual property resulting from the research, such grants would be covered by the definition of transfers. Where the intellectual property passed to the grantor, such grants would not be covered by the definition of transfers. The IPSASB noted that this was consistent with the approach taken in the statistical reporting frameworks. Consequently, the IPSASB agreed that no specific requirements in respect of research grants were required.

BC10. The IPSASB also noted 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] (ED 72). This is explained further in paragraph 6 of [draft] IPSAS [X] (ED 72).

Definitions (paragraphs 8–9)

BC11. The *Government Finance Statistics Manual 2014* (GFSM 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.

BC12. The IPSASB noted that this definition does not cover all non-exchange transactions as defined in IPSAS 9 (see the definition in paragraph BC4 above). Specifically, the definition does not cover transactions where one party provides a good or service to another party, and receives a good or service in return, but that good or service is not of approximately equal value. The IPSASB noted that determining what amounted to approximately equal value was one of the difficulties stakeholders had experienced with the definition of non-exchange expenses. Consequently, the IPSASB considered that clarity of the GFSM 2014 definition of transfers outweighed the disadvantages of excluding a small number of non-exchange expenses from the scope of [draft] IPSAS [X] (ED 72).

BC13. Having agreed to use the GFSM 2014 definition of transfers as the basis for the scope of [draft] IPSAS [X] (ED 72), the IPSASB agreed to base its definition of ‘transfer expenses’ on the GFSM definition. The IPSASB agreed to adopt the term transfer expenses as the term transfers had previously been used in IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*, where the term transfers referred to inflows (i.e., revenue) only. In IPSAS 23, the term transfers excludes taxes, and the IPSASB agreed to exclude taxes from the definition of transfer expenses for consistency.

BC14. [Draft] IPSAS [X] (ED 72) complements [draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*, and [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*. Consequently, [draft] IPSAS [X] (ED 72) relies on the definitions in those [draft] Standards where possible (see paragraph 9 of [draft] IPSAS [X] (ED 72)). 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] (ED 72):

(a) Stand-alone purchase price;

(b) Transaction consideration;

(c) Transfer provider’s binding arrangement asset; and

(d) Transfer provider’s binding arrangement liability.

These definitions are based on the definitions of stand-alone price, transaction price, binding arrangement liability and binding arrangement asset in [draft] IPSAS [X] (ED 70).

BC15. The IPSASB also considered the definition of expenses in IPSAS 1, *Presentation of Financial Statements*, and concluded that no changes were required. The IPSASB agreed to include a cross-reference to this definition in [draft] IPSAS [X] (ED 72) (see paragraph 9 of [draft] IPSAS [X] (ED 72)).

Transfer Expenses with Performance Obligations (Public Sector Performance Obligation Approach) (paragraphs 10–89)

BC16. One of the drivers that led to the IPSASB developing the CP was the issuing of IFRS 15, *Revenue from Contracts with Customers*, by the International Accounting Standards Board (the IASB®). IFRS 15 introduced a performance obligation approach for the recognition of revenue. The IPSASB considered whether to adopt a similar approach in its revenue standards. The IPSASB concluded that an extended version of the approach in IFRS 15 would be appropriate for revenue transactions with performance obligations, for the following reasons:

(a) The approach is consistent with the IPSASB's *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the *Conceptual Framework*);

(b) The approach is consistent with other IPSAS; and

(c) The approach resolves the problem of determining whether a transaction is an exchange transaction or a non-exchange transaction by using a different basis in determining the accounting policy to be followed.

BC17. Consequently, in the CP the IPSASB proposed the adoption of a Public Sector Performance Obligation Approach (PSPOA) for revenue.

BC18. The IPSASB also considered whether a similar approach would be appropriate for the recognition of expenses within the scope of [draft] IPSAS [X] (ED 72), noting that the performance obligations would be those imposed on the transfer recipient. The IPSASB noted that the advantages of adopting the PSPOA for revenue would apply equally to expenses.

BC19. Consequently, the IPSASB included a preliminary view in the CP that "where grants, contributions and other transfers contain either performance obligations or stipulations, they should be accounted for using the PSPOA which is the counterpart to the IPSASB's preferred approach for revenue."

BC20. Respondents to the CP were, on the whole, supportive of adopting the PSPOA for expenses, but raised several issues. The IPSASB agreed, therefore, to develop the PSPOA for use in [draft] IPSAS [X] (ED 72), and proceeded to consider the technical issues associated with the PSPOA.

Existence of Asset

BC21. The PSPOA for expenses applies where the transfer provider has entered into a binding arrangement that imposes a performance obligation on the transfer recipient to transfer goods or services to a third-party beneficiary. The IPSASB noted that in some cases, the terms of the binding arrangement would result in the transfer provider having a present obligation to transfer resources to the transfer recipient prior to the transfer recipient having satisfied its performance obligations. If the transfer provider had not transferred the resources, this would give rise to a liability.

BC22. If the transfer provider were to recognize an expense as the transfer recipient satisfied its performance obligations, it follows that the transfer provider should not recognize an expense at the point it recognizes the liability, but a corresponding asset. The IPSASB, therefore, considered the nature of that asset.

BC23. The IPSASB noted that the asset could not be the resources transferred, or the right to have those resources returned, as at the point the liability is recognized, the resources have been transferred.

BC24. The *Conceptual Framework* defines an asset as:

A resource presently controlled by the entity as a result of a past event

BC25. The IPSASB considered two components of this definition – whether there is a resource (and if so, what that resource is); and whether the resource is presently controlled by the transfer provider as a result of a past event.

Resource

BC26. The first component of the definition of an asset is “a resource.” The *Conceptual Framework* defines a resource as “an item with service potential or the ability to generate economic benefits.”

BC27. If the goods or services were to be transferred to the transfer provider, it would clear that there is a right to receive resources, and consequently, the definition of a resource would be met. However, the definition of a transfer expense excludes transactions where the transfer provider receives goods or services.

BC28. In a transfer expense, the transfer provider provides resources to the transfer recipient to deliver goods or services to third-party beneficiaries (service recipients). The IPSASB considered whether the right to have goods or services transferred to the specified third parties satisfies the definition of a resource as “an item with service potential or the ability to generate economic benefits.” The IPSASB concluded that, as the goods or services being transferred will allow the transfer provider to meet its objectives, the right to have goods or services transferred to the specified third parties will satisfy the definition of a resource as that right will be an item with service potential.

Control

BC29. The second component of the definition of an asset is that the resource is “presently controlled by the entity as a result of a past event.”

BC30. The *Conceptual Framework* gives four indicators of control:

(a) Legal ownership;

(b) Access to the resource, or the ability to deny or restrict access to the resource;

(c) The means to ensure that the resource is used to achieve its objectives; and

(d) The existence of an enforceable right to service potential or the ability to generate economic benefits arising from a resource.

BC31. The transfer provider will have an enforceable right under the binding arrangement to have goods or services transferred to a third-party beneficiary. The IPSASB concluded that, as a result of this enforceable right, the transfer provider will have the means to ensure that the resource is used to achieve the transfer provider’s objectives. The IPSASB agreed that means that the transfer provider presently controls the resource.

BC32. In order to meet the definition of an asset, this present control must be as a result of a past event. Both the enforceable right to have the goods or services transferred to a third-party beneficiary (the resource), and the control of that resource arise from the binding arrangement. It follows that the past event is the entering into the binding arrangement.

Conclusion

BC33. Consequently, the IPSASB concluded that, once the transfer provider has entered into the binding arrangement, the transfer provider would presently control a resource as a result of a past event. The item therefore satisfies the definition of an asset.

BC34. The IPSASB agreed that the transfer provider would recognize an asset for the right to have goods or services provided to third-party beneficiaries. The transfer provider would control this asset until the transfer recipient met its performance obligations. At this point, the asset would be derecognized, and an expense recognized, as the transfer recipient provided the goods or services to the third-party beneficiaries. The IPSASB concluded that this analysis provided the conceptual grounds for applying the PSPOA to some transfer expenses.

BC35. Having agreed that there was a conceptual basis for adopting the PSPOA for expenses, the IPSASB developed the detailed recognition and measurement requirements. In the CP, the IPSASB had expressed the view that "it is important for the approach in a Non-Exchange Expenses standard to mirror the approach adopted for equivalent revenue transactions." Consequently, the IPSASB agreed to take, as the starting point for the PSPOA in [draft] IPSAS [X] (ED 72), the recognition and measurement requirements of [draft] IPSAS [X] (ED 70), amended to fit the transfer provider's perspective, to the extent that this did not conflict with the *Conceptual Framework* or requirements in other IPSAS.

BC36. The PSPOA for revenue adopted in [draft] IPSAS [X] (ED 70) is based on the requirements in IFRS 15. The decisions the IPSASB took in modifying those requirements in [draft] IPSAS [X] (ED 70) are explained in the Basis for Conclusions to [draft] IPSAS [X] (ED 70), and are not repeated here. This Basis for Conclusions explains the decisions taken by the IPSASB in modifying the PSPOA for revenue to form the PSPOA for expenses adopted in [draft] IPSAS [X] (ED 72).

Pervasive Modifications Due to the Scope of [Draft] IPSAS [X] (ED 72)

BC37. In modifying the PSPOA to be suitable for accounting for expenses, the IPSASB identified two pervasive issues that required addressing:

(a) Expense perspective. The requirements in [draft] IPSAS [X] (ED 70) have been modified to reflect the transfer provider's perspective, that is, to reflect a requirement that the transfer provider recognizes an expense when the transfer recipient's performance obligations have been satisfied. In making these modifications, the IPSASB has sought to make it clear that the performance obligations that determine when an expense is recognized are the performance obligations imposed on the transfer recipient in the binding arrangement. The performance obligations imposed on the transfer provider (to transfer resources, usually cash, to the transfer recipient) do not determine when an expense should be recognized under the PSPOA.

(b) Third-party beneficiaries. The scope of [draft] IPSAS [X] (ED 72) is limited to transactions where the transfer provider does not receive any goods or services in return. [Draft] IPSAS [X] (ED 70) does not have this limitation, and therefore applies to transactions where the purchaser pays the supplier and receives goods or services in return. The requirements in [draft] IPSAS [X] (ED 70) have been modified to ensure that in all cases they refer to third-party beneficiaries as the only recipients under the PSPOA.

Other Modifications to the Recognition and Measurement Requirements

BC38. The criteria that must be met for a binding arrangement with a purchaser to be within the scope of [draft] IPSAS [X] (ED 70) have been modified in [draft] IPSAS [X] (ED 72) to provide the criteria for when a transaction should be accounted for as a transfer expense with performance obligations. One of the modifications made by the IPSASB was to require that, in order to use the PSPOA in accounting for transfer expenses, the transfer provider must monitor the satisfaction of the transfer recipient's performance obligations throughout the duration of the binding arrangement. Without such monitoring, the transfer provider would not have reliable information about when to recognize a transfer expense. The IPSASB had concerns that a lack of monitoring by the transfer provider could lead to inappropriate delays in the recognition of an expense. The IPSASB therefore agreed that, where the transfer provider did not monitor the satisfaction of the transfer recipient's performance obligations, the transfer provider should account for the transaction as a transfer expense without performance obligations. A transfer expense without performance obligations is recognized at the earlier of the transfer provider transferring the resources, or having a present obligation to do so. The IPSASB considered that this would avoid inappropriate delays in the recognition of an expense.

BC39. Some requirements in [draft] IPSAS [X] (ED 70) are not relevant to the transfer provider, for example the guidance on assessing the probability of collecting the promised consideration, and the guidance on agreements to repurchase transferred assets. Such requirements are omitted from [draft] IPSAS [X] (ED 72). In omitting this guidance, the IPSASB agreed to retain guidance that it considered might be relevant to transfer providers in a limited number of circumstances. An example of the guidance the IPSASB agreed to retain is the guidance on bill-and-hold arrangements, which the IPSASB considered might apply where the transfer recipient was producing vaccines or textbooks, and delivering these to the third-party beneficiaries on demand.

BC40. [Draft] IPSAS [X] (ED 70) includes both input methods and output methods in the guidance on measuring the satisfaction of performance obligations. [Draft] IPSAS [X] (ED 72) emphasizes output methods (from the transfer recipient's perspective). The IPSASB took the view that the transfer provider is unlikely to have the information required to use an input method. However, the IPSASB also agreed not to prohibit input methods, but to direct preparers to the guidance in [draft] IPSAS [X] (ED 70) on the rare occasions when the transfer provider has sufficient information about a transfer recipient's inputs to make the use of an input method appropriate. The IPSASB decided to adopt the same approach to other guidance in [draft] IPSAS [X] (ED 70) where it considered it unlikely that the transfer provider would have sufficient information to be able to apply the guidance, for example the estimated cost approach for determining the stand-alone purchase price. The option (to apply the additional guidance in [draft] IPSAS [X] (ED 70) on the rare occasions when the transfer provider has sufficient information to do so) is explained in paragraph AG24 of [draft] IPSAS [X] (ED 72).

BC41. In accounting for performance obligations that are satisfied over time, [draft] IPSAS [X] (ED 70) includes guidance on when a transfer recipient's right to payment for work completed to date is sufficient to cover costs plus a reasonable margin. The IPSASB concluded that this guidance is relevant to the transfer recipient, as revenue is only recognized when the right to payment exceeds the transfer recipient's costs. However, for the transfer provider, the only relevant consideration is whether it has a present obligation to pay for the transfer recipient's work completed to date. The IPSASB therefore agreed not to include any guidance on determining whether the right to payment is sufficient to cover costs plus a reasonable margin.

BC42. [Draft] IPSAS [X] (ED 70) measures non-cash consideration at fair value, which is consistent with the measurement approach for non-cash consideration used in other IPSAS. In [draft] IPSAS [X] (ED 72), non-cash consideration is measured at the carrying amount of the asset derecognized. This is consistent with the derecognition provisions in other IPSAS. While this difference may result in the transfer provider and the transfer recipient measuring a transaction at different amounts, the IPSASB considered that the measurement approaches adopted in the two [draft] Standards are consistent with the *Conceptual Framework*.

BC43. [Draft] IPSAS [X] (ED 70) includes guidance on purchaser acceptance. The IPSASB agreed to refer instead to the third-party beneficiary's acceptance, and to redraft the guidance to be relevant to the context of [draft] IPSAS [X] (ED 72).

Complexity of Requirements

BC44. The IPSASB reviewed the requirements for the PSPOA and considered whether these were more complex than was required for accounting for transfer expenses. The IPSASB accepted that in many cases, a binding arrangement for a transfer expense would contain only a single performance obligation and that many of the requirements would therefore not be needed. However, the IPSASB noted that there would be some transactions, for example where a national government provided funding to a provincial government with multiple performance obligations, possibly over multiple accounting periods, where the more detailed requirements would be needed.

BC45. Consequently, the IPSASB concluded that the level of complexity was appropriate for the transactions that might be encountered by some public sector entities. In coming to this conclusion, the IPSASB noted that where a transaction contained a single performance obligation, the application of the requirements would be straightforward.

Transfer Expenses without Performance Obligations (paragraphs 90–120)

BC46. [Draft] IPSAS [X] (ED 71) specifies the requirements for accounting for revenue without performance obligations. The IPSASB considered whether, and to what extent, it would be appropriate to base the requirements for accounting for transfer expenses without performance obligations on the guidance in [draft] IPSAS [X] (ED 71).

BC47. [Draft] IPSAS [X] (ED 71) includes two approaches to recognizing revenue without performance obligations:

(a) A binding arrangement may impose present obligations. In such cases, the transfer recipient recognizes revenue as it complies with the terms of the binding arrangement.

(b) The transfer recipient receives resources without the existence of a binding arrangement. In such cases, the transfer recipient recognizes revenue as it gains control of the resources.

BC48. The IPSASB considered whether, and to what extent, it would be appropriate to base the requirements for accounting for transfer expenses without performance obligations on each of these approaches in turn.

Present Obligations

BC49. The revenue recognition requirements where a binding arrangement imposes present obligations on the transfer recipient are similar to those for revenue with performance obligations. Revenue is only recognized as the transfer recipient complies with its obligations.

BC50. The IPSASB therefore considered these requirements in the light of its conclusions in respect of transfer expenses with performance obligations (see paragraphs BC16–BC34). The IPSASB noted that, under the PSPOA, a transfer provider recognized an expense as the transfer recipient complied with its obligations because, until that point, it had an asset for the right to require the transfer recipient to transfer goods or services to a third-party beneficiary.

BC51. The IPSASB considered whether a similar asset would arise where the binding arrangement imposes a present obligation other than a performance obligation, on the transfer recipient.

BC52. The IPSASB noted that a present obligation other than a performance obligation does not involve the transfer of goods or services to another party. Consequently, the IPSASB doubted whether it would be possible in all circumstances to identify a resource.

BC53. Furthermore, the IPSAS considered that even if it were possible to identify a resource (for example, where a binding arrangement requires a transfer recipient to construct an asset), that resource will never be controlled by the transfer provider. The IPSASB concluded that the definition of an asset is not met, and that no asset should be recognized on the statement of financial position.

BC54. The IPSASB then considered whether the transfer provider's right to have the resources returned if the transfer recipient did not comply with its obligations in the binding arrangement, or had not spent the funds by the agreed date, would constitute an asset for the transfer provider. The IPSASB concluded that, at the point that the resources are transferred, the transfer provider does not have a right of return. The right of return is contingent on the transfer recipient's future non-compliance with the binding arrangement (or future failure to fully utilize the funds), and therefore does not constitute a resource that is presently controlled by the transfer provider. Consequently, the IPSASB concluded that the right to have the resources returned if the transfer recipient did not comply with its obligations in the binding arrangement, or has not spent the funds by the agreed date, does not give rise to an asset for the transfer provider at the point the resources are transferred.

BC55. In the absence of an asset, the recognition of a liability (or the derecognition of another asset) would normally result in the recognition of an expense. However, the *Conceptual Framework* allows the IPSASB to require the recognition of other resources where this is necessary to achieve the objectives of financial reporting. The recognition of other resources could result in an expense being recognized as the transfer recipient complies with its obligations, mirroring the treatment in [draft] IPSAS [X] (ED 71).

BC56. The IPSASB considered whether the recognition of other resources would be necessary to achieve the objectives of financial reporting. The IPSASB concluded that the recognition of an expense best reflected the substance of the transaction for the transfer provider, and that recognizing other resources would therefore not achieve the objectives of financial reporting.

BC57. Consequently, the IPSASB agreed that, where a binding arrangement imposes present obligations other than performance obligations on the transfer recipient, a transfer provider should not recognize an expense as the transfer recipient complies with its obligations. Rather, the IPSASB agreed that the transfer provider should recognize an expense when it has a present obligation to transfer resources (or, if earlier, when it loses control of those resources).

BC58. The IPSASB agreed that, where a binding arrangement imposes present obligations other than performance obligations, it would not be appropriate to base the requirements in [draft] IPSAS [X] (ED 72) on the equivalent requirements for revenue in [draft] IPSAS [X] (ED 71).

Resources Transferred without the Existence of a Binding Arrangement

BC59. In the absence of a binding arrangement, the transfer recipient would recognize revenue when it gained control of the resources, as, in the absence of a binding arrangement, it would have no associated liability.

BC60. The IPSASB considered the application of this principle to the transfer provider, and agreed that, in the absence of a binding arrangement, the transfer provider would not have an asset once control of the resources had been lost. Consequently, the IPSASB agreed that for transfer expenses which did not involve a binding arrangement, it would be appropriate for the requirements in [draft] IPSAS [X] (ED 72) to mirror the equivalent requirements for revenue in [draft] IPSAS [X] (ED 71).

Recognition Principle

BC61. Having concluded that it was not appropriate to mirror the revenue recognition requirements in [draft] IPSAS [X] (ED 71) in all cases, the IPSASB considered the recognition principle that should apply to transfer expenses without performance obligations. The IPSASB noted that, in accordance with the *Conceptual Framework*, an expense would be recognized either when a transfer provider recognized a liability without recognizing a corresponding asset, or when it derecognized an asset. The IPSASB concluded that this reflected the substance of transfer expenses without performance obligations, and agreed the following recognition principle:

A transfer provider shall recognize a transfer expense without performance obligations at the earlier of the following dates:

(a) *When the transfer provider has a present obligation to transfer resources to a transfer recipient. In such cases, the transfer provider shall recognize a liability representing its obligation to transfer the resources; and*

(b) *When the transfer provider 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 transfer provider derecognizes the resources it ceases to control in accordance with other Standards.*

Specific Recognition Issues

BC62. [Draft] IPSAS [X] (ED 71) contains guidance on accounting for revenue from debt forgiveness. The IPSASB reviewed this guidance and concluded that similar guidance should be included in [draft] IPSAS [X] (ED 72), covering the recognition of an expense (by the transfer provider) when debt owed by a transfer recipient to a transfer provider is forgiven. The IPSASB noted that the derecognition of the debt should be in accordance with IPSAS 41.

BC63. The IPSASB noted that some binding arrangements may require a transfer provider to make a series of transfers, for example one transfer per year over a three-year period. The IPSASB considered when a present obligation to make each transfer would arise, and concluded that this would be dependent on the nature of the binding arrangement. The IPSASB concluded that a transfer provider should apply the recognition principle to each transfer of resources to determine whether an expense is to be recognized.

BC64. The IPSASB noted that in some jurisdictions, a binding arrangement for a transfer expense without performance obligations might be made subject to the authorization of the related appropriation. The IPSASB considered whether such a limitation should affect the recognition of an expense. 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 transfer provider should not recognize an expense prior to the appropriation being authorized. The IPSASB also agreed to include guidance on determining whether the limitation that future transfers were subject to the appropriation being authorized has substance.

BC65. [Draft] IPSAS [X] (ED 71) contains guidance on accounting for revenue from taxation. The IPSASB noted that taxes are excluded from the definition of transfers in [draft] IPSAS [X] (ED 71) and the definition of transfer expenses in [draft] IPSAS [X] (ED 72). Consequently, the IPSASB agreed not to include guidance on taxes paid and payable in [draft] IPSAS [X] (ED 72).

Measurement

BC66. In a transfer expense, the transfer provider gives up resources. The IPSASB agreed that the expense (and any liability to be recognized) should be measured at the carrying amount of the resources given up, as this is consistent with the derecognition requirements in other IPSAS. The IPSASB agreed that this amount should be adjusted for estimates of variable cost and for the time value of money where appropriate.

BC67. In developing the guidance on subsequent measurement, the IPSASB agreed to extend the application of this guidance to payables arising out of the operation of legislation or regulation that do not meet the definition of a transfer expense. Most payables arising out of the operation of legislation or regulation will be within the scope of [draft] IPSAS [X] (ED 72). However, the IPSASB considered it important to ensure that appropriate guidance on subsequent measurement was available for all such payables. Because payables arising out of the operation of legislation or regulation do not arise from binding arrangements, they are outside the scope of IPSAS 41, and subsequent measurement of such payables is not addressed in other Standards; for example, IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, only addresses the subsequent measurement of provisions, not payables.

Presentation and Disclosure (paragraphs 121–153)

BC68. The IPSASB developed the presentation and disclosure requirements in [draft] IPSAS [X] (ED 72) by reviewing the equivalent requirements in [draft] IPSAS [X] (ED 70) and [draft] IPSAS [X] (ED 71).

BC69. In carrying out this review, the IPSASB sought to ensure that the presentation and disclosure requirements would provide useful information for users of the financial statements, while avoiding information overload or excessive costs for preparers. A key factor in the review was the context of [draft] IPSAS [X] (ED 72); the IPSASB considered that not all the information that was needed to assess the performance of a transfer recipient was necessary in assessing the performance of a transfer provider. For this reason, the IPSASB agreed not to include disclosure requirements for the disaggregation of expenses and the detailed information on binding arrangement balances.

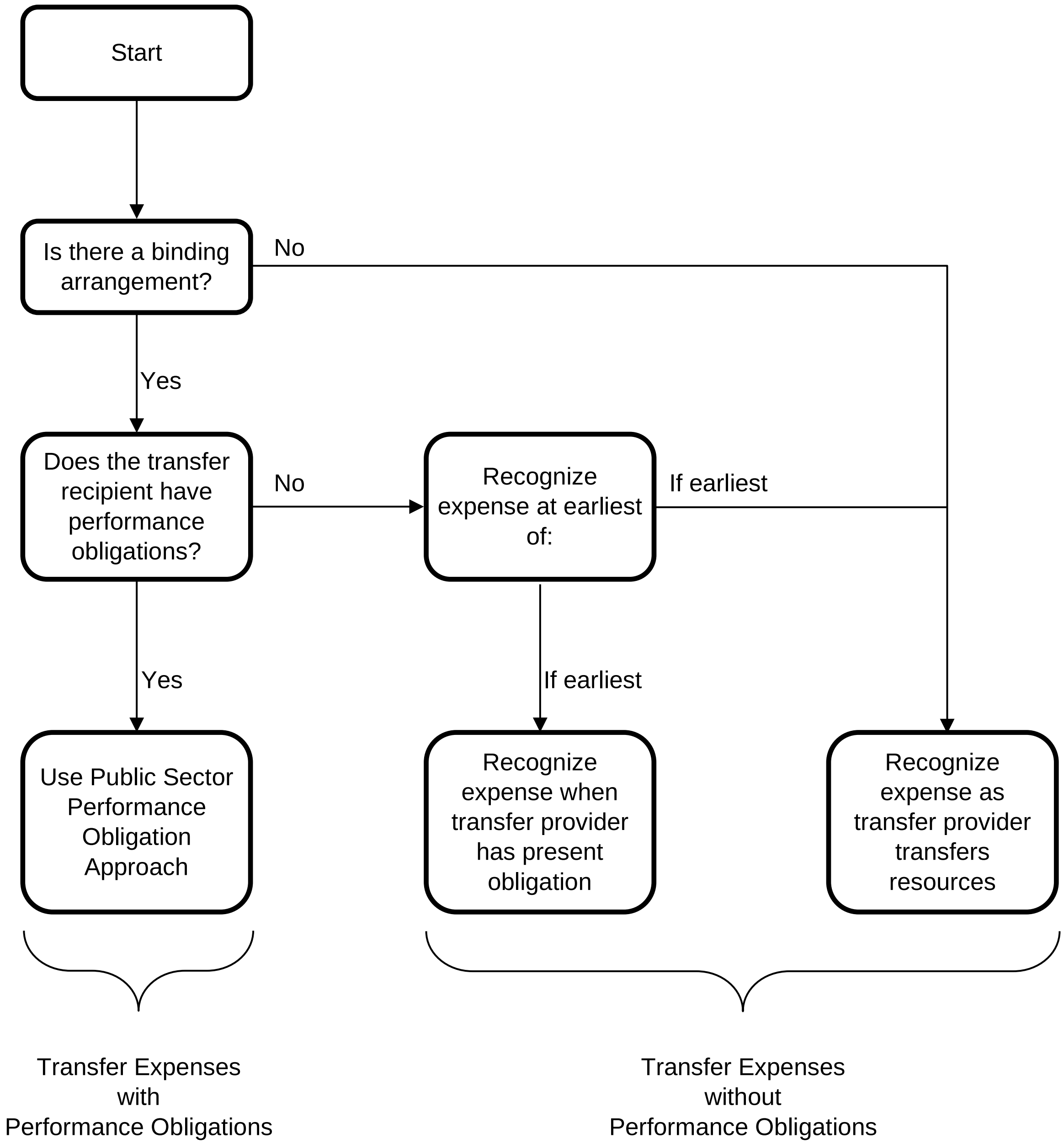
BC70. The IPSASB also considered whether it would be appropriate to require a transfer provider to disclose how the transfer of goods and services to third-party beneficiaries enables the transfer provider to meet its service objectives. The IPSASB concluded that such information was more suitable for reporting service performance information (see RPG 3, *Reporting Service Performance Information*).

Implementation Guidance

This guidance accompanies, but is not part of, [draft] IPSAS [X] (ED 72)

Accounting for Transfer Expenses

IG1. The following diagram summarizes the arrangements for accounting for transfer expenses.



IG2. [Draft] IPSAS [X] (ED 72) complements [Draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*, and [Draft] IPSAS [X] (ED 72), *Revenue without Performance Obligations*. The following table illustrates which transactions are within the recognition requirements of each [draft] Standard.

Description	**Revenue with Performance Obligation [Draft] IPSAS [X] (ED 70)**	**Revenue without Performance Obligations [Draft] IPSAS [X] (ED 71)**			**Transfer Expenses [Draft] IPSAS [X] (ED 72)**			**Outside the scope of Transfer Expenses [Draft] IPSAS [X] (ED 72)**
		With Present Obligations	**Without Binding Arrangements**	**Taxes**	**With Performance Obligations**	**With Binding Arrangements (No Performance Obligations)**	**Without Binding Arrangements**	
Entity A purchases goods or services from Entity B for Entity A’s own use	✓							✓
Entity A purchases goods or services from Entity B for third-party beneficiaries	✓				✓			
Entity A transfers resources to Entity B to undertake specified activities or incur specified expenditure		✓				✓		
Entity A transfers resources to Entity B with no specified requirements			✓				✓	
Entity A pays taxes to Entity B				✓				✓

Illustrative Examples

These examples accompany, but are not part of, [draft] IPSAS [X] (ED 72), Transfer Expenses*. They illustrate aspects of IPSAS [X] (ED 72) but are not intended to provide interpretive guidance.*

IE1. These examples portray hypothetical situations illustrating how an entity might apply some of the requirements in [draft] IPSAS [X] (ED 72) to particular aspects of a transfer expense on the basis of the limited facts presented. The analysis in each example is not intended to represent the only manner in which the requirements could be applied, nor are the examples intended to apply only to the specific sector illustrated. Although some aspects of the examples may be present in actual fact patterns, all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying [draft] IPSAS [X] (ED 72).

Scope

IE2. Example 1–Example 3 illustrate the requirements in paragraphs 3–7 and AG4–AG5 of [draft] IPSAS [X] (ED 72) on the determination of whether a transaction is within the scope of [draft] IPSAS [X] (ED 72). Example 3 illustrates the requirement in paragraph 7 regarding transactions with some components that are within the scope of [draft] IPSAS [X] (ED 72) and some components that are within the scope of other Standards.

Example 1 Transaction Where the Other Party Provides Goods and Services

IE3. An international organization enters into a binding arrangement to purchase a vehicle from a motor dealer for CU30,000.[4] Under the terms of the binding arrangement, the dealer will also provide maintenance services for three years after the vehicle has been delivered.

Case A—Vehicle is Provided to the International Organization

IE4. The binding arrangement requires the dealer to transfer the vehicle, and provide the subsequent maintenance services, to the international organization.

IE5. The binding arrangement does not give rise to a transfer expense, as the international organization receives the vehicle and the maintenance services in return for providing the consideration of CU30,000. Consequently, the binding arrangement is outside the scope of [draft] IPSAS [X] (ED 72). The international organization applies IPSAS 17, *Property, Plant, and Equipment*, in accounting for the purchase of the vehicle.

Case B— Vehicle is Provided to a National Government

IE6. The binding arrangement requires the dealer to transfer the vehicle, and provide the subsequent maintenance services, to a national government.

IE7. The binding arrangement gives rise to a transfer expense as the international organization transfers the consideration of CU30,000 to the dealer without directly receiving any goods or services in return. Rather, the vehicle and maintenance services are transferred to the national government (the third-party beneficiary). The international government (the transfer provider) applies [draft] IPSAS [X] (ED 72) in accounting for the binding arrangement. Because the binding

[4] In these examples monetary amounts are denominated in ‘currency units’ (CU)

arrangement requires the dealer to transfer goods and services to a third-party beneficiary, the international organization accounts for the binding arrangement as a transfer expense with performance obligations (see paragraphs 10–89).

Example 2 Research Grants

IE8. A national government enters into a binding arrangement with a research university whereby the national government will provide the research university with a grant of CU25 million to undertake research into the effects of restrictive diets on general health.

Case A—National Government Controls Research

IE9. The binding arrangement includes a requirement that the research university will transfer the results of the research to the national government, which will own the intellectual property in the research, and any patents arising out of the research.

IE10. The binding arrangement does not give rise to a transfer expense, as the national government receives the intellectual property in the research in return for providing the research grant. Consequently, the binding arrangement is outside the scope of [draft] IPSAS [X] (ED 72). The national government applies IPSAS 31, *Intangible Assets*, in accounting for the binding arrangement.

Case B—Research University Controls Research

IE11. The binding arrangement does not require the research university to transfer the results of the research to the national government. Rather, the research university will retain control of the intellectual property in the research, and any patents arising out of the research.

IE12. The binding arrangement gives rise to a transfer expense as the national government transfers the research grant to the research university without directly receiving any goods or services in return. The national government (the transfer provider) applies [draft] IPSAS [X] (ED 72) in accounting for the binding arrangement. Because the binding arrangement does not require the research university to transfer any goods or services to a third-party beneficiary, the national government accounts for the binding arrangement as a transfer expense without performance obligations (see paragraphs 90–120).

Example 3 Transaction with Components Within the Scope of Other IPSAS

IE13. A local government enters into a binding arrangement to purchase two vehicles from a motor dealer for CU40,000. One vehicle is to be transferred to the local government; the other vehicle is to be transferred to a not-for-profit organization.

IE14. The transfer of the vehicle to the not-for-profit organization is a transfer expense, as the local government transfers part of the consideration to the dealer without directly receiving any goods or services in return. The transfer of the vehicle to the local government is not a transfer expense, as the local government receives the vehicle in return for part of the consideration. The local government applies IPSAS 17 in accounting for the purchase of the vehicle it receives.

IE15. Paragraph 7(a) of [draft] IPSAS [X] (ED 72) requires an entity to first apply the separation and/or measurement requirements in other Standards if those other Standards specify how to separate and/or initially measure one or more parts of the binding arrangement. IPSAS 17 does not specify how to separate and/or initially measure one or more parts of the binding arrangement. Consequently, the local government applies the requirements in [draft] IPSAS [X] (ED 72) to separate and/or initially measure the two parts of the binding arrangement, in accordance with paragraph 7(b) of [draft] IPSAS [X] (ED 72).

Assessing Whether a Transfer Expense Includes a Performance Obligation

IE16. Paragraph 10 of [draft] IPSAS [X] (ED 72) requires a transfer provider to account for transfer expenses with performance obligations using the public sector performance obligation approach. Example 4 provides guidance on determining whether a transfer expense includes a performance obligation.

Example 4 Government Funding of Employment Program

Case A—No Performance Obligations, Specified Time Period, or Reporting to the Government

IE17. A regional government (the transfer provider) provides funding of CU5 million to a social development entity (the transfer recipient) to fund the social development entity's employment programs. The funding agreement contains a general requirement for the social development entity to spend the entire CU5 million on programs with the goal of improving the unemployment rate in the region. However, the agreement does not specify the time period in which the funds are to be spent, any requirement to fund specific employment programs, nor how the regional government will receive or verify information on how the funds were spent.

IE18. The regional government concludes that the funding agreement is not a binding arrangement, as it does not impose obligations on the transfer recipient; the funding arrangement does not require the social development entity to transfer specific goods or services to third-party beneficiaries. Consequently, the regional government accounts for the funding arrangement as a transfer expense without performance obligations (see paragraphs 90–120).

Case B—Specified Time Period to Spend Funds

IE19. The same facts as in Case A apply to Case B, except that the agreement now specifies that the social development entity is required to spend the funds within a five-year period. In this scenario, the requirement to spend the CU5 million within five years does not result in performance obligations, as the agreement still does not require the transfer of distinct goods or services to third-party beneficiaries—i.e., the social development entity has complete discretion over how and when within the five-year period to spend the funds. Consequently, the regional government accounts for the funding arrangement as a transfer expense without performance obligations (see paragraphs 90–120).

Case C—Specified Time Period to Spend Funds and Specific Reporting to the Government is Required

IE20. The same facts as in Case B apply to Case C, except that the agreement now also specifies how the social development entity is to report its spending to the regional government. For this agreement, although the social development entity now must spend the CU5 million within five years and report the details of its spending to the regional government, the agreement still does not have performance obligations to be enforced, as the social development entity is not required to transfer any distinct goods or services to third-party beneficiaries under the general requirement to spend the funds on employment programs. In other words, the social development entity continues to have full discretion over how to use the funds, so long as the funds are spent on activities that could reasonably relate to improving the unemployment rate in the region.

Consequently, the regional government accounts for the funding arrangement as a transfer expense without performance obligations (see paragraphs 90–120).

Case D—Arrangement Includes a Requirement to Deliver Training Courses

IE21. The same facts as in Case C apply to Case D, except that the agreement now requires the social development entity to provide specified training courses to those individuals who have been unemployed for more than 12 months. The regional government monitors and enforces the provision of the training courses. The social development entity continues to have full discretion over how to use the remaining funds. The requirement to provide specified training courses to those individuals who have been unemployed for more than 12 months means that the arrangement now confers enforceable rights and obligations on both parties, and this requirement is, therefore, a performance obligation. The social development entity is required to transfer services to third-party beneficiaries, and this requirement is enforceable by the regional government. The remainder of the agreement does not include performance obligations, as discussed in Case C. Consequently, the regional government accounts for the performance obligation to provide training courses as a transfer expense with performance obligations (see paragraphs 10–89), and accounts for the remainder of the funding arrangement as a transfer expense without performance obligations (see paragraphs 90–120).

Transfer Expenses with Performance Obligations (Public Sector Performance Obligation Approach)

IE22. Example 5–Example 29 illustrate different aspects of the requirements in respect of the public sector performance obligation approach.

Modifications of a Binding Arrangement (Step 1)

IE23. Example 5–Example 9 illustrate the requirements in paragraphs 20–23 of [draft] IPSAS [X] (ED 72) on binding arrangement modifications. In addition, the following requirements are illustrated in these examples:

(a) Paragraphs 24–32 of [draft] IPSAS [X] (ED 72) on identifying transfer recipient's performance obligations (Example 7 and Example 8);

(b) Paragraphs 56–58 of [draft] IPSAS [X] (ED 72) on constraining estimates of variable consideration (Example 6, Example 8 and Example 9);

(c) Paragraphs 86–89 of [draft] IPSAS [X] (ED 72) on changes in the transaction consideration (Example 6).

Example 5 Modification of a Binding Arrangement for Goods

IE24. An intergovernmental organization (the Organization, which is the transfer provider) enters into a binding arrangement to pay CU12 million to a not-for-profit entity (the Charity, which is the transfer recipient) to provide 1.2 million textbooks (i.e., CU10 per product) to a national government (the third-party beneficiary). The products are transferred to the government over a six-month period. The Charity transfers control of each book at a point in time. After the Charity has transferred control of 600,000 books to the government, the binding arrangement is modified to require the delivery of an additional 300,000 books (a total of 1.5 million identical books) to the government. The additional 300,000 books were not included in the initial binding arrangement.

Case A—Additional Products for a Price that Reflects the Stand-Alone Purchase Price

IE25. When the binding arrangement is modified, the price of the modification to a binding arrangement for the additional 300,000 books is an additional CU2.85 million or CU9.5 per product. The pricing for the additional books reflects the stand-alone purchase price of the books at the time of the modification to a binding arrangement and the additional books are distinct (in accordance with paragraph 29 of [draft] IPSAS [X] (ED 72)) from the original books.

IE26. In accordance with paragraph 22 of [draft] IPSAS [X] (ED 72), the modification to a binding arrangement for the additional 300,000 books is, in effect, a new and separate binding arrangement for future books that does not affect the accounting for the existing binding arrangement. The Organization recognizes an expense of CU10 per book for the 1.2 million books in the original binding arrangement and CU9.5 per book for the 300,000 books in the new binding arrangement.

Case B—Additional Products for a Price that Does not Reflect the Stand-Alone Purchase Price

IE27. During the process of negotiating the purchase of an additional 300,000 books, the parties initially agree on a price of CU8.0 per book. However, the government and the Organization discover that the initial 600,000 books provided by the Charity contained minor misprints. The Charity promises a partial credit of CU1.5 per book to compensate the Organization for the poor quality of those books. The Charity and the Organization agree to incorporate the credit of CU900,000 (CU1.5 credit × 600,000 books) into the amount that the Charity will require for the additional 300,000 books. Consequently, the modification to a binding arrangement specifies that the price of the additional 300,000 books is CU1.5 million or CU5.0 per product. That price comprises the agreed-upon price for the additional 300,000 books of CU2.4 million, or CU8.0 per book, less the credit of CU900,000.

IE28. At the time of modification, the Organization recognizes the CU900,000 as a reduction of the transaction consideration and, therefore, as a reduction of the expense for the initial 600,000 books transferred. In accounting for the transfer of the additional 300,000 books, the Organization determines that the negotiated price of CU8.0 per product does not reflect the stand-alone purchase price of the additional books. Consequently, the modification to a binding arrangement does not meet the conditions in paragraph 22 of [draft] IPSAS [X] (ED 72) to be accounted for as a separate binding arrangement. Because the remaining books to be delivered are distinct from those already transferred, the Organization applies the requirements in paragraph 23(a) of [draft] IPSAS [X] (ED 72) and accounts for the modification as a termination of the original binding arrangement and the creation of a new binding arrangement.

IE29. Consequently, the amount recognized as an expense for each of the remaining books is a blended price of CU9.33 {[(CU10 × 600,000 books not yet transferred under the original binding arrangement) + (CU8.0 × 300,000 books to be transferred under the modification to a binding arrangement)] ÷ 900,000 remaining books}.

Example 6 Change in the Transaction Consideration after a Modification of a Binding Arrangement

IE30. On July 1, 20X0, the Department of Defense (the Department, the transfer provider) enters into a binding arrangement with a supplier (the transfer recipient) to transfer two distinct used military products, light-armored vehicles and spare parts, to a state government (the third-party beneficiary). The light-armored vehicles transfer to the state government at the inception of the binding arrangement and spare parts transfer on March 31, 20X1. The consideration promised by the Department includes fixed consideration of CU1.0 million and variable consideration that is estimated to be CU200,000. The Department includes its estimate of variable consideration in the transaction consideration because it concludes that it is probable that a significant reversal in the cumulative expenses recognized will not occur when the uncertainty is resolved.

IE31. The transaction consideration of CU1.2 million is allocated equally to the transfer recipient's performance obligation for the light-armored vehicles and the transfer recipient's performance obligation for spare parts. This is because both products have the same stand-alone purchase prices and the variable consideration does not meet the criteria in paragraph 84 of [draft] IPSAS [X] (ED 72) that require allocation of the variable consideration to one but not both of the transfer recipient's performance obligations.

IE32. When the light-armored vehicles transfer to the state government at the inception of the binding arrangement, the Department recognizes an expense of CU600,000.

IE33. On November 30, 20X0, the scope of the binding arrangement is modified to include the promise to transfer ammunition (in addition to the undelivered spare parts) to the state government on June 30, 20X1 and the price of the binding arrangement is increased by CU300,000 (fixed consideration), which does not represent the stand-alone purchase price of the ammunition. The stand-alone purchase price of the ammunition is the same as the stand-alone purchase prices of the light-armored vehicle and spare parts.

IE34. The Department accounts for the modification as if it were the termination of the existing binding arrangement and the creation of a new binding arrangement. This is because the remaining spare parts and ammunition are distinct from the light-armored vehicle, which the supplier had transferred to the state government before the modification, and the promised consideration for the ammunition does not represent its stand-alone purchase price. Consequently, in accordance with paragraph 23(a) of [draft] IPSAS [X] (ED 72), the consideration to be allocated to the remaining transfer recipient's performance obligations comprises the consideration that had been allocated to the transfer recipient's performance obligation for spare parts (which is measured at an allocated transaction consideration amount of CU600,000) and the consideration promised in the modification (fixed consideration of CU300,000). The transaction consideration for the modified binding arrangement is CU900,000 and that amount is allocated equally to the transfer recipient's performance obligation for spare parts and the transfer recipient's performance obligation for ammunition (i.e., CU450,000 is allocated to each transfer recipient's performance obligation).

IE35. After the modification but before the delivery of spare parts and ammunition, the Department revises its estimate of the amount of variable consideration which it expects to be obligated to pay to CU240,000 (rather than the previous estimate of CU200,000). The Department concludes that the change in estimate of the variable consideration can be included in the transaction consideration, because it is probable that a significant reversal in cumulative revenue recognized will not occur when the uncertainty is resolved. Even though the modification was accounted for as if it were the termination of the existing binding arrangement and the creation of a new binding arrangement in accordance with paragraph 23(a) of [draft] IPSAS [X] (ED 72), the increase in the transaction consideration of CU40,000 is attributable to variable consideration promised before the modification. Therefore, in accordance with paragraph 89 of [draft] IPSAS [X] (ED 72), the change in the transaction consideration is allocated to the transfer recipient's performance obligations for the light-armored vehicle and spare parts on the same basis as at the inception of the binding arrangement. Consequently, the Department recognizes an expense of CU20,000 for the light-armored vehicle in the period in which the change in the transaction consideration occurs. Because the spare parts had not transferred to the purchaser before the modification to a binding arrangement, the change in the transaction consideration that is attributable to spare parts is allocated to the remaining transfer recipient's performance obligations at the time of the modification to a binding arrangement. This is consistent with the accounting that would have been required by paragraph 23(a) of [draft] IPSAS [X] (ED 72) if that amount of variable consideration had been estimated and included in the transaction consideration at the time of the modification of a binding arrangement.

IE36. The Department then also allocates the CU20,000 increase in the transaction consideration for the modified binding arrangement equally to the transfer recipient's performance obligations for spare parts and ammunition. This is because the products have the same stand-alone purchase prices and the variable consideration does not meet the criteria in paragraph 84 that require allocation of the variable consideration to one but not both of the transfer recipient's performance obligations. Consequently, the amount of the transaction consideration allocated to the transfer recipient's performance obligations for spare parts and ammunition increases by CU10,000 to CU460,000 each.

IE37. On March 31, 20X1, the spare parts are transferred by the supplier to the state government and the Department recognizes an expense of CU460,000. On June 30, 20X1, the ammunition is transferred by the supplier to the state government and the Department recognizes an expense of CU460,000.

Example 7 Modification of a Binding Arrangement for Services

IE38. The Department of Education (the Department, the transfer provider) enters into a three-year binding arrangement with a government shared facilities management services agency (the Agency, the transfer recipient) for the Agency to provide regular maintenance services to schools (the third-party beneficiaries) on a weekly basis. The Department promises to pay CU10 million per year. The stand-alone purchase price of the maintenance services at the inception of the binding arrangement is also CU10 million per year. The Department recognizes expenses of CU10 million per year during the first two years of the Agency providing services. At the end of the second year, the binding arrangement is modified and the fee for the third year is reduced, due to budget cuts at the Department, to CU8 million. In addition, the Department and the Agency agree to extend the binding arrangement for three additional years for consideration of CU20 million payable in three equal annual instalments of CU6,666,667 at the beginning of years 4, 5 and 6. After the modification, the binding arrangement has four years remaining in exchange for total consideration of CU28 million. The stand-alone purchase price of the services at the beginning of the third year is CU8 million per year. The Department's stand-alone purchase price at the beginning of the third year, multiplied by the remaining number of years to provide services, is deemed to be an appropriate estimate of the stand-alone purchase price of the multi-year binding arrangement (i.e., the stand-alone purchase price is 4 years × CU8 million per year = CU32 million).

IE39. At the inception of the binding arrangement, the Department assesses that each week of maintenance service is distinct in accordance with paragraph 29 of [draft] IPSAS [X] (ED 72). Notwithstanding that each week of maintenance service is distinct, the Department accounts for the binding arrangement for maintenance services as a single performance obligation in accordance with paragraph 24(b) of [draft] IPSAS [X] (ED 72). This is because the weekly maintenance services are a series of distinct services that are substantially the same and have the same pattern of transfer to the schools (the services are performed for the schools over time and use the same method to measure progress—that is, a time-based measure of progress).

IE40. At the date of the modification, the Department assesses the remaining services to be provided to the schools and concludes that they are distinct. However, the amount of remaining consideration to be paid (CU28 million) does not reflect the stand-alone purchase price of the services to be provided (CU32 million).

IE41. Consequently, the Department accounts for the modification in accordance with paragraph 23(a) of [draft] IPSAS [X] (ED 72) as a termination of the original binding arrangement and the creation of a new binding arrangement with consideration of CU28 million for four years of maintenance service. The Department recognizes expenses of CU7 million per year (CU28 million ÷ 4 years) as the maintenance services are provided over the remaining four years.

Example 8 Modification Resulting in a Cumulative Catch-up Adjustment to Expenses

IE42. The Department of Housing (Housing, the transfer provider) enters into a binding arrangement with the Department of Public Works (Public Works, the transfer recipient) for Public Works to construct a residential building for a Housing Association (the Association, the third-party beneficiary) on land owned by the Association for promised consideration of CU1 million and a bonus of CU200,000 if the building is completed within 24 months. Housing accounts for the promised bundle of goods and services as a single performance obligation satisfied over time in accordance with paragraph 36(b) of [draft] IPSAS [X] (ED 72) because the Association controls the building during construction.

IE43. At the inception of the binding arrangement, Housing excludes the CU200,000 bonus from the transaction consideration because it cannot conclude that it is probable that a significant reversal in the amount of cumulative expenses recognized will not occur. Completion of the building is highly susceptible to factors outside the Public Works' influence, including weather and regulatory approvals. In addition, Public Works has limited experience with similar types of binding arrangements.

IE44. Housing determines that an output measure, the stage of completion assessed by a qualified quantity surveyor, provides an appropriate measure of progress towards complete satisfaction of the transfer recipient's performance obligation. By the end of the first year, Housing assesses that Public Works has satisfied 60 per cent of its performance obligation on the basis of the quantity surveyor's report. Housing reassesses the variable consideration and concludes that the amount is still constrained in accordance with paragraphs 56–58 of [draft] IPSAS [X] (ED 72). Consequently, the expenses recognized for the first year are CU600,000 (fixed consideration of CU1 million x 60%).

IE45. In the first quarter of the second year, the parties to the binding arrangement agree to modify the binding arrangement by changing the floor plan of the building. As a result, the fixed consideration increases by CU150,000. Total potential consideration after the modification is CU1,350,000 (CU1,150,000 fixed consideration + CU200,000 completion bonus). In addition, the allowable time for achieving the CU200,000 bonus is extended by 6 months to 30 months from the original date of inception of the binding arrangement. At the date of the modification, on the basis of its experience and the remaining work to be performed, which is primarily inside the building and not subject to weather conditions, Housing concludes that it is probable that including the bonus in the transaction price will not result in a significant reversal in the amount of cumulative revenue recognized in accordance with paragraph 56 of [draft] IPSAS [X] (ED 72) and includes the

CU200,000 in the transaction consideration. In assessing the modification to a binding arrangement, Housing evaluates paragraph 29(b) of [draft] IPSAS [X] (ED 72) and concludes (on the basis of the factors in paragraph 31 of [draft] IPSAS [X] (ED 72)) that the remaining goods and services to be provided using the modified binding arrangement are not distinct from the goods and services transferred on or before the date of modification to a binding arrangement; that is, the binding arrangement remains a single performance obligation.

IE46. Consequently, Housing accounts for the modification to a binding arrangement as if it were part of the original binding arrangement (in accordance with paragraph 23(b) of [draft] IPSAS [X] (ED 72)). Housing updates its measure of progress and estimates that Public Works has satisfied 52.9 per cent of its modified performance obligation, based on an updated quantity surveyor's report. Housing recognizes additional expenses of CU114,150 [(52.9 per cent complete × CU1,350,000 modified transaction consideration) – CU600,000 expenses recognized to date] at the date of the modification as a cumulative catch-up adjustment in the statement of financial performance.

Example 9 Unapproved Change in Scope and Price

IE47. The Department of Housing (Housing, the transfer provider) enters into a binding arrangement with the Department of Public Works (Public Works, the transfer recipient) for Public Works to construct an office building for a Not-for-Profit Organization (the Organization, the third-party beneficiary) on land owned by the Organization. The binding arrangement states that Public Works will complete the building within one year of inception of the binding arrangement. However, Public Works was not able to complete the building until 15 months after inception of the binding arrangement because of storm damage to the building that occurred part way through the construction. The binding arrangement specifically identifies any delay (including force majeure) in Public Works' delivery of the building to the Organization as an event that entitles Housing to compensation that is equal to actual costs incurred in providing alternative office accommodation to the Organization as a direct result of the delay. Housing is able to demonstrate that the specific direct costs were incurred as a result of the delay in accordance with the terms of the binding arrangement and prepares a claim. Public Works initially disagrees with the claim.

IE48. Housing assesses the legal basis of the claim and determines, on the basis of the underlying terms of the binding arrangement, that it has enforceable rights. Consequently, it accounts for the claim as a modification to a binding arrangement in accordance with paragraphs 20–23 of [draft] IPSAS [X] (ED 72). The modification does not result in any additional goods or services being provided to the Organization. In addition, all of the remaining goods and services after the modification are not distinct and form part of a single performance obligation. Consequently, Housing accounts for the modification in accordance with paragraph 23(b) of [draft] IPSAS [X] (ED 72) by updating the transaction consideration and the measure of progress towards complete satisfaction of the performance obligation. Housing considers the constraint on estimates of variable consideration in paragraphs 56–58 of [draft] IPSAS [X] (ED 72) when estimating the transaction price.

Identifying Performance Obligations (Step 2)

IE49. Example 10 and Example 11 illustrate the requirements in paragraphs 24–32 of IPSAS [X] on identifying performance obligations.

Example 10 Goods and Services are not Distinct

Case A—Significant Integration Service

IE50. The Department of Health (the transfer provider) enters into a binding arrangement with the Department of Public Works (Public Works, the transfer recipient) for Public Works to build a hospital for a Provincial Government (the Province, the third-party beneficiary). Public Works is responsible for the overall management of the project and identifies various promised goods and services, including engineering, site clearance, foundation, procurement, construction of the structure, piping and wiring, installation of equipment and finishing.

IE51. The promised goods and services are capable of being distinct in accordance with paragraph 29(b) of [draft] IPSAS [X] (ED 72). That is, the Province can generate economic benefits or service potential from the goods and services either on their own or together with other readily available resources. This is evidenced by the fact that Public Works regularly provides many of these goods and services separately to other purchasers, as do comparable construction entities. In addition, the Province could generate economic benefits or service potential from the individual goods and services by using, consuming, selling or holding those goods or services.

IE52. However, the promises to transfer the goods and services are not separately identifiable in accordance with paragraph 29(b) of [draft] IPSAS [X] (ED 72) (on the basis of the factors in paragraph 31 of [draft] IPSAS [X] (ED 72)). This is evidenced by the fact that Public Works provides a significant service of integrating the goods and services (the inputs) into the hospital (the combined output) for which the Department of Health has entered into a binding arrangement.

IE53. Because both criteria in paragraph 29 of [draft] IPSAS [X] are not met, the goods and services are not distinct. The Department of Health accounts for all of the goods and services in the binding arrangement as a single performance obligation.

Case B—Significant Integration Service

IE54. An international organization (the Organization, the transfer provider) enters into a binding arrangement with the Department of Research Sciences (the Department, the transfer recipient) that will result in the Department delivering multiple units of highly complex, specialized road trains to a National Government (the Government, the third-party beneficiary). The terms of the binding arrangement require the Department to establish a manufacturing process in order to produce the road trains. The specifications are unique to the Government, based on a custom design that is owned by the Organization and that were developed under the terms of a separate binding arrangement that is not part of the current negotiated exchange. The Department is responsible for the overall management of the binding arrangement, which requires the performance and integration of various activities including procurement of materials, identifying and managing subcontractors, and performing manufacturing, assembly and testing.

IE55. The Organization assesses the promises in the binding arrangement and determines that each of the promised train carts is capable of being distinct in accordance with paragraph 29(a) of [draft] IPSAS [X] (ED 72) because the local government can generate economic benefits or service potential from each train segment on its own. This is because each train cart can function independently of the other train carts.

IE56. The Organization observes that the nature of the Department's promise is to establish and provide a service of producing the full complement of train carts for which the Organization has entered into a binding arrangement in accordance with the Organization's specifications. The Organization considers that the Department is responsible for overall management of the binding arrangement and for providing a significant service of integrating various goods and services (the inputs) into its overall service and the resulting road trains (the combined output) and, therefore, the train carts and the various promised goods and services inherent in producing those road trains are not separately identifiable in accordance with paragraph 29(b) and paragraph 31 of [draft] IPSAS [X] (ED 72). In this case, the manufacturing process provided by the Department is specific to its binding arrangement with the Organization. In addition, the nature of the Department's performance and, in particular, the significant integration service of the various activities means that a change in one of the Department's activities to produce the train carts has a significant effect on the other activities required to produce the highly complex, specialized road trains such that the Department's activities are highly interdependent and highly interrelated. Because the criterion in paragraph 29(b) of [draft] IPSAS [X] (ED 72) is not met, the goods and services that will be provided by the Department are not separately identifiable and, therefore, are not distinct. The Organization accounts for all of the goods and services promised by the Department in the binding arrangement as a single performance obligation.

Example 11 Determining whether Goods or Services are Distinct

Case A—Distinct Goods or Services

IE57. A state government office (State Government, the transfer provider) enters into a binding arrangement with a government shared IT services agency (the Agency, the transfer recipient) for the Agency to transfer software licenses, perform installation services and provide unspecified software updates and technical support (online and telephone) to public sector universities (the Universities, the third-party beneficiaries) for a two-year period. The Agency provides the licenses, installation services and technical support separately. The installation service includes changing the web screen for each type of user (for example, teaching, marketing and information technology). The installation service is routinely performed by other entities and does not significantly modify the software. The software remains functional without the updates and the technical support.

IE58. The State Government assesses the goods and services promised by the Agency to determine which goods and services are distinct in accordance with paragraph 29 of [draft] IPSAS [X] (ED 72). The State Government observes that the software is delivered before the other goods and services and remains functional without the updates and the technical support. The Universities can generate economic benefits or service potential from the updates together with the software license transferred at the start of the binding arrangement. Thus, the State Government concludes that the Universities can generate economic benefits or service potential from each of the goods and services either on their own or together with the other goods and services that are readily available and the criterion in paragraph 29(a) of [draft] IPSAS [X] (ED 72) is met.

IE59. The State Government also considers the principle and the factors in paragraph 31 of [draft] IPSAS [X] (ED 72) and determines that the Agency's promise to transfer each good and service to the Universities is separately identifiable from each of the other promises (thus the criterion in paragraph 29(b) of [draft] IPSAS [X] (ED 72) is met). In reaching this determination, the State

Government considers that, although the Agency integrates the software into the Universities' systems, the installation services do not significantly affect the Universities' ability to use and generate economic benefits or service potential from the software license because the installation services are routine and can be obtained from alternative providers. The software updates do not significantly affect the Universities' ability to use and benefit or receive service potential from the software license during the license period. The State Government further observes that none of the promised goods or services significantly modify or customize one another, nor is the Agency providing a significant service of integrating the software and the services into a combined output. Lastly, the State Government concludes that the software and the services do not significantly affect each other and, therefore, are not highly interdependent or highly interrelated, because the Agency would be able to fulfill its promise to transfer the initial software license independently from its promise to subsequently provide the installation service, software updates or technical support.

IE60. On the basis of this assessment, the State Government identifies four performance obligations of the Agency in the binding arrangement for the following goods or services:

(a) The software licenses;

(b) Installation services;

(c) Software updates; and

(d) Technical support.

IE61. The State Government applies paragraphs 33–39 of [draft] IPSAS [X] (ED 72) to determine whether each of the Agency's performance obligations for the installation services, software updates and technical support are satisfied at a point in time or over time. The State Government also assesses the nature of the Agency's promise to transfer the software license in accordance with paragraph AG75 of [draft] IPSAS [X] (ED 72) (see Example 26 in paragraphs IE147–IE148).

Case B—Significant Customization

IE62. The promised goods and services are the same as in Case A, except that the binding arrangement specifies that, as part of the installation services, the software is to be substantially customized to add significant new functionality to enable the software to interface with other customized software applications used by the Universities. The customized installation service can be provided by other entities.

IE63. The State Government assesses the goods and services promised by the Agency to determine which goods and services are distinct in accordance with paragraph 29 of [draft] IPSAS [X] (ED 72). The State Government first assesses whether the criterion in paragraph 29(a) has been met. For the same reasons as in Case A, the State Government determines that the software licenses, installations, software updates and technical support each meet that criterion. The State Government next assesses whether the criterion in paragraph 29(b) has been met by evaluating the principle and the factors in paragraph 31 of [draft] IPSAS [X] (ED 72). The State Government observes that the terms of the binding arrangement result in a promise by the Agency to provide a significant service of integrating the licensed software into the existing software systems by performing customized installation services as specified in the binding arrangement. In other words, the Agency is using the license and the customized installation services as inputs to produce the combined output (i.e., functional and integrated software systems) specified in the binding arrangement (see paragraph 31(a) of [draft] IPSAS [X] (ED 72)). The software is significantly modified and customized by the service (see paragraph 31(b) of [draft] IPSAS [X] (ED 72)). Consequently, the State Government determines that the promise to transfer the license is not separately identifiable from the customized installation service and, therefore, the criterion in paragraph 29(b) of [draft] IPSAS [X] (ED 72) is not met. Thus, the software licenses and the customized installation services are not distinct.

IE64. On the basis of the same analysis as in Case A, the State Government concludes that the software updates and technical support are distinct from the other promises in the binding arrangement.

IE65. On the basis of this assessment, the State Government identifies three performance obligations of the Agency in the binding arrangement for the following goods or services:

(a) Software customization (which comprises the licenses for the software and the customized installation services);

(b) Software updates; and

(c) Technical support.

IE66. The State Government applies paragraphs 33–39 of [draft] IPSAS [X] (ED 72) to determine whether each of the Agency's performance obligations is satisfied at a point in time or over time.

Case C—Promises are Separately Identifiable (Installation)

IE67. A state government office (State Government, the transfer provider) enters into a binding arrangement with a shared IT services agency (the Agency, the transfer recipient) for the Agency to provide a piece of equipment and installation services to a public sector university (the University, the third-party beneficiary). The equipment is operational without any customization or modification. The installation required is not complex and is capable of being performed by several alternative service providers.

IE68. The State Government identifies two promised goods and services in the binding arrangement: (a) equipment and (b) installation. The State Government assesses the criteria in paragraph 29 of [draft] IPSAS [X] (ED 72) to determine whether each promised good or service is distinct. The State Government determines that the equipment and the installation each meet the criterion in paragraph 29(a) of [draft] IPSAS [X] (ED 72). The University can generate economic benefits or service potential from the equipment on its own, by using it or reselling it, or together with other readily available resources (for example, installation services available from alternative providers). The University also can generate economic benefits or service potential from the installation services together with other resources that the University will already have obtained from the Agency (i.e., the equipment).

IE69. The State Government further determines that the Agency's promises to transfer the equipment and to provide the installation services are each separately identifiable (in accordance with paragraph 29(b) of [draft] IPSAS [X] (ED 72)). The State Government considers the principle and the factors in paragraph 31 of [draft] IPSAS [X] (ED 72) in determining that the equipment and the installation services are not inputs to a combined item in this binding arrangement. In this case, each of the factors in paragraph 31 of [draft] IPSAS [X] (ED 72) contributes to, but is not individually determinative of, the conclusion that the equipment and the installation services are separately identifiable as follows:

(a) The Agency is not providing a significant integration service. That is, the Agency has promised to deliver the equipment and then install it; the Agency would be able to fulfill its promise to transfer the equipment separately from its promise to subsequently install it. The Agency has not promised to combine the equipment and the installation services in a way that would transform them into a combined output.

(b) The Agency's installation services will not significantly customize or significantly modify the equipment.

(c) Although the University can generate economic benefits or service potential from the installation services only after it has obtained control of the equipment, the installation services do not significantly affect the equipment because the Agency would be able to fulfill its promise to transfer the equipment independently of its promise to provide the installation services. Because the equipment and the installation services do not each significantly affect the other, they are not highly interdependent or highly interrelated.

IE70. On the basis of this assessment, the State Government identifies two performance obligations of the Agency in the binding arrangement for the following goods or services:

(a) The equipment; and

(b) Installation services.

IE71. The State Government applies paragraphs 33–39 of [draft] IPSAS [X] (ED 72) to determine whether each performance obligation is satisfied at a point in time or over time.

Case D—Promises are Separately Identifiable (Restrictions to a Binding Arrangement)

IE72. Assume the same facts as in Case C, except that the State Government is required to ensure the University uses the Agency's installation services in the binding arrangement.

IE73. The binding arrangement requirement to use the Agency's installation services does not change the evaluation of whether the promised goods and services are distinct in this case. This is because the binding arrangement requirement to use the Agency's installation services does not change the characteristics of the goods or services themselves, nor does it change the Agency's promises to the State Government. Although the State Government is required to ensure the University uses the Agency's installation services, the equipment and the installation services are capable of being distinct (i.e., they each meet the criterion in paragraph 29(a) of [draft] IPSAS [X] (ED 72)) and the Agency's promises to provide the equipment and to provide the installation services are each separately identifiable, i.e., they each meet the criterion in paragraph 29(b) of [draft] IPSAS [X] (ED 72). The State Government's analysis in this regard is consistent with that in Case C.

Case E—Promises are Separately Identifiable (Consumables)

IE74. A state government office (State Government, the transfer provider) enters into a binding arrangement with a shared IT services agency (the Agency, the transfer recipient) for the Agency to provide a piece of off-the-shelf equipment (i.e., the equipment is operational without any significant customization or modification) to a public sector university (the University, the third-party beneficiary) and to provide specialized consumables to the University for use in the equipment at predetermined intervals over the next three years. The consumables are produced only by the Agency but are provided separately by the Agency.

IE75. The State Government determines that the University can generate economic benefits or service potential from the equipment together with the readily available consumables. The consumables are readily available in accordance with paragraph 30 of [draft] IPSAS [X] (ED 72), because they are regularly provided separately by the Agency (i.e., through refill orders to purchasers that previously purchased the equipment). The University can generate economic benefits or service potential from the consumables that will be delivered under the binding arrangement together with the delivered equipment that is transferred to the University initially under the binding arrangement. Therefore, the equipment and the consumables are each capable of being distinct in accordance with paragraph 29(a) of [draft] IPSAS [X] (ED 72).

IE76. The State Government determines that the Agency's promises to transfer the equipment and to provide consumables over a three-year period are each separately identifiable in accordance with paragraph 29(b) of [draft] IPSAS [X] (ED 72). In determining that the equipment and the consumables are not inputs to a combined item in this binding arrangement, the State Government considers that the Agency is not providing a significant integration service that transforms the equipment and consumables into a combined output. In addition, neither the equipment nor the consumables are significantly customized or modified by the other. Lastly, the State Government concludes that the equipment and the consumables are not highly interdependent or highly interrelated because they do not significantly affect each other. Although the University can generate economic benefits or service potential from the consumables in this binding arrangement only after it has obtained control of the equipment (i.e., the consumables would have no use without the equipment) and the consumables are required for the equipment to function, the equipment and the consumables do not each significantly affect the other. This is because the Agency would be able to fulfill each of its promises in the binding arrangement independently of the other. That is, the Agency would be able to fulfill its promise to transfer the equipment even if the State Government did not purchase any consumables for the University and would be able to fulfill its promise to provide the consumables, even if the State Government acquired the equipment for the University separately.

IE77. On the basis of this assessment, the State Government identifies two performance obligations of the Agency in the binding arrangement for the following goods or services:

(a) The equipment; and

(b) The consumables.

IE78. The State Government applies paragraphs 33–39 of [draft] IPSAS [X] (ED 72) to determine whether each performance obligation is satisfied at a point in time or over time.

Performance Obligations Satisfied Over Time (Step 5)

IE79. Example 12–Example 14 illustrate the requirements in paragraphs 36–38 and AG40–AG41 of IPSAS [X] (ED 72) on performance obligations satisfied over time. In addition, the following requirements are illustrated in these examples:

(a) Paragraphs 36(a) and AG40–AG41 of IPSAS [X] (ED 72) on when a third-party beneficiary simultaneously receives and consumes the benefits provided by the transfer recipient's performance as the transfer recipient performs (Example 12 and Example 13); and

(b) Paragraphs 36(c), 37–38 and AG43–AG49 of IPSAS [X] (ED 72) on a transfer recipient's performance that does not create an asset with an alternative use and a transfer recipient's enforceable right to payment for performance completed to date (Example 13 and Example 14).

Example 12 Third-Party Beneficiary Simultaneously Receives and Consumes the Economic Benefits or Service Potential

IE80. A local government's Department of Education (the Department, the transfer provider) enters into a binding arrangement with a public payroll service center (the Payroll Center, the transfer recipient) for the Payroll Center to provide monthly payroll processing services to the schools in the local government area (the Schools, the third-party beneficiaries) for one year.

IE81. The promised payroll processing services are accounted for as a single performance obligation in accordance with paragraph 24(b) of [draft] IPSAS [X] (ED 72). The performance obligation is satisfied over time in accordance with paragraph 36(a) of [draft] IPSAS [X] (ED 72) because the Schools simultaneously receive and consume the economic benefits or service potential of the Payroll Center's performance in processing each payroll transaction as and when each transaction is processed. The fact that another entity would not need to re-perform payroll processing services for the service that the Payroll Center has provided to date also demonstrates that the Schools simultaneously receive and consume the economic benefits or service potential of the Payroll Center's performance as the Payroll Center performs. (The Department disregards any practical limitations on transferring the remaining performance obligation, including setup activities that would need to be undertaken by another entity.) The Department recognizes expenses over time by measuring the Payroll Center's progress towards complete satisfaction of that performance obligation in accordance with paragraphs 40–46 and AG50–AG52 of [draft] IPSAS [X] (ED 72).

Example 13 Assessing Alternative Use and Right to Payment

IE82. An international organization (the Organization, the transfer provider) enters into a binding arrangement with the Office of the Auditor General (the Auditor, the transfer recipient) for the Auditor to provide financial statement audit services to a national government (the Government, the third-party-beneficiary) that result in the Auditor providing an audit opinion to the Government. The audit opinion relates to the accounting records and other facts and circumstances that are specific to the Government. If the Organization were to terminate the audit for reasons other than the Auditor's failure to perform as promised, the binding arrangement requires the Organization to compensate the Auditor for its costs incurred.

IE83. The Organization considers the criterion in paragraph 36(a) of [draft] IPSAS [X] (ED 72) and the requirements in paragraphs AG40 and AG41 of [draft] IPSAS [X] (ED 72) to determine whether the Government simultaneously receives and consumes the economic benefits or service potential of the Auditor's performance. If the Auditor were to be unable to satisfy its obligation and the Organization hired another audit firm to provide the opinion, the other audit firm would need to substantially re-perform the work that the Auditor had completed to date, because the other audit firm would not have the economic benefits or service potential of any work in progress performed by the Auditor. The nature of the audit opinion is such that the Government will generate economic benefits or service potential of the Auditor's performance only when the Government receives the audit opinion. Consequently, the Organization concludes that the criterion in paragraph 36(a) of [draft] IPSAS [X] (ED 72) is not met.

IE84. However, the Auditor's performance obligation meets the criterion in paragraph 36(c) of [draft] IPSAS [X] (ED 72) and is a performance obligation satisfied over time because of both of the following factors:

(a) In accordance with paragraphs 37 and AG43–AG45 of [draft] IPSAS [X] (ED 72), the development of the audit opinion does not create an asset with alternative use to the Auditor because the audit opinion relates to facts and circumstances that are specific to the Government. Therefore, Auditor cannot use the audit opinion for any other purpose.

(b) In accordance with paragraphs 38 and AG46–AG49 of [draft] IPSAS [X] (ED 72), the Auditor has an enforceable right to payment for its performance completed to date.

IE85. Consequently, the Organization recognizes an expense over time by measuring the Auditor's progress towards complete satisfaction of the performance obligation in accordance with paragraphs 40–46 and AG50–AG52 of [draft] IPSAS [X] (ED 72).

Example 14 Asset has no Alternative Use to the Transfer Recipient

IE86. The Department of Sciences (the Department, the transfer provider) enters into a binding arrangement with a supplier (the transfer recipient) to build a specialized piece of medical research equipment for a university (the third-party beneficiary). The supplier builds medical research equipment for various purchasers, such as government agencies and departments and commercial entities. The design and construction of each piece of medical research equipment differ substantially, on the basis of each purchaser's needs and the type of technology that is incorporated into the equipment.

IE87. At the inception of the binding arrangement, the Department assesses whether the supplier's performance obligation to build the medical research equipment is a performance obligation satisfied over time in accordance with paragraph 36 of [draft] IPSAS [X] (ED 72).

IE88. As part of that assessment, the Department considers whether the medical research equipment in its completed state will have an alternative use to the supplier. Although the binding arrangement does not preclude the supplier from directing the completed medical research equipment to another purchaser, the supplier would incur significant costs to rework the design and function of the equipment to direct that asset to another purchaser. Consequently, the asset has no alternative use to the supplier (see paragraphs 36(c), 37 and AG43–AG45 of [draft] IPSAS [X] (ED 72)) because the purchaser-specific design of the medical research equipment limits the supplier's practical ability to readily direct the equipment to another purchaser.

IE89. For the supplier's performance obligation to be satisfied over time when building the medical research equipment, paragraph 36(c)of [draft] IPSAS [X] (ED 72) also requires the supplier to have an enforceable right to payment for performance completed to date. This condition is not illustrated in this example.

Measuring Progress Towards Complete Satisfaction of a Performance Obligation

IE90. Example 15 illustrates the requirements in paragraphs 40–46 of IPSAS [X] on measuring progress towards complete satisfaction of a performance obligation satisfied over time.

Example 15 Measuring Progress when the Transfer Recipient is Making Goods or Services Available

IE91. A local government (the transfer provider) enters into a binding arrangement with a sports facility (the transfer recipient) that owns and manages a public swimming pool to allow children under 12 years of age (the third-party beneficiaries) to access to the pool free of charge. The children have unlimited use of the pool. The local government promises to pay CU15,000 per month.

IE92. The local government determines that the sports facility's promise is to provide a service of making the pool available for the children to use as and when the children wish. This is because the extent to which the children use the pool does not affect the amount of the remaining goods and services to which the children are entitled. The local government concludes that the children simultaneously receive and consume the benefits or service potential of the sports facility's performance as it performs by making the pools available. Consequently, the sports facility's performance obligation is satisfied over time in accordance with paragraph 36(a) of [draft] IPSAS [X] (ED 72).

IE93. The local government also determines that the children consume economic benefits or service potential from the sports facility making the pool available throughout the year. (That is, the children benefit from having the pools available, regardless of whether the children use it or not.) Consequently, the local government concludes that the best measure of progress towards complete satisfaction of the sports facility's performance obligation over time is a time-based measure and it recognizes expenses on a straight-line basis throughout the year at CU15,000 per month.

Variable Consideration

IE94. Example 16 and Example 17 illustrate the requirements in paragraphs 51–55 of IPSAS [X] (ED 72) on identifying variable consideration.

Example 16 Penalty Gives Rise to Variable Consideration

IE95. The Department of Public Works (Public Works, the transfer provider) enters into a binding arrangement with a highway construction company (the transfer recipient) to build a highway for a provincial government (the third-party beneficiary) for CU10 million. In addition, the terms of the binding arrangement include a penalty of CU1 million if the construction is not completed within three months of a date specified in the binding arrangement.

IE96. Public Works concludes that the consideration promised in the binding arrangement includes a fixed amount of CU10 million and a variable amount of CU1 million (arising from the penalty).

IE97. Public Works estimates the variable consideration in accordance with paragraphs 51–55 of [draft] IPSAS [X] (ED 72) and considers the requirements in paragraphs 56–58 of [draft] IPSAS [X] (ED 72) on constraining estimates of variable consideration.

Example 17 Estimating Variable Consideration

IE98. The Department of Transportation (Transportation, the transfer provider) enters into a binding arrangement with the Department of Public Works (Public Works, the transfer recipient) to build a bridge for a local government (the third-party beneficiary). The promise by Public Works to transfer the bridge is a performance obligation that is satisfied over time. The promised consideration is CU25 million, but that amount will be reduced or increased depending on the timing of completion of the bridge. Specifically, for each day after March 31, 20X7 that the bridge is incomplete, the promised consideration is reduced by CU100,000. For each day before March 31, 20X7 that the bridge is complete, the promised consideration increases by CU100,000.

IE99. In addition, upon completion of the bridge, an independent inspector will assess the bridge and assign a rating based on metrics that are defined in the binding arrangement. If the bridge receives a specified rating, Public Works will be entitled to an incentive bonus of CU1.5 million.

IE100. In determining the transaction consideration, Transportation prepares a separate estimate for each element of variable consideration to which Public Works will be entitled using the estimation methods described in paragraph 54 of [draft] IPSAS [X] (ED 72):

IE101. Transportation decides to use the expected value method to estimate the variable consideration associated with the daily penalty or incentive (i.e., CU25 million, plus or minus CU100,000 per day). This is because it is the method that Transportation expects to better predict the amount of consideration to which Public Works will be entitled.

IE102. Transportation decides to use the most likely amount to estimate the variable consideration associated with the incentive bonus. This is because there are only two possible outcomes (CU1.5 million or CU0) and it is the method that Transportation expects to better predict the amount of consideration to which Public Works will be entitled.

IE103. Transportation considers the requirements in paragraphs 56–58 of [draft] IPSAS [X] (ED 72) on constraining estimates of variable consideration to determine whether it should include some or all of its estimate of variable consideration in the transaction price.

Constraining Estimates of Variable Consideration

IE104. Example 18 illustrates the requirements in paragraphs 56–58 of IPSAS [X] (ED 72) on constraining the estimates of variable consideration.

Example 18 Volume Discount Incentive

IE105. An international organization (the Organization, the transfer provider) enters into a binding arrangement with a private hospital (the Hospital, the transfer recipient) on January 1, 20X8 to provide medical examinations for refugees (the third-party beneficiaries) for CU100 per examination. If more than 10,000 examinations are performed in a calendar year, the binding arrangement specifies that the price per unit is retrospectively reduced to CU90 per unit. Consequently, the consideration in the binding arrangement is variable.

IE106. For the first quarter ended March 31, 20X8, the Hospital performs 750 examinations. The Organization estimates that the Hospital will not exceed the 10,000-examination threshold required for the volume discount in the calendar year.

IE107. The Organization considers the requirements in paragraphs 56–58 of [draft] IPSAS [X] (ED 72) on constraining estimates of variable consideration, including the factors in paragraph 57 of [draft] IPSAS [X] (ED 72). The Organization determines that it has significant experience with the medical examination and with the usage pattern of the refugees. Thus, the Organization concludes that it is probable that a significant reversal in the cumulative amount of expenses recognized (i.e., CU100 per unit) will not occur when the uncertainty is resolved (i.e., when the total amount of examinations is known). Consequently, the Organization recognizes expenses of CU75,000 (750 units × CU100 per unit) for the quarter ended March 31, 20X8.

IE108. In May 20X8, more refugees arrive in the country and in the second quarter ended June 30, 20X8 the Hospital performs an additional 5,000 examinations. In the light of the new fact, the Organization estimates that the number of examinations will exceed the 10,000-examination threshold for the calendar year and therefore the price per unit will be retrospectively reduced to CU90.

IE109. Consequently, the Organization recognizes expenses of CU442,500 for the quarter ended June 30, 20X8. That amount is calculated from CU450,000 for the sale of 5,000 units (5,000 units × CU90 per unit) less the change in transaction price of CU7,500 (750 units × CU10 price reduction) for the reduction of revenue relating to units provided for the quarter ended March 31, 20X8 (see paragraphs 86 and 87 of [draft] IPSAS [X] (ED 72)).

The Existence of a Significant Financing Component in the Binding Arrangement

IE110. Example 19–Example 21 illustrate the requirements in paragraphs 60–65 of IPSAS [X] (ED 72) on the existence of a significant financing component in the binding arrangement.

Example 19 Withheld Payments on a Long-Term Binding Arrangement

IE111. A Department of Public Works (Public Works, the transfer provider) enters into a binding arrangement with a construction company (the Company, the transfer recipient) for the Company to construct a building for a local government (the third-party beneficiary) that includes scheduled milestone payments for the performance by the Company throughout the binding arrangement term of three years. The performance obligation will be satisfied over time and the milestone payments are scheduled to coincide with the Company's expected performance. The binding arrangement provides that a specified percentage of each milestone payment is to be withheld (i.e., retained) by Public Works throughout the arrangement and paid to the Company only when the building is complete.

IE112. Public Works concludes that the binding arrangement does not include a significant financing component. The milestone payments coincide with the Company's performance and the binding arrangement requires amounts to be retained for reasons other than the provision of finance in accordance with paragraph 62(c) of [draft] IPSAS [X] (ED 72). The withholding of a specified percentage of each milestone payment is intended to protect Public Works from the Company failing to adequately complete its obligations under the binding arrangement.

Example 20 Determining the Discount Rate

IE113. The Department of Communications and Information (the Department, the transfer provider) enters into a binding arrangement with a telecommunications company (Telcom, the transfer recipient) for Telcom to provide broadband internet equipment to a foreign government (the third-party beneficiary). Control of the equipment transfers to the foreign government when the binding arrangement is signed. The consideration stated in the binding arrangement is CU1 million plus a five per cent rate of interest in the binding arrangement, payable in 60 monthly instalments of CU18,871.

Case A—Discount Rate in the Binding Arrangement Reflects the Rate in a Separate Financing Transaction

IE114. In evaluating the discount rate in the binding arrangement that contains a significant financing component, the Department observes that the five per cent rate of interest in the binding arrangement reflects the rate that would be used in a separate financing transaction between the Department and Telcom at the inception of the binding arrangement (i.e., the rate of interest of five per cent in the binding arrangement reflects the credit characteristics of the Department).

IE115. The market terms of the financing mean that the cash price of the equipment is CU1 million. This amount is recognized as an expense and as a loan payable when control of the equipment transfers to the foreign country. The Department accounts for the payable in accordance with IPSAS 41, *Financial Instruments*.

Case B—Discount Rate in the Binding Arrangement does not Reflect the Rate in a Separate Financing Transaction

IE116. In evaluating the discount rate in the binding arrangement that contains a significant financing component, the Department observes that the five per cent rate of interest in the binding arrangement is significantly lower than the 12 per cent interest rate that would be used in a separate financing transaction between the Department and Telcom at the inception of the binding arrangement (i.e., the rate of interest in the binding arrangement of five per cent does not reflect the credit characteristics of the Department). This suggests that the cash price is less than CU1 million.

IE117. In accordance with paragraph 64 of [draft] IPSAS [X] (ED 72), the Department determines the transaction consideration by adjusting the promised amount of consideration to reflect the payments in the binding arrangement using the 12 per cent interest rate that reflects the credit characteristics of the Department. Consequently, the Department determines that the transaction consideration is CU848,357 (60 monthly payments of CU18,871 discounted at 12 per cent). The Department recognizes an expense and a loan payable for that amount. The Department accounts for the loan payable in accordance with IPSAS 41.

Example 21 Advance Payment and Assessment of Discount Rate

IE118. A government agency (the Agency) will hold an international summit in two years and needs to invest in vehicles for the event. At the conclusion of the event, the Agency plans to sell the surplus vehicles. To achieve this objective, the Agency (the transfer recipient) enters into a binding arrangement with a local government (the transfer provider). The binding arrangement requires the local government to make a cash payment to the Agency, and requires the Agency to provide one of the surplus vehicles to a not-for-profit organization (the Organization, the third-party beneficiary) in two years (i.e., the performance obligation will be satisfied at a point in time). The binding arrangement includes two alternative payment options: payment of CU50,000 in two years when the Organization obtains control of the asset or payment of CU40,000 when the binding arrangement is signed. The local government elects to pay CU40,000 when the binding arrangement is signed.

IE119. The local government concludes that the binding arrangement contains a significant financing component because of the length of time between when the local government pays for the vehicle to be transferred to the Organization and when the Agency transfers the vehicle to the Organization, as well as the prevailing interest rates in the market.

IE120. The interest rate implicit in the transaction is 11.8 per cent, which is the interest rate necessary to make the two alternative payment options economically equivalent. However, the local government determines that, in accordance with paragraph 64 of [draft] IPSAS [X] (ED 72), the rate that should be used in adjusting the promised consideration is six per cent, which reflects the credit characteristics of the Agency.

IE121. The following journal entries illustrate how the local government would account for the significant financing component:

(a) Recognize a transfer provider's binding arrangement asset for the CU40,000 payment made at inception of the binding arrangement:

Transfer provider's binding arrangement asset	CU40,000	
Cash		CU40,000

(b) During the two years from inception of the binding arrangement until the transfer of the vehicle, the local government adjusts the promised amount of consideration (in accordance with paragraph 65 of [draft] IPSAS [X] (ED 72)) and accretes the binding arrangement asset by recognizing interest on CU40,000 at six per cent for two years:

Transfer provider's binding arrangement asset	CU4,940[5]	
Interest revenue		CU4,940

(c) Recognize an expense as the Agency transfers the asset:

Expense	CU44,940	
Transfer provider's binding arrangement asset		CU44,940

Allocating the Transaction Consideration to Performance Obligations (Step 4)

IE122. Example 22 and Example 23 illustrate the requirements in paragraphs 72–85 of IPSAS [X] (ED 72) on allocating the transaction consideration to performance obligations.

Example 22 Allocation Methodology

IE123. An international organization (the Organization, the transfer provider) enters into a binding arrangement with a vehicle manufacturer (the Manufacturer, the transfer recipient) to provide vehicles, specialized spare parts and specialized engines to a national government (the Government, the third-party beneficiary) in exchange for CU100 million. The Manufacturer will satisfy its performance obligations for each of the products at different points in time. The Manufacturer provides vehicles separately and therefore the stand-alone purchase price is directly observable. The stand-alone purchase prices of the specialized spare parts and specialized engines are not directly observable.

IE124. Because the stand-alone purchase prices for the specialized spare parts and specialized engines are not directly observable, the Organization must estimate them. To estimate the stand-alone purchase prices, the Organization uses the adjusted market assessment approach for the specialized spare parts and the specialized engines. In making those estimates, the Organization

[5] CU4,940 = CU40,000 transfer provider's binding arrangement asset × (6 per cent interest per year for two years) (rounded to the nearest CU10).

maximizes the use of observable inputs (in accordance with paragraph 77 of [draft] IPSAS [X] (ED 72)). The Organization estimates the stand-alone prices as follows:

Product	**Stand-Alone Purchase Price (CU Millions)**	**Method**
Vehicles	90	Directly observable (see paragraph 76 of [draft] IPSAS [X] (ED 72))
Specialized Spare Parts	10	Adjusted market assessment approach (see paragraph 78(a) of [draft] IPSAS [X] (ED 72))
Specialized Engines	20	Adjusted market assessment approach (see paragraph 78(a) of [draft] IPSAS [X] (ED 72))
Total	120	

IE125. The Organization receives a discount for purchasing the bundle of goods because the sum of the stand-alone purchase prices (CU120 million) exceeds the transaction consideration (CU100 million). The Organization considers whether it has observable evidence about the Manufacturer's performance obligation to which the entire discount belongs (in accordance with paragraph 81 of [draft] IPSAS [X] (ED 72)) and concludes that it does not. Consequently, in accordance with paragraphs 75 and 80 of [draft] IPSAS [X] (ED 72), the discount is allocated proportionately across the vehicles, spare parts and the specialized engines. The discount, and therefore the transaction consideration, is allocated as follows:

Product	**Allocated Transaction Consideration (CU Millions)**	
Vehicles	75	(CU90 ÷ CU120 x CU100)
Specialized Spare Parts	8	(CU10 ÷ CU120 x CU100)
Specialized Engines	17	(CU20 ÷ CU120 x CU100)
Total	100	

Example 23 Allocating a Discount

IE126. A government procurement agency (the Agency, the transfer provider) regularly purchases common-use supplies, including Supplies A, B and C individually. The Agency establishes the following stand-alone prices:

Product	**Stand-Alone Purchase Price (CU)**
Supply A	40
Supply B	55
Supply C	45
Total	140

IE127. In addition, the Agency regularly acquires Supplies B and C together for CU60.

Case A—Allocating a Discount to One or More Performance Obligations

IE128. The Agency enters into a binding arrangement with a supplier (the Supplier, the transfer recipient) for the Supplier to provide Supplies A, B and C to a not-for-profit organization (the Organization, the third-party beneficiary) in exchange for CU100. The Supplier will satisfy the performance obligations for each of the supplies at different points in time.

IE129. The binding arrangement includes a discount of CU40 on the overall transaction, which would be allocated proportionately to all three of the Supplier's performance obligations when allocating the transaction consideration using the relative stand-alone purchase price method (in accordance with paragraph 80 of [draft] IPSAS [X] (ED 72)). However, because the Agency regularly purchases Supplies B and C together for CU60 and Supply A for CU40, it has evidence that the entire discount should be allocated to the Supplier's promises to transfer Supplies B and C to the Organization in accordance with paragraph 81 of [draft] IPSAS [X] (ED 72).

IE130. If the Supplier transfers control of Supplies B and C to the Organization at the same point in time, then the Agency could, as a practical matter, account for the transfer of those supplies as a single performance obligation. That is, the Agency could allocate CU60 of the transaction consideration to the single performance obligation and recognize an expense of CU60 when Supplies B and C simultaneously transfer to the Organization.

IE131. If the binding arrangement requires the Supplier to transfer control of Supplies B and C to the Organization at different points in time, then the allocated amount of CU60 is individually allocated to the Supplier's promises to transfer Supply B (stand-alone purchase price of CU55) and Supply C (stand-alone purchase price of CU45) to the Organization as follows:

Product	**Stand-Alone Purchase Price (CU)**	
Supply B	33	(CU55 ÷ CU100 total stand-alone price × CU60)
Supply C	27	(CU45 ÷ CU100 total stand-alone price × CU60)
Total	60	

Case B—Residual Approach is Appropriate

IE132. The Agency enters into a binding arrangement with the Supplier for the Supplier to provide Supplies A, B and C to the Organization as described in Case A. The binding arrangement also includes a promise by the Supplier to transfer Supply D to the Organization. Total consideration in the binding arrangement is CU130. The stand-alone purchase price for Supply D is highly variable (see paragraph 78(b) of [draft] IPSAS [X] (ED 72)) because the Agency purchases Supply D from different suppliers for a broad range of amounts (CU15 – CU45). Consequently, the Agency decides to estimate the stand-alone purchase price of Supply D using the residual approach.

IE133. Before estimating the stand-alone purchase price of Supply D using the residual approach, the Agency determines whether any discount should be allocated to the Supplier's other performance obligations in the binding arrangement in accordance with paragraphs 81 and 82 of [draft] IPSAS [X] (ED 72).

IE134. As in Case A, because the Agency regularly purchases Supplies B and C together for CU60 and Supply A for CU40, it has observable evidence that CU100 should be allocated to those three supplies and a CU40 discount should be allocated to the Supplier's promises to transfer Supplies B and C to the Organization in accordance with paragraph 81 of [draft] IPSAS [X] (ED 72). Using the residual approach, the Agency estimates the stand-alone price of Supply D to be CU30 as follows:

Product	**Stand-Alone Purchase Price (CU)**	**Method**
Supply A	40	Directly observable (see paragraph 76 of [draft] IPSAS [X] (ED 72))
Supplies B and C	60	Directly observable with discount (see paragraph 81 of [draft] IPSAS [X] (ED 72))
Supply D	30	Residual approach (see paragraph 78(b) of [draft] IPSAS [X] (ED 72))
Total	120	

IE135. The Agency observes that the resulting CU30 allocated to Supply D is within the range of its observable purchase prices (CU15–CU45). Therefore, the resulting allocation (see above table) is consistent with the allocation objective in paragraph 72 of [draft] IPSAS [X] (ED 72) and the requirements in paragraph 77 of [draft] IPSAS [X] (ED 72).

Case C—Residual Approach is Inappropriate

IE136. The same facts as in Case B apply to Case C except the transaction price is CU105 instead of CU130. Consequently, the application of the residual approach would result in a stand-alone price of CU5 for Supply D (CU105 transaction price less CU100 allocated to Supplies A, B and C). The Agency concludes that CU5 would not faithfully depict the amount of consideration which it expects to pay in exchange for the Supplier satisfying its performance obligation to transfer Supply D to the Organization, because CU5 does not approximate the stand-alone purchase price of Supply D, which ranges from CU15–CU45. Consequently, the Agency reviews its observable data to estimate the stand-alone price of Supply D using another suitable method. The Agency allocates the transaction price of CU105 to Supplies A, B, C and D using the relative stand-alone prices of those products in accordance with paragraphs 72–79 of [draft] IPSAS [X] (ED 72).

Purchaser Options for Additional Goods or Services

IE137. Example 24 illustrate the requirements in paragraphs AG59–AG63 of [draft] IPSAS [X] (ED 72) on purchaser options for additional goods or services.

Example 24 Option that Provides the Transfer Provider with a Material Right (Discount Voucher)

IE138. An international organization (the Organization, the transfer provider) enters into a binding arrangement with a publisher (the Publisher, the transfer recipient) for the Publisher to provide copies of Textbook A to the all the universities in a country (the Universities, the third-party beneficiaries) for CU100 per copy. As part of the binding arrangement, the Publisher gives the Organization a 40 per cent discount voucher for any future purchases of Textbook B (which would normally cost CU50) in the next 30 days. The Publisher has already announced an offer of a 10 per cent discount on all sales during the next 30 days as part of a promotion. The 10 per cent discount cannot be used in addition to the 40 per cent discount voucher.

IE139. Because all purchasers will receive a 10 per cent discount on purchases during the next 30 days, the only discount that provides the Organization with a material right is the discount that is incremental to that 10 per cent (i.e., the additional 30 per cent discount). The Organization accounts for the Publisher's promise to provide the incremental discount as a performance obligation of the Publisher in the binding arrangement for the sale of Textbook A.

IE140. To estimate the stand-alone purchase price of the discount voucher in accordance with paragraph AG62 of [draft] IPSAS [X] (ED 72), the Organization estimates an 80 per cent likelihood that it will redeem the voucher and provide Textbook B to all the Universities. Consequently, the Organization's estimated stand-alone purchase price of the discount voucher is CU12 per book (CU50 stand-alone purchase price of Textbook B × 30 per cent incremental discount × 80 per cent likelihood of exercising the option). The stand-alone purchase prices of Textbook A and the discount voucher and the resulting allocation of the CU100 transaction consideration are as follows:

Performance Obligation	**Stand-Alone Purchase Price (CU)**
Textbook A	100
Discount Voucher	12
Total	112
	Allocated Transaction Price (CU)

Textbook A	89	(CU100 ÷ CU112 × CU100)
Discount Voucher	11	(CU12 ÷ CU112 × CU100)
Total	100	

IE141. The Organization allocates CU89 to Textbook A and recognizes an expense for Textbook A as the Publisher transfers the textbooks to the Universities. The Organization allocates CU11 to the discount voucher and recognizes an expense for the voucher when it redeems it for Textbook B or when it expires.

Non-refundable Upfront Fees

IE142. Example 25 illustrates the requirements in paragraphs AG67–AG69 of [draft] IPSAS [X] (ED 72) on non-refundable upfront fees.

Example 25 Non-refundable Upfront Fee

IE143. A provincial government (the Province, the transfer provider) enters into a binding arrangement with a leisure facility (the Facility, the transfer recipient) for the Facility to provide one year of access to its swimming pool for students at the local university (the Students, the third-party beneficiaries). The Facility's binding arrangements have standard terms that are the same for all group arrangements. The binding arrangement requires the customer to pay an upfront administration fee to set up eligible individuals (in this case the Students) on the Facility's systems. The fee is a nominal amount per individual and is non-refundable. The Province can renew the binding arrangement each year without paying an additional fee for Students who continue to study at the university.

IE144. The Facility's setup activities do not transfer a good or service to the individual and, therefore, do not give rise to a transfer recipient's performance obligation.

IE145. The Province concludes that the renewal option does not provide it with a material right that it would not receive without entering into that binding arrangement (see paragraph AG60 of [draft] IPSAS [X] (ED 72)). The upfront fee is, in effect, an advance payment for the future transaction processing services. Consequently, the Province determines the transaction consideration, which includes the non-refundable upfront fee, and recognizes an expense for the transaction processing services as those services are provided in accordance with paragraph AG68 of [draft] IPSAS [X] (ED 72).

Licensing

IE146. Example 26–Example 28 illustrate the requirements in paragraphs 24–32 of [draft] IPSAS [X] (ED 72) for identifying performance obligations and paragraphs AG70–AG83 of [draft] IPSAS [X] (ED 72) on licensing.

Example 26 Right to Use Intellectual Property

IE147. Using the same facts as Case A of Example 11 (see paragraphs IE57–IE78), the State Government identifies four performance obligations of the Agency in a binding arrangement:

(a) The software license;

(b) Installation services;

(c) Software updates; and

(d) Technical support.

IE148. The State Government assesses the nature of the Agency's promise to transfer the software license in accordance with paragraph AG75 of [draft] IPSAS [X] (ED 72). The State Government does not consider in its assessment of the criteria in paragraph AG75 of [draft] IPSAS [X] (ED 72) the Agency's promise to provide software updates, because they result in the transfer of an additional good or service to the Universities (the third-party beneficiaries in Example 11) (see paragraph AG75(c) of [draft] IPSAS [X] (ED 72)). The State Government also observes that the Agency does not have any implied obligations (independent of the updates and technical support) to undertake activities that will change the functionality of the software during the license period. The State Government observes that the software remains functional without the updates and the technical support and, therefore, the ability of the Universities to obtain the economic benefits or service potential of the software is not substantially derived from, or dependent on, the Agency's ongoing activities. The State Government therefore determines that the binding arrangement does not require, and it does not reasonably expect, the Agency to undertake activities that significantly affect the software (independent of the updates and technical support). The State Government concludes that the software to which the license relates has significant stand-alone functionality and none of the criteria in paragraph AG75 of [draft] IPSAS [X] (ED 72) are met. The State Government further concludes that the nature of the Agency's promise in transferring the license to the Universities is to provide a right to use the Agency's intellectual property as it exists at a point in time. Consequently, the State Government accounts for the license as a performance obligation satisfied at a point in time.

Example 27 License of Intellectual Property

IE149. The Department of Culture (the Department, the transfer provider) enters into a binding arrangement with a government film library (the Library, the transfer recipient) for the library to license (for a period of three years) a collection of films to a museum (the Museum, the third-party beneficiary) for display in an exhibition. The binding arrangement also specifies that the Museum will obtain any new films added to the collection by the Library during the licensing period. The updates are integral to the Museum's ability to generate economic benefits or service potential from the license during the license period, because the films relate to historical events which are considered relevant to current cultural views and public discourse.

IE150. The Department assesses the goods and services promised by the Library to the Museum to determine which goods and services are distinct in accordance with paragraph 29 of [draft] IPSAS [X] (ED 72). The Department determines that the Museum can generate economic benefits or service potential from (a) the license on its own without the addition of the new films; and (b) the addition of the new films together with the initial license. Although the economic benefits or service potential that the Museum could obtain from the license on its own (i.e., without the additional films) is limited because the updates are integral to the Museum's ability to continue to attract significantly more visitors, the license can be used in a way that generates some economic benefits or service potential. Therefore, the criterion in paragraph 29(a) of [draft] IPSAS [X] (ED 72) is met for the license and the addition of new films.

IE151. The fact that the economic benefits or service potential that the Museum could obtain from the license on its own (i.e., without the addition of the new films) is limited (because the addition of the new films are integral to the Museum's ability to attract more visitors) is also considered in assessing whether the criterion in paragraph 29(b) of [draft] IPSAS [X] (ED 72) is met. Because the economic benefits or service potential that the Museum could obtain from the license over the three-year term without the additions would be significantly limited, the Library's promises to grant the license and to provide the expected additions are, in effect, inputs that together fulfill a single promise of the Library to deliver a combined item to the Museum. That is, the nature of the Library's promise in the binding arrangement is to provide ongoing access to the Library's film collection for the three-year term of the binding arrangement. The promises within that combined item (i.e., to grant the license and to provide new films when-and-if-available) are, therefore, not separately identifiable in accordance with the criterion in paragraph 29(b) of [draft] IPSAS [X] (ED 72).

IE152. The nature of the combined good or service that the Library promised to transfer to the Museum is ongoing access to the Library's film collection for the three-year term of the binding arrangement. On the basis of this conclusion, the Department applies paragraphs 33–39 of [draft] IPSAS [X] (ED 72) to determine whether the Library's single performance obligation is satisfied at a point in time or over time. The Department concludes that because the Museum simultaneously receives and consumes the economic benefits or service potential of the Library's performance as it occurs, the Library's performance obligation is satisfied over time in accordance with paragraph 36(a) of [draft] IPSAS [X] (ED 72).

Example 28 Identifying a Distinct License

IE153. An international organization (the Organization, the transfer provider) enters into a binding arrangement with a university research facility (the Facility, the transfer recipient) to license the Facility's patent rights to a laser surgery technology to a hospital in a developing country (the Hospital, the third-party beneficiary) for 10 years. The Facility also promises to manufacture the technology for the Hospital. Laser surgery technology in general is mature; therefore, the Facility will not undertake any activities to support the technology, which is consistent with its customary practices.

Case A—License is Not Distinct

IE154. In this case, no other entity can manufacture this technology because of the highly specialized nature of the manufacturing process. As a result, the license cannot be purchased separately from the manufacturing services.

IE155. The Organization assesses the goods and services promised to the clinic to determine which goods and services are distinct in accordance with paragraph 29 of [draft] IPSAS [X] (ED 72). The Organization determines that the Hospital cannot generate economic benefits or service potential from the license without the manufacturing service; therefore, the criterion in paragraph 29(a) of [draft] IPSAS [X] (ED 72) is not met. Consequently, the license and the manufacturing service are not distinct and the Organization accounts for the license and the manufacturing service as a single performance obligation.

IE156. The Organization applies paragraphs 33–39 of [draft] IPSAS [X] (ED 72) to determine whether the performance obligation (i.e., the bundle of the license and the manufacturing services) is a performance obligation satisfied at a point in time or over time.

Case B—License is Distinct

IE157. In this case, the manufacturing process used to produce the laser surgery technology is not unique or specialized and several other entities can also manufacture the technology for the Hospital.

IE158. The Organization assesses the goods and services promised to the Hospital to determine which goods and services are distinct, and it concludes that the criteria in paragraph 29 of [draft] IPSAS [X] (ED 72) are met for each of the license and the manufacturing service. The Organization concludes that the criterion in paragraph 29(a) of [draft] IPSAS [X] (ED 72) is met because the Hospital can generate economic benefits or service potential from the license together with readily available resources other than the Facility's manufacturing service (because there are other entities that can provide the manufacturing service), and can generate economic benefits or service potential from the manufacturing service together with the license transferred to the Hospital at the start of the binding arrangement.

IE159. The Organization also concludes that the Facility's promises to grant the license and to provide the manufacturing service are separately identifiable (i.e., the criterion in paragraph 29(b) of [draft] IPSAS [X] (ED 72) is met). The Organization concludes that the license and the manufacturing service are not inputs to a combined item in this binding arrangement on the basis of the principle and the factors in paragraph 29 of [draft] IPSAS [X] (ED 72). In reaching this conclusion, the Organization considers that the Hospital could separately purchase the license without significantly affecting its ability to generate economic benefits or service potential from the license. Neither the license, nor the manufacturing service, is significantly modified or customized by the other and the Facility is not providing a significant service of integrating those items into a combined output. The Organization further considers that the license and the manufacturing service are not highly interdependent or highly interrelated because the Facility would be able to fulfill its promise to transfer the license independently of fulfilling its promise to subsequently manufacture the laser for the Hospital. Similarly, the Facility would be able to manufacture the laser for the Hospital even if the Hospital had previously obtained the license and initially utilized a different manufacturer. Thus, although the manufacturing service necessarily depends on the license in this contract (i.e., the Facility would not provide the manufacturing service without the clinic having obtained the license), the license and the manufacturing service do not significantly affect each other. Consequently, the Organization concludes that its promises to grant the license and to provide the manufacturing service are distinct and that there are two transfer recipient's performance obligations:

(a) License of patent rights; and

(b) Manufacturing service.

IE160. The Organization assesses, in accordance with paragraph AG75 of [draft] IPSAS [X] (ED 72), the nature of the Facility's promise to grant the license. The laser technology is a mature product (i.e., it has been approved, is currently being manufactured and has been provided at a surplus for the last several years). For these types of mature products, the Facility's customary practices are not to undertake any activities to support the laser technology. The technology has significant stand-alone functionality (i.e., its ability to be used in a way that treats a disease or condition). Consequently, the Hospital obtains a substantial portion of the economic benefits or service potential of the laser technology from that functionality, rather than from the Facility's ongoing activities. The Organization concludes that the criteria in paragraph AG75 of [draft] IPSAS [X]

(ED 72) are not met because the binding arrangement does not require, and the binding arrangement does not reasonably expect, the Facility to undertake activities that significantly affect the intellectual property to which the Hospital has rights. In its assessment of the criteria in paragraph AG75 of [draft] IPSAS [X] (ED 72), the Organization does not take into consideration the Facility's separate performance obligation of promising to provide a manufacturing service. Consequently, the nature of the Facility's promise in transferring the license is to provide a right to use the Facility's intellectual property in the form and the functionality with which it exists at the point in time that it is granted to the clinic. Consequently, the Organization accounts for the license as a performance obligation satisfied at a point in time.

IE161. The Facility applies paragraphs 33–39 of [draft] IPSAS [X] (ED 72) to determine whether the manufacturing service is a performance obligation satisfied at a point in time or over time.

Bill-and-Hold Arrangements

IE162. Example 29 illustrates the requirements in paragraphs AG84–AG87 of [draft] IPSAS [X] (ED 72) on bill-and-hold arrangements.

Example 29 Bill-and-Hold Arrangement

IE163. An education department (the Department, the transfer provider) enters into a binding arrangement with a publisher (the Publisher, the transfer recipient) on January 1, 20X8 for the Publisher to provide two consignments of textbooks to a not-for-profit education charity (the Charity, the third-party beneficiary), each relating to a different educational symposium for disadvantaged children. The publishing lead time for the textbooks is one year.

IE164. Upon completion of textbooks, the Publisher demonstrates that the textbooks meet the agreed-upon specifications in the binding arrangement. The Publisher's promises to transfer the two consignments of textbooks are distinct and result in two performance obligations that each will be satisfied at a point in time. On December 31, 20X8, the Department pays for both consignments of textbooks, but only the first consignment of textbooks is physically transferred to the Charity, as the symposium relating to the second consignment is not scheduled to occur for another two years. Although the Charity inspects and accepts the second consignment of textbooks, the Department requests that the second consignment be stored at the Publisher's warehouse for two years due to better security at the Publisher's premises. The Charity has legal title to the second consignment of textbooks and the textbooks can be identified as belonging to the Charity. Furthermore, the Publisher stores the second consignment of textbooks in a separate section of its warehouse and the textbooks are ready for immediate shipment at the Charity's request. The Publisher expects to hold the second consignment of textbooks for up to two years and the Publisher does not have the ability to use the second consignment of textbooks or direct them to another purchaser.

IE165. The Department identifies the Publisher's promise to provide custodial services as a performance obligation because it is a service provided to the Charity and it is distinct from the two consignments of textbooks. Consequently, the Department accounts for three performance obligations in the binding arrangement (the Publisher's promises to provide the two consignments of textbooks and the custodial services). The transaction consideration is allocated to the three performance obligations and expenses are recognized when (or as) control transfers to the Charity.

IE166. Control of the first consignment of textbooks transfers to the Charity on December 31, 20X8 when the Charity takes physical possession. The Department assesses the indicators in paragraph 39 of [draft] IPSAS [X] (ED 72) to determine the point in time at which control of the second consignment of textbooks transfers to the Charity, noting that the Publisher has received payment, the Charity has legal title to the second consignment of textbooks, and the Charity has inspected and accepted the second consignment. In addition, the Department concludes that all of the criteria in paragraph AG86 of [draft] IPSAS [X] (ED 72) are met, which is necessary for the Department to recognize an expense in a bill-and-hold arrangement. The Department recognizes an expense for the second consignment of textbooks on December 31, 20X8 when control transfers to the Charity.

IE167. The Publisher's performance obligation to provide custodial services is satisfied over time as the services are provided to the Charity. The Department considers whether the payment terms include a significant financing component in accordance with paragraphs 60–65 of [draft] IPSAS [X] (ED 72).

Transfer Expenses without Performance Obligations

Recognition and Measurement

IE168. Example 30–Example 35 illustrate the requirements in paragraphs 91–115 of [draft] IPSAS [X] (ED 72) on the recognition and measurement of transfer expenses without performance obligations.

Example 30 Transfer of Resources to Another Level of Government for General Purposes

IE169. A national government (the transfer provider) makes a transfer of CU10 million to a local government in a socioeconomically deprived area. The local government (the transfer recipient) is required under its constitution to undertake various social programs; however, it has insufficient resources to undertake all of these programs without assistance. The are no enforceable activities or eligible expenditure requirements imposed on the local government by the transfer.

IE170. The transfer does not confer enforceable rights and obligations on both parties to the agreement, and therefore is not a binding arrangement as defined in [draft] IPSAS [X] (ED 70). In the absence of a binding arrangement, the national government recognizes an expense when it transfers the CU10 million to the local government in accordance with paragraph 93 of [draft] IPSAS [X] (ED 72).

Example 31 Transfer of Resources with an Enforceable Activity and/or Eligible Expenditure

IE171. A national government (the transfer provider) enters into an agreement with a social housing entity (the transfer recipient) to make a cash transfer of CU50 million to the social housing entity. The agreement specifies that the social housing entity must:

(a) Increase the stock of social housing by an additional 1,000 units over and above any other planned increases; or

(b) Use the cash transfer in other ways to support its social housing objectives.

If neither of these requirements is satisfied, the social housing entity must return the cash to the national government.

IE172. The agreement requires the social housing entity to either undertake an enforceable activity (increase the social housing stock) or incur eligible expenditure (use the cash transfer to support social housing objectives) as defined in [draft] IPSAS [X] (ED 71). The transfer agreement confers enforceable rights and obligations on both parties to the agreement, and a binding arrangement as defined in [draft] IPSAS [X] (ED 70).

IE173. Consequently, the national government recognizes an expense at the earlier of the point at which it has a present obligation to transfer the CU50 million or the point at which it transfers the CU50 million, in accordance with paragraph 91 of [draft] IPSAS [X] (ED 72). The national government does not recognize an asset for the possible return of the funds, as this is not a resource currently controlled by the national government. Any return of the funds is conditional on a future event, the future non-compliance with the terms of the binding arrangement by the provincial government.

Example 32 Transfer to Another Level of Government with Specific Requirements

IE174. The national government (the transfer provider) enters into an agreement with a provincial government (the transfer recipient) to transfer CU10 million to the provincial government to be used to improve and maintain mass transit systems. Specifically, the provincial government is required to use the money as follows:

(a) 40 percent for existing railroad and tramway system modernization;

(b) 40 percent for new railroad or tramway systems; and

(c) 20 percent for rolling stock purchases and improvements.

IE175. Under the terms of the agreement, the money must be spent as specified in the current year or be returned to the national government.

IE176. The agreement is a binding arrangement that imposes requirements on the provincial government to undertake enforceable activities and incur eligible expenditure, as defined in [draft] IPSAS [X] (ED 71). Consequently, the national government recognizes an expense at the earlier of the point at which it has a present obligation to transfer the CU10 million or the point at which it transfers the CU10 million, in accordance with paragraph 91 of [draft] IPSAS [X] (ED 72). The national government does not recognize an asset for the possible return of the funds, as this is not a resource currently controlled by the national government. Any return of the funds is conditional on a future event, the future non-compliance with the terms of the binding arrangement by the provincial government.

Example 33 Debt Forgiveness

IE177. The national government (the transfer provider) had previously lent a local government (the transfer recipient) CU20 million. The loan was provided to enable the local government to build a water treatment plant. The national government has accounted for the loan in accordance with IPSAS 41.

IE178. After a change in policy, the national government decides to forgive the loan. There are no requirements attached to the forgiveness of the loan. The national government writes to the local government and advises it of its decision; it also encloses the loan documentation, which has been annotated to the effect that the loan has been waived.

IE179. In accordance with paragraphs 95 and 115 of [draft] IPSAS [X] (ED 72), the national government recognizes an expense at the point it waives the loan, and measures the expense at the carrying amount of the loan (measured in accordance with IPSAS 41). The national government applies IPSAS 41 to derecognize the loan.

Example 34 Agreement for a Series of Transfers

IE180. A regional government (the transfer provider) enters into a binding arrangement with a museum on January 1, 20X1, whereby the regional government will provide CU100,000 per year for three years for the museum to purchase additional artefacts.

Case A—Future Payments Dependent on Performance

IE181. The binding arrangement requires the regional government to transfer CU100,000 to the museum on January 31,20X1. The binding agreement also requires the regional government to transfer CU100,000 to the museum on January 31, 20X2 and January 31, 20X3 provided that the museum has acquired the artefacts in the previous year.

IE182. On January 31, 20X1, the regional government reviews the binding arrangement, and concludes that it has a present obligation for the CU100,000 due on January 31, 20X1. It recognizes an expense at that point in accordance with paragraph 97 of [draft] IPSAS [X] (ED 72). The regional government also concludes that it does not have a present obligation for the remaining payments at that point, as these are conditional on the future performance of the museum. Consequently, in accordance with paragraph 97 of [draft] IPSAS [X] (ED 72), the regional government does not recognize an expense for those payments as at January 31, 20X1, but will recognize expenses in future when the obligations to make the payments become present obligations (or when it makes the future payments, if this is earlier).

Case B—Future Payments Due in All Circumstances

IE183. The binding arrangement requires the regional government to transfer CU100,000 to the museum on January 31,20X. The binding agreement also requires the regional government to transfer CU100,000 to the museum on January 31, 20X2 and January 31, 20X3. The binding arrangement requires the regional government to make the future payments irrespective of whether the museum has acquired the intended artefacts or not.

IE184. On January 31, 20X1, the regional government reviews the binding arrangement, and concludes that it has a present obligation for all three payments of CU100,000 as at January 31, 20X1, as the regional government is unable to avoid an outflow of resources. It recognizes an expense for CU300,000 at that point, in accordance with paragraph 97 of [draft] IPSAS [X] (ED 72).

Example 35 Agreement for Transfers Subject to Approval of Appropriations

IE185. A national government has a financial year end of December 31. On March 15, 20X2, the national government (the transfer provider) enters into a binding arrangement with a local government (the transfer recipient) to transfer CU15 million to the local government, to be used to build new infrastructure to reduce air pollution, in accordance with the national government's policy. CU10 million is to be transferred in 20X2, with the remaining CU5 million to be transferred in 20X3.

IE186. The binding arrangement includes a term that it is subject to an appropriation being authorized. In determining the effect of the term that the binding arrangement is subject to an appropriation being authorized, the national government considers substance over form, in accordance with paragraphs 98–99 and AG98–AG102.

IE187. Parliament authorizes the appropriation for CU10 million in 20X2 on March 31, 20X2. The national government recognizes an expense of CU10 million in 20X2 in respect of the transfer that takes place in that year. The appropriation for the CU5 million is not authorized in March 20X2, but is considered at a later date, as part of the appropriation process for 20X3.

Case A—Appropriation is in Substance a Limitation

IE188. The reduction in air pollution is a local government responsibility, and there is no authorizing legislation that requires the national government to fund such initiatives. The binding arrangement is clear that the funding is subject to the appropriation being authorized. The binding arrangement also makes it clear that such authorization is not certain, and that, consequently, the amount may be reduced.

IE189. The national government concludes that it does not have a present obligation to transfer the CU15 million (CU10 million in 20X2 and CU5 million in 20X3) prior to the appropriations being authorized. Consequently, the limitation (that the transfer is subject to the appropriations being authorized) has substance and, in accordance with paragraphs 98–99 and AG98–AG102, the national government recognizes a payment and an expense of CU10 million as at December 31, 20X2; but does not recognize a liability for the CU5 million, as the appropriation has not been authorized. The national government considers whether to disclose the binding arrangement as a contingent liability (see Example 41).

IE190. On March 31, 20X3, the Parliament authorizes the appropriation for CU5 million. At this date, the national government applies paragraphs 91–97 in determining when to recognize an expense.

Case B—Appropriation is not in Substance a Limitation

IE191. Authorizing legislation requires the government to invest in measures to reduce air pollution, and the binding arrangement is a firm commitment by the national government to meet its legislative obligations by investing in specific measures, set out in the binding arrangement, to be undertaken by the local government.

IE192. The national government concludes that it is has a present obligation to transfer the CU15 million prior to the appropriations (CU10 million in 20X2 and CU5 million in 20X3) being authorized. Consequently, the limitation (that the transfer is subject to the appropriation being authorized) does not have substance. As at March 15, 20X2, the national government applies paragraphs 91–97 in determining when to recognize an expense.

Comparison of Accounting for Transfer Expenses with Performance Obligations and Transfer Expenses without Performance Obligations

IE193. Example 36 summarizes the differences in accounting for transfer expenses with performance obligations and accounting for transfer expenses without performance obligations illustrated in the earlier examples, and illustrates the effect of making transfers at different times.

Example 36 National Government Provides Transfers to a Regional Government

IE194. A national government (the transfer provider) enters into a binding arrangement with a regional government (the transfer recipient) to provide CU1 million to be used to reduce unemployment in the region. The binding arrangement specifies that CU600,000 must be used to deliver 600 training courses to unemployed people resident in the region. The national government monitors and enforces the delivery of the training courses.

IE195. The delivery of the training courses involves the transfer of goods or services to third-party beneficiaries (the unemployed people resident in the region). Consequently, the national government accounts for the CU600,000 in respect of the training courses as a transfer expense with performance obligations.

IE196. The binding arrangement does not specify how the remaining CU400,000 is to be used. Consequently, the national government accounts for this amount as a transfer expense without performance obligations.

IE197. The binding arrangement is signed on July 1, 20X1 and the period of the binding arrangement is July 1, 20X1–June 30, 20X2. The national government's reporting period ends on December 31 each year.

Case A—Transfer is Made at the Start of the Binding Arrangement

IE198. In this case, the national government transfers the CU1 million to the regional government on July 1, 20X1. The national government derecognizes the cash at this date.

IE199. The national government accounts for the CU600,000 in respect of the training courses as a transfer expense with performance obligations. On July 1, 20X1, it recognizes a transfer provider's binding arrangement asset of CU600,000. The national government derecognizes the transfer provider's binding arrangement asset and recognizes an expense as the regional government provides the training courses. At December 31, 20X1, the balance of the transfer provider's binding arrangement asset represents the training courses still to be delivered at that date.

IE200. The national government accounts for the remaining CU400,000 as a transfer expense without performance obligations. [Draft] IPSAS [X] (ED 72) requires a transfer provider to recognize a transfer expense without performance obligations at the earlier of the date at which it has a present obligation to transfer the resources or the date at which it ceases to control the resources. On July 1, 20X1, the national government recognizes an expense of CU400,000 to match the transfer of the cash.

Case B—Transfer is Made at the End of the Binding Arrangement

IE201. In this case, the national government transfers the CU1 million to the regional government on June 30, 20X2. The national government derecognizes the cash at this date.

IE202. The national government accounts for the CU600,000 in respect of the training courses as a transfer expense with performance obligations. The national government recognizes an expense and a transfer provider's binding arrangement liability as the regional government provides the training courses. At December 31, 20X1, the balance of the transfer provider's binding arrangement liability represents the training courses delivered by the regional government at that date for which payment has yet to be made.

IE203. The national government accounts for the remaining CU400,000 as a transfer expense without performance obligations. [Draft] IPSAS [X] (ED 72) requires a transfer provider to recognize a transfer expense without performance obligations at the earlier of the date at which it has a present obligation to transfer the resources or the date at which it ceases to control the resources. Consequently, the national government will recognize an expense on June 30, 20X2 unless the terms of the binding arrangement mean that it has a present obligation at an earlier date. In such circumstances, the national government would recognize an expense and a payable at that earlier date.

Presentation

IE204. Example 37 and Example 38 illustrate the requirements in paragraphs 121–125 of [draft] IPSAS [X] (ED 72) on the presentation of binding arrangement balances under the public sector performance obligation approach.

Example 37 Transfer Provider's Binding Arrangement Asset

Case A—Cancellable Binding Arrangement

IE205. On January 1, 20X9, a government procurement agency (the Agency, the transfer provider) enters into a binding arrangement that is cancellable with a supplier (the Supplier, the transfer recipient) to transfer a product to a local government (the third-party beneficiary) on March 31, 20X9. The binding arrangement requires Agency to pay consideration of CU1,000 in advance on January 31, 20X9. However, the Agency pays the consideration on March 1, 20X9. The Supplier transfers the product on March 31, 20X9. The following journal entries illustrate how the Agency accounts for the binding arrangement:

(a) The Agency pays cash of CU1,000 on March 1, 20X9 (cash is paid in advance of the Supplier's performance):

Transfer provider's binding arrangement asset	CU1,000	
Cash		CU1,000

(b) The Agency satisfies the performance obligation on March 31, 20X9:

Expense	CU1,000	
Transfer provider's binding arrangement asset		CU1,000

Case B—Non-Cancellable Binding Arrangement

IE206. The same facts as in Case A apply to Case B except that the binding arrangement is non-cancellable. The following journal entries illustrate how the Agency accounts for the binding arrangement:

(a) The amount of consideration is due on January 31, 20X9 (which is when the Agency recognizes a payable because it has a present obligation to make the payment and the Supplier has an unconditional right to consideration):

Transfer provider's binding arrangement asset	CU1,000	
Payable		CU1,000

(b) The Agency pays the cash on March 1, 20X9:

Payable	CU1,000	
Cash		CU1,000

(c) The Agency satisfies the performance obligation on March 31, 20X9:

Expense	CU1,000	
Transfer provider's binding arrangement asset		CU1,000

IE207. If the Agency received the invoice before January 31, 20X9 (the due date of the consideration), the Agency would not present the transfer provider's binding arrangement asset and the payable on a gross basis in the statement of financial position because the Agency does not at that point have a present obligation.

Example 38 Transfer Provider's Binding Arrangement Liability Recognized for the Transfer Recipient's Performance

IE208. On January 1, 20X8, a government education department (Education, the transfer provider) enters into a binding arrangement with an IT supplier (the Supplier, the transfer recipient) for the supplier to transfer computer software and configuration services to a small government department (the Department, the third-party beneficiary) in exchange for CU1,000. The binding arrangement requires the software to be delivered first and states that payment for the delivery of the software is conditional on configuration. In other words, the consideration of CU1,000 is due only after the Supplier has transferred both the software and configuration services to the Department. Consequently, Education does not have a present obligation (a payable) until the software is transferred to the Department and configured.

IE209. Education identifies the Supplier's promises to transfer the software and complete the configuration as separate performance obligations and allocates CU400 to the performance obligation to transfer the software and CU600 to the performance obligation to complete the configuration on the basis of their relative stand-alone prices. Education recognizes an expense for each respective performance obligation when control of the product transfers to the Department.

(a) The Supplier satisfies the performance obligation to transfer the software:

Expense	CU400	
Transfer provider's binding arrangement liability		CU400

(b) The Supplier satisfies the performance obligation to configure the software. The Supplier has the unconditional right to consideration, and Education has a present obligation to make payment:

Expense	CU600	
Transfer provider's binding arrangement liability	CU400	
Payable		CU1,000

Disclosure

Transfer Expenses with Performance Obligations

IE210. Example 39 and Example 40 illustrate the requirements in paragraphs 138–141 of [draft] IPSAS [X] (ED 72) for the disclosure of transaction consideration allocated to the remaining transfer recipient's performance obligations under the public sector performance obligation approach. In addition, the requirements of paragraph 57 of [draft] IPSAS [X] (ED 72) on constraining estimates of variable consideration are illustrated in Example 39.

Example 39 Disclosure of the Transaction Consideration Allocated to the Transfer Recipient's Remaining Performance Obligations

IE211. On June 30, 20X7, a centralized training agency (the Agency, the transfer provider) enters into three binding arrangements (Binding Arrangements A, B and C) with a training company (the Company, the transfer recipient) for the Company to provide training services to three not-for-profit organizations (Organizations X, Y and Z, the third-party beneficiaries). Each binding arrangement has a two-year non-cancellable term. The Agency considers the requirements in paragraphs 138–139 of [draft] IPSAS [X] (ED 72) in determining the information in each binding arrangement to be included in the disclosure of the transaction price allocated to the remaining performance obligations at December 31, 20X7.

Binding Arrangement A

IE212. The Company provides training services to Organization X over the next two years, typically at least once per month. For services provided, the Agency pays an hourly rate of CU25. The Agency estimates that the Company provides an average of eight hours of training per month, and the total transaction consideration is based on this estimate. The Agency measures the Company's progress towards complete satisfaction of the performance obligation using an output method (the number of hours of training received by Organization X).

IE213. The Agency discloses the amount of the transaction consideration that has not yet been recognized as an expense in a table with quantitative time bands that illustrates when the Agency expects to recognize the amount as an expense. The information for Binding Arrangement A included in the overall disclosure is as follows:

	20X8 CU	**20X9 CU**	**Total CU**
Expenses expected to be incurred on Binding Arrangement A as of 31 December 20X7	2,400[6]	1,200[7]	3,600

Binding Arrangement B

IE214. Training services are to be provided by the Company to Organization Y as and when needed with a maximum of four visits per month over the next two years. The Agency pays a fixed price of CU400 per month for both services. The Agency measures the Company's progress towards complete satisfaction of the performance obligation using a time-based measure.

IE215. The Agency discloses the amount of the transaction consideration that has not yet been recognized as an expense in a table with quantitative time bands that illustrates when the Agency expects to recognize the amount as an expense. The information for Binding Arrangement B included in the overall disclosure is as follows:

[6] 8 hours training per month x CU25/hour x 12 months

[7] 8 hours training per month x CU25/hour x 6 months

	20X8 CU	20X9 CU	Total CU
Expenses expected to be incurred on Binding Arrangement B as of 31 December 20X7	4,800[8]	2,400[9]	7,200

Binding Arrangement C

IE216. Training services are to be provided by the Company to Organization Z as and when needed over the next two years. The Agency pays fixed consideration of CU100 per month plus a one-time variable consideration payment ranging from CU0–CU1,000 corresponding to a one-time regulatory review and certification of Organization Z's employees (i.e., a performance bonus). The Agency estimates that the Company will be entitled to CU750 of the variable consideration. On the basis of the Agency's assessment of the factors in paragraph 57 of [draft] IPSAS [X] (ED 72), the Agency includes its estimate of CU750 of variable consideration in the transaction consideration because it is probable that a significant reversal in the amount of cumulative expenses recognized will not occur. The Agency measures the Company's progress towards complete satisfaction of the performance obligation using a time-based measure.

IE217. The Agency discloses the amount of the transaction consideration that has not yet been recognized as an expense in a table with quantitative time bands that illustrates when the Agency expects to recognize the amount as an expense. The Agency also includes a qualitative discussion about any significant variable consideration that is not included in the disclosure. The information for Binding Arrangement C included in the overall disclosure is as follows:

	20X8 CU	20X9 CU	Total CU
Expenses expected to be incurred on Binding Arrangement C as of 31 December 20X7	1,575[10]	788[11]	2,363

IE218. In addition, in accordance with paragraph 141 of [draft] IPSAS [X] (ED 72), the Agency discloses qualitatively that part of the performance bonus has been excluded from the disclosure because it was not included in the transaction consideration. That part of the performance bonus was excluded from the transaction consideration in accordance with the requirements for constraining estimates of variable consideration.

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8 CU400 x 12 months

9 CU400 x 6 months

10 Transaction price = CU3,150 (CU100 × 24 months + CU750 variable consideration) recognized evenly over 24 months at CU1,575 per year.

11 CU1,575 ÷ 2 = CU788 (i.e., for 6 months of the year)

Example 40 Disclosure of the Transaction Consideration Allocated to the Transfer Recipient's Remaining Performance Obligations—Qualitative Disclosure

IE219. On January 1, 20X2, the Department of Public Works (Public Works, the transfer provider) enters into a binding arrangement with a State-Owned Enterprise (SOE, the transfer recipient) to refurbish a building for a local authority school (the School, the third-party beneficiary) for fixed consideration of CU10 million. The refurbishment of the building is considered a single performance obligation that SOE satisfies over time. As of December 31, 20X2, Public Works has recognized CU3.2 million of expenses. Public Works estimates that the refurbishment will be completed in 20X3, but it is possible that the project will be completed in the first half of 20X4.

IE220. At 31 December 20X2, Public Works discloses the amount of the transaction consideration that has not yet been recognized as an expense in its disclosure of the transaction consideration allocated to SOE's remaining performance obligations. Public Works also discloses an explanation of when it expects to recognize that amount as an expense. The explanation can be disclosed either on a quantitative basis using time bands that are most appropriate for the duration of the remaining transfer recipient's performance obligation or by providing a qualitative explanation. Because Public Works is uncertain about the timing of the expense recognition, Public Works discloses this information qualitatively as follows:

'As of December 31, 20X2, the aggregate amount of the transaction consideration allocated to SOE's remaining performance obligation is CU6.8 million and Public Works will recognize this as an expense as the building is completed, which is expected to occur over the next 12–18 months.'

Transfer Expenses without Performance Obligations

IE221. Example 41 illustrates the requirements of [draft] IPSAS [X] (ED 72) regarding the disclosure of a transfer expense that is subject to appropriations.

Example 41 Disclosure of a Transfer Expense Subject to Appropriations

IE222. The facts are the same as in Case A of Example 35. The national government does not recognize a liability or an expense for the CU5 million to be transferred in 20X3 as at December 31, 20X2. Rather, the national government considers whether it should disclose a contingent liability, in accordance with paragraph 100 of IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*.

IE223. The national government concludes that the probability of any outflow in settlement of the contingent liability is greater than remote. Consequently, the national government makes the following disclosure in its financial statements for the reporting period ended December 31, 20X2:

On March 15, 20X2, the national government entered into a binding arrangement that requires it to transfer CU5 million to a local government in 20X3. The binding arrangement requires the local government to use the funds to reduce air pollution. The binding arrangement made it clear that the transfer was subject to an appropriation being authorized, and that approval was not certain and that funding could be reduced. The national government has not recognized a liability or an expense in respect of the binding arrangement because, as of December 31, 20X2, the appropriation had not been authorized, and therefore the national government did not have a present obligation to transfer the funds to the local government. The appropriation was approved on March 31, 20X3, and the national government will transfer the CU5 million during 20X3.

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