

Supporting Papers — NZASB Meeting 19 October 2023

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Final Pronouncement  
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IPSAS®

*International Public Sector Accounting Standard®*

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## IPSAS 47, *Revenue*

IPSASB

International Public  
Sector Accounting  
Standards Board®

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

In meeting this objective, the IPSASB sets International Public Sector Accounting Standards™ (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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# IPSAS 47, REVENUE

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## Objective

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

## Scope

3. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for its revenue transactions. This Standard does not apply to:**
  - (a) **Contributions to social benefit schemes that are accounted for in accordance with paragraphs 26–31 of IPSAS 42, *Social Benefits* (the insurance approach);**
  - (b) **A public sector combination within the scope of IPSAS 40, *Public Sector Combinations*;**
  - (c) **The accounting for contributions from owners;**
  - (d) **Lease contracts within the scope of IPSAS 43, *Leases*;**
  - (e) **Insurance contracts within the scope of the relevant international or national accounting standard dealing with insurance contracts<sup>1</sup>;**
  - (f) **Financial instruments and other contractual rights or obligations within the scope of IPSAS 41, *Financial Instruments*;**
  - (g) **Rights or obligations arising from binding arrangements within the scope of IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, IPSAS 32, *Service Concession Arrangements: Grantor*, IPSAS 34, *Separate Financial Statements*, IPSAS 35, *Consolidated Financial Statements*, IPSAS 36, *Investments in Associates and Joint Ventures*, IPSAS 37, *Joint Arrangements*, IPSAS 39, *Employee Benefits*, and IPSAS 40;**
  - (h) **Non-monetary exchanges between entities in the same line of business to facilitate sales to resource providers or potential resource providers. For example, this Standard would not apply to a binding arrangement between two public sector entities that agree to an exchange of electricity to satisfy demand from their resource providers in different specified locations on a timely basis;**

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<sup>1</sup> There is no equivalent IPSAS and no standard is being developed in the IPSAS literature on insurance contracts.

- (i) Gains from the sale of non-financial assets that are not an output of an entity's activities and are within the scope of IPSAS 16, *Investment Property*, IPSAS 45, *Property, Plant, and Equipment*<sup>2</sup>, or IPSAS 31, *Intangible Assets* (see paragraph AG5);
- (j) Changes in the value of current and non-current assets arising from subsequent measurement;
- (k) Initial recognition or changes in the fair value of biological assets related to agricultural activity (see IPSAS 27, *Agriculture*); and
- (l) The extraction of mineral resources.

## Definitions

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

For the purposes of this Standard, a **binding arrangement** is an arrangement that confers both rights and obligations, enforceable through legal or equivalent means, on the parties to the arrangement. (Paragraphs AG10–AG31 provide additional guidance.)

A **binding arrangement asset** is an entity's right to consideration for satisfying its compliance obligations in compliance with the terms of the binding arrangement when that right is conditioned on something other than the passage of time (for example, the entity's future performance).

A **binding arrangement liability** is an entity's obligation to satisfy its compliance obligation in compliance with the terms of the binding arrangement for which the entity has received consideration (or the amount is due) from the resource provider.

From the perspective of a resource recipient, a **capital transfer** is an inflow of cash or another asset that arises from a binding arrangement with a specification that the entity acquires or constructs a non-financial asset that will be controlled by the entity. (Paragraph AG140 provides additional guidance.)

A **compliance obligation** is an entity's promise in a binding arrangement to either use resources<sup>3</sup> internally for distinct goods or services<sup>4</sup> or transfer distinct goods or services to a purchaser or third-party beneficiary.

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

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

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<sup>2</sup> If this Standard is applied prior to IPSAS 45, then references to IPSAS 45 in this Standard should refer to IPSAS 17, *Property, Plant, and Equipment*.

<sup>3</sup> In this Standard, the term resource includes goods, services, and other assets, which may encompass cash or non-current assets.

<sup>4</sup> In this Standard, references to goods and services, or goods or services are to be read as incorporating references to cash and non-current assets.

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

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

A **purchaser** is a resource provider that provides a resource to the entity in exchange for goods or services that are an output of an entity's activities under a binding arrangement for its own consumption. (Paragraph AG27 provides additional guidance.)

A **resource provider** is the party that provides a resource to the entity. (Paragraphs AG26–AG31 provides additional guidance.)

The **stand-alone value** (of a good or service) is the price of a good or service that is required to be used internally, or provided separately to a purchaser or third-party beneficiary.

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

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

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

A **third-party beneficiary** is an entity, household or individual who will benefit from a transaction made between other parties by receiving resources. (Paragraph AG29 provides additional guidance.)

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

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

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

## Revenue

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

6. Where an entity incurs some cost in relation to revenue arising from a revenue transaction, the revenue is the gross inflow of future economic benefits or service potential, and any transfer of resources is recognized as a cost of the transaction. For example, if an entity is required to pay delivery and installation costs in relation to the transfer of an item of plant to it from another entity (resource provider), those costs are recognized separately from revenue arising from the transfer of the item of plant. Delivery and installation costs are recognized in accordance with IPSAS 45.

### *Taxes*

7. Taxes, which include compulsory contributions and levies, are the major source of revenue for many governments and other public sector entities. Taxes are defined in paragraph 4 as economic benefits or service potential compulsorily paid or payable to public sector entities, in accordance with laws and/or regulations, established to provide revenue to the government, excluding fines or other penalties imposed for breaches of laws and/or regulations. Non-compulsory transfers to the government or public sector entities, such as donations and the payment of fees, are not taxes, although they may be the result of transactions without a binding arrangement. A government levies taxation on individuals and other entities, known as taxpayers, within its jurisdiction by use of its sovereign powers.
8. The rights (of a government to calculate the tax receivable and ensure payment is received) and obligations (on the taxpayer to submit returns and monies when due) established in tax laws and/or regulations do not create binding arrangements between the government and the taxpayer.

### **Identify the Revenue Transaction**

9. Public sector revenues may arise from transactions without binding arrangements or with binding arrangements. The majority of revenue of governments and other public sector entities is typically derived from transactions without binding arrangements, or from transactions with binding arrangements that do not include transfers of distinct goods or services to external parties.
10. **At inception, an entity should first consider whether it has entered into a revenue transaction with or without a binding arrangement.**

### **Identify whether a Binding Arrangement Exists**

11. **For an arrangement to be binding, it must be enforceable through legal or equivalent means. Enforceability can arise from various mechanisms, so long as the mechanism(s) provide(s) the entity with the ability to enforce the terms of the binding arrangement and hold the parties accountable for the satisfaction of their obligations.**
12. In determining whether an arrangement is enforceable, the entity considers the substance rather than the legal form of the arrangement. The assessment of whether an arrangement is enforceable is based on an entity's ability to enforce the specified terms and conditions of the arrangement and the satisfaction of the other parties' stated obligations.
13. A binding arrangement includes both rights and obligations that are enforceable for two or more of the parties in the arrangement. Each party's enforceable rights and obligations within the binding arrangement are interdependent and inseparable.
14. Binding arrangements can be evidenced in several ways. A binding arrangement can be written, oral or implied by an entity's customary practices. The practices and processes for establishing binding



arrangements vary across legal jurisdictions, sectors and entities. In addition, they may vary within an entity (for example, they may depend on the class of the resource provider or the nature of the entity's promise in the binding arrangement).

15. An entity will apply the recognition and measurement criteria in this Standard as follows:
  - (a) Revenue from transactions without binding arrangements are accounted for by applying paragraphs 18–55, with guidance specific to taxes in paragraphs 36–55; and
  - (b) Revenue from transactions with binding arrangements are accounted for by applying paragraphs 56–147.
16. Paragraphs AG10–AG31 provide additional guidance on enforceability and binding arrangements.

## Revenue from Transactions without Binding Arrangements

### Recognition

17. **An entity's revenue transaction without a binding arrangement may confer rights and/or obligations. Any entity shall determine if:**
  - (a) **Any of its rights in its revenue transaction without binding arrangements meet the definition of an asset in accordance with paragraphs 18–25; and**
  - (b) **Any of its obligations in its revenue transaction without binding arrangements meet the definition of a liability in accordance with paragraphs 26–27.**

### *Analysis of the Initial Inflow of Resources*

18. An entity may receive an initial inflow of resources from a revenue transaction without a binding arrangement. The entity recognizes this inflow of resources as an asset if it presently controls the resources (such as goods, services, or other assets) received as a result of past events, and the value of the asset can be measured reliably.<sup>5</sup> Control of the resource entails the ability of the entity to use the resource (or direct other parties on its use) so as to derive the benefit of the service potential or economic benefits embodied in the resource in achieving its service delivery or other objectives. A past event that gives the entity control of a resource may be a purchase, a taxable event, or a transfer. Transactions or events expected to occur in the future do not in themselves give rise to assets – for example, an intention to levy taxation is not a past event that gives rise to an asset in the form of a claim against a taxpayer.
19. The ability to exclude or regulate the access of others to the benefits of an asset is an essential element of control that distinguishes an entity's assets from those public goods that all entities have access to and benefit from. In the public sector, governments exercise a regulatory role over certain activities, for example, financial institutions or pension funds. This regulatory role does not necessarily mean that such regulated items meet the definition of an asset of the government, or satisfy the criteria for recognition as an asset in the general purpose financial statements of the

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<sup>5</sup> Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent. Paragraph BC16 of IPSAS 1, *Presentation of Financial Statements* discusses the transitional approach to the explanation of reliability.

government that regulates those assets. In accordance with paragraph AG143, entities may, but are not required to, recognize services in-kind.

20. Each type of inflow of resources is analyzed and accounted for separately. In certain circumstances, such as when a creditor forgives a liability, a decrease in the carrying amount of a previously recognized liability may give rise to an inflow of resources. In some cases, gaining control of the inflow of resources may also carry with it obligations that the entity may recognize as a liability until the obligations are satisfied (in accordance with paragraph 26).

#### Right to an Inflow of Resources

21. When an entity has not received an inflow of resources for a revenue transaction without a binding arrangement, it should consider whether it has a right to receive an inflow of goods, services, or other assets which may be a resource that meets the definition of an asset and is to be recognized as an asset. The entity bases this determination on the facts and circumstances of its revenue transaction, its ability to enforce this right through legal or equivalent means, its past experience with similar types of flows of resources, and its expectations regarding the resource provider's ability and intention to provide the resources.
22. An announcement of an intention to transfer resources to a public sector entity is not of itself sufficient to identify resources as controlled by an entity.<sup>6</sup>
23. In circumstances where an agreement is required before resources can be transferred, an entity will not identify the resources as controlled until such time as the entity's right in the agreement is enforceable, because the entity cannot exclude or regulate the access of the resource provider to the resources. In many instances, the entity will need to establish enforceability of its control of resources before it can recognize an asset. If an entity does not have an enforceable claim to resources, it cannot exclude or regulate the resource provider's access to those resources.

#### Contingent Assets

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

#### Subsequent Consideration of Asset Recognition Criteria

25. An entity shall continue to assess the revenue transaction, and any inflow of resources received or to be received, to determine whether the criteria for asset recognition in paragraph 21 are subsequently met.

#### *Existence and Recognition of a Liability*

26. An entity may have an obligation associated with the inflow of resources as a result of entering into a revenue transaction without a binding arrangement. The obligation meets the definition of a liability when it is a present obligation of the entity to transfer resources as a result of past events.

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<sup>6</sup> For example, if a public school were destroyed by a fire and a government announced its intention to transfer funds to rebuild the school, the school would not recognize an inflow of resources (resources receivable) at the time of the announcement.

27. For a liability to exist, it is necessary that the entity cannot avoid a transfer of resources as a consequence of past events, and that the transfer of resources is probable. An entity should consider the facts and circumstances relating to the revenue transaction to determine if the obligation is enforceable and requires an incremental transfer of resources if the entity does not satisfy its obligation(s).
28. An obligation that meets the definition of a liability shall be recognized as a liability when, and only when, the amount of the obligation can be measured reliably.

*Recognition of Revenue Transactions without Binding Arrangements*

29. **When an entity recognizes an inflow or right to an inflow of resources as an asset for a revenue transaction without a binding arrangement in accordance with paragraphs 18–25, it recognizes revenue based on the nature of the requirements in its revenue transaction. An entity shall recognize revenue from a transaction without a binding arrangement:**
  - (a) **When (or as) the entity satisfies any obligations associated with the inflow of resources that meet the definition of a liability; or**
  - (b) **Immediately if the entity does not have an enforceable obligation associated with the inflow of resources.**

**Measurement**

*Measurement of Assets from an Inflow of Resources*

30. **An inflow of resources or a right to an inflow of resources that meets the definition of an asset shall initially be measured by the entity at its transaction consideration as at the date at which the criteria for asset recognition are satisfied. To determine the transaction consideration for non-cash consideration, an entity shall measure the non-cash consideration (or right to a non-cash inflow) at its current value, in accordance with the relevant IPSAS.**
31. After initial recognition, an entity shall subsequently measure:
  - (a) A receivable asset:
    - (i) Within the scope of IPSAS 41 as a financial asset in accordance with IPSAS 41; or
    - (ii) Not within the scope of IPSAS 41 on the same basis as a financial asset in accordance with IPSAS 41, by analogy.
  - (b) All other assets as prescribed by the applicable IPSAS.

*Measurement of Liabilities*

32. **The amount recognized as a liability shall be the best estimate of the amount required to settle the obligation at the reporting date. For the purposes of this Standard, the best estimate of a liability on initial recognition is limited to the value of the associated asset recognized.**
33. The estimate takes account of the risks and uncertainties that surround the events causing the liability to be recognized. Where the time value of money is material, the liability shall be measured at the present value of the amount expected to be required to settle the obligation. This requirement is in accordance with the principles established in IPSAS 19.

*Measurement of Revenue Transactions without Binding Arrangements*

34. **Revenue from transactions without a binding arrangement shall be measured at the amount of the increase in net assets (e.g., the consideration received or receivable) recognized by the entity.**
35. When, as a result of a revenue transaction without a binding arrangement, an entity recognizes an asset, it also recognizes revenue equivalent to the amount of the asset measured in accordance with paragraph 30, subject to any liability recognized in accordance with paragraphs 26–28.

**Taxes**

36. **An entity shall recognize an asset in respect of taxes, which include other compulsory contributions and levies, when the taxable event, or other event giving rise to other compulsory contributions and levies, occurs and the asset recognition criteria are met.**
37. Tax laws and/or regulations can vary significantly from jurisdiction to jurisdiction, but they have a number of common characteristics. Tax laws and/or regulations (a) establish a government's right to collect the tax, (b) identify the basis on which the tax is calculated, and (c) establish procedures to administer the tax, that is, procedures to calculate the tax receivable and ensure payment is received. Tax laws and/or regulations often require taxpayers to file periodic returns to the government agency that administers a particular tax. The taxpayer generally provides details and evidence of the level of activity subject to tax, and the amount of tax receivable by the government is calculated. Arrangements for receipt of taxes vary widely but are normally designed to ensure that the government receives payments on a regular basis without resorting to legal action. Tax laws and/or regulations are usually rigorously enforced and often impose severe penalties on individuals or other entities breaching the law.
38. Resources arising from taxes satisfy the definition of an asset when the entity controls the resources as a result of past events (taxable events) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when they are presently controlled by the entity as a result of past events and their value can be measured reliably. The entity should consider evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.
39. Taxation revenue arises only for the government that imposes the tax, and not for other entities. For example, where the national government imposes a tax that is collected by its taxation agency, assets and revenue accrue to the government, not the taxation agency. Further, where a national government imposes a sales tax, the entire proceeds of which it passes to state governments, based on a continuing appropriation, the national government recognizes assets and revenue for the tax, and a decrease in assets and an expense for the transfer to state governments. The state governments will recognize assets and revenue for the transfer. Where a single entity collects taxes on behalf of several other entities, it is acting as an agent for all of them. For example, where a state taxation agency collects income taxes for the state government and several city governments, it does not recognize revenue in respect of the taxes collected – rather, the individual governments that impose the taxes recognize assets and revenue in respect of the taxes.
40. Taxes do not satisfy the definition of contributions from owners, because the payment of taxes does not give the taxpayers a right to receive (a) distributions of future economic benefits or service potential by the entity during its life, or (b) distribution of any excess of assets over liabilities in the

event of the government being wound up. Nor does the payment of taxes provide taxpayers with an ownership right in the government that can be sold, exchanged, transferred, or redeemed.

41. Taxes are a transaction without a binding arrangement because the taxpayer transfers resources to the government, and the government is not required to transfer distinct goods or services to the taxpayer or a third-party beneficiary in return. While the taxpayer may benefit from a range of social policies established by the government, the taxpayer has no control over which benefits they receive as a result of the payment of taxes.

*Triggering Event for Taxes and Other Compulsory Contributions and Levies*

42. Similar types of taxes are levied in many jurisdictions. The entity analyzes the taxation law in its own jurisdiction to determine what the taxable event is for the various taxes levied.
43. Similar types of other compulsory contributions and levies occur in many jurisdictions. The entity analyzes the law and/or regulation relating to other compulsory contributions and levies in its own jurisdiction to determine what event the government, legislature, or other authority has determined will result in the other compulsory contribution or levy. Examples of such events include:
- (a) Income being earned (where other compulsory contributions are based on earnings, for example other compulsory contributions in respect of unemployment benefits which are based on a percentage of earned income);
  - (b) The passage of time (where other compulsory contributions to a social benefit are based on time, for example monthly payments); and
  - (c) The purchase of goods or services (where levies are based on a percentage of sales, for example where accident benefit schemes impose a levy on fuel sales).

*Advance Receipts of Taxes and Other Compulsory Contributions and Levies*

44. Advance receipts, being amounts received in advance of the taxable event, may also arise in respect of taxes. Consistent with the definitions of assets, liabilities, and the requirements of paragraph 36, resources for taxes and other compulsory contributions and levies received prior to the occurrence of the triggering event for other compulsory contributions and levies are recognized as an asset and a liability (advance receipts), because (a) the event that gives rise to the entity's entitlement to the taxes or other compulsory contributions and levies has not occurred, and (b) the criteria for recognition of taxation revenue or revenue from other compulsory contributions and levies have not been satisfied, notwithstanding that the entity has already received an inflow of resources. Advance receipts in respect of taxes and other compulsory contributions and levies are not fundamentally different from other advance receipts, so a liability is recognized until the triggering event for other compulsory contributions and levies occurs. When the triggering event for other compulsory contributions and levies occurs, the liability is discharged and revenue is recognized.

*Measurement of Assets Arising from Taxation Transactions*

45. Assets arising from taxation transactions are measured in accordance with paragraph 30. An entity shall consider the terms of the transaction and its customary practices to determine the transaction consideration. Assets arising from taxation transactions are measured at the best estimate of the inflow of resources to the entity, which is consistent with the most likely amount (i.e., the single most likely amount or outcome in a range of possible consideration amounts). The accounting policies for

estimating these assets will take account of both the probability that the resources arising from taxation transactions will flow to the government, and the fair value of the resultant assets.

46. Where there is a separation between the timing of the taxable event and the collection of taxes, public sector entities may measure assets arising from these transactions by using, for example, statistical models based on the history of collecting the particular tax, contribution or levy in prior periods. These models will include consideration of the timing of cash receipts from taxpayers, declarations made by taxpayers, and the relationship of taxation, contribution or levy receivable to other events in the economy. Measurement models will also take account of other factors such as:
- (a) The tax law and/or regulation allowing taxpayers a longer period to file returns than the government is permitted for publishing general purpose financial statements;
  - (b) Taxpayers failing to file returns on a timely basis;
  - (c) Valuing non-monetary assets for tax assessment purposes;
  - (d) Complexities in tax law and/or regulation requiring extended periods for assessing taxes due from certain taxpayers;
  - (e) The potential that the financial and political costs of rigorously enforcing the tax laws and/or regulations (or laws and/or regulations relating to other compulsory contributions and levies) and collecting all the taxes, contributions and levies legally due to the government may outweigh the benefits received;
  - (f) The tax law and/or regulation permitting taxpayers to defer payment of some taxes; and
  - (g) A variety of circumstances particular to individual taxes and jurisdictions.
47. Measuring assets and revenue arising from taxation transactions using statistical models may result in the actual amount of assets and revenue recognized being different from the amounts determined in subsequent reporting periods as being due from taxpayers in respect of the current reporting period. Revisions to estimates are made in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.
48. In some cases, the assets arising from taxation transactions cannot be reliably measured until some time after the taxable event has occurred. This may occur if a tax base is volatile and a reliable estimation is not possible. In many cases, the assets and revenue may be recognized in the period subsequent to the occurrence of the taxable event. However, there are exceptional circumstances when several reporting periods will pass before a taxable event results in the recognition of an asset. For example, it may take several years to determine and reliably measure the amount of death duty due in respect of a deceased individual's large estate because it includes a number of valuable antiques and artworks, which require specialist valuations. Consequently, the recognition criteria may not be satisfied until payment is received or receivable.

#### *Measurement of Taxes with Collection Uncertainty*

49. The measurement of assets arising from taxation transactions is limited to the extent that it is highly probable that a significant reversal of the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.
50. In assessing whether it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur once the uncertainty related to the variable consideration is

subsequently resolved, an entity shall consider both the likelihood and the magnitude of the revenue reversal. Factors that could increase the likelihood or the magnitude of a revenue reversal include, but are not limited to, any of the following:

- (a) The amount of consideration is highly susceptible to factors outside the entity's influence. Those factors may include volatility in a market, the judgment or actions of third parties.
- (b) The uncertainty about the amount of consideration is not expected to be resolved for a long period of time. This uncertainty may result from the amount being determined in a period subsequent to timing of the obligating event.
- (c) The entity's experience (or other evidence) with similar types of arrangements is limited, or that experience (or other evidence) has limited predictive value.
- (d) The entity has a practice of either offering a broad range of price concessions or changing the payment terms and conditions of similar arrangements in similar circumstances.
- (e) The transaction has a large number and broad range of possible consideration amounts.

*Expenses Paid Through the Tax System and Tax Expenditures*

- 51. **Taxation revenue shall be determined at a gross amount. It shall not be reduced for expenses paid through the tax system.**
- 52. In some jurisdictions, the government uses the tax system as a convenient method of paying to taxpayers benefits that would otherwise be paid using another payment method, such as writing a check, directly depositing the amount in a taxpayer's bank account, or settling another account on behalf of the taxpayer. For example, a government may pay part of residents' health insurance premiums, to encourage the uptake of such insurance, either by reducing the individual's tax liability, by making a payment by check, or by paying an amount directly to the insurance company. In these cases, the amount is payable irrespective of whether the individual pays taxes. Consequently, this amount is an expense of the government and should be recognized separately in the statement of financial performance. Tax revenue should be increased for the amount of any of these expenses paid through the tax system.
- 53. **Taxation revenue shall not be grossed up for the amount of tax expenditures.**
- 54. In most jurisdictions, governments use the tax system to encourage certain financial behavior and discourage other behavior. For example, in some jurisdictions, homeowners are permitted to deduct mortgage interest and property taxes from their gross income when calculating tax-assessable income. These types of concessions are available only to taxpayers. If an entity (including a natural person) does not pay tax, it cannot access the concession. These types of concessions are called tax expenditures. Tax expenditures are foregone revenue, not expenses, and do not give rise to inflows or outflows of resources – that is, they do not give rise to assets, liabilities, revenue, or expenses of the taxing government.
- 55. The key distinction between expenses paid through the tax system and tax expenditures is that, for expenses paid through the tax system, the amount is available to entities irrespective of whether they pay taxes, or use a particular mechanism to pay their taxes. IPSAS 1 prohibits the offsetting of items of revenue and expense unless permitted by another standard. The offsetting of tax revenue and expenses paid through the tax system is not permitted.

## Revenue from Transactions with Binding Arrangements

### Recognition

#### *Accounting for the Binding Arrangement*

56. **An entity shall account for a binding arrangement using the binding arrangement accounting model if all of the following criteria are met:**
- (a) **The parties to the binding arrangement have approved the binding arrangement (in writing, orally or in accordance with other customary practices) and are committed to perform their respective obligations;**
  - (b) **The entity can identify each party's rights under the binding arrangement;**
  - (c) **The entity can identify the payment terms for the satisfaction of each identified compliance obligation;**
  - (d) **The binding arrangement has economic substance (i.e., the risk, timing or amount of the entity's future cash flows or service potential is expected to change as a result of the binding arrangement) (paragraphs AG32–AG34 provide additional guidance for binding arrangements that require a transfer of distinct goods or services to a purchaser or third-party beneficiary); and**
  - (e) **It is probable that the entity will collect the consideration to which it will be entitled for satisfying its compliance obligations in accordance with the terms of the binding arrangement (paragraphs AG35–AG39 provide additional guidance). In evaluating whether collectability of an amount of consideration is probable, an entity shall consider only the resource provider's ability and intention to pay that amount of consideration when it is due. The amount of consideration to which the entity will be entitled may be less than the transaction consideration stated in the binding arrangement if the consideration is variable because the entity may offer the resource provider a price concession (see paragraph 115).**
57. If a binding arrangement meets the criteria in paragraph 56 at the inception of the binding arrangement, an entity shall not reassess those criteria unless there is an indication of a significant change in facts and circumstances. For example, if a resource provider's ability to pay the consideration deteriorates significantly, an entity would reassess whether it is probable that the entity will collect the consideration to which the entity will be entitled for the satisfaction of any remaining compliance obligations in the binding arrangement.
58. When a binding arrangement does not meet all of the criteria in paragraph 56, the entity shall recognize any consideration received as revenue only when either of the following events has occurred:
- (a) The entity has fully satisfied its compliance obligation to which the consideration that has been received relates and the consideration received from the resource provider is non-refundable; or
  - (b) The binding arrangement has been terminated and the consideration received from the resource provider is non-refundable.



An entity shall continue to assess the binding arrangement to determine whether the criteria in paragraph 56 are subsequently met.

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

#### Combination of Binding Arrangements

62. An entity shall combine two or more binding arrangements entered into at or near the same time with the same resource provider (or related parties of the resource provider) and account for the binding arrangements as a single binding arrangement if one or more of the following criteria are met:
  - (a) The binding arrangements are negotiated as a package with a single objective;
  - (b) The amount of consideration to be paid in one binding arrangement depends on the consideration or performance of the other binding arrangement; or
  - (c) The promises in the binding arrangements (or some promises in each of the binding arrangements) are a single compliance obligation in accordance with paragraphs 68–77.

#### Modifications to a Binding Arrangement

63. A modification to a binding arrangement is a change in the scope or consideration (or both) of a binding arrangement that is approved by the parties to the binding arrangement. In some sectors and jurisdictions, a modification to a binding arrangement may be described as a variation, an amendment, or a change order. A modification to a binding arrangement exists when the parties to a binding arrangement approve a modification that either creates new or changes existing enforceable rights and obligations of the parties to the binding arrangement. A modification to a binding arrangement could be approved in writing, by oral agreement or implied by an entity's customary practices. If the parties to the binding arrangement have not approved a modification to a binding arrangement, an entity shall continue to apply this Standard to the existing binding arrangement until the modification to a binding arrangement is approved.
64. A modification to a binding arrangement may exist even though the parties to the binding arrangement have a dispute about the scope or consideration (or both) of the modification or the parties have approved a change in the scope of the binding arrangement but have not yet determined the corresponding change in consideration. In determining whether the rights and obligations that are created or changed by a modification are enforceable, an entity shall consider all relevant facts and

circumstances including the terms of the binding arrangement and other evidence. If the parties to a binding arrangement have approved a change in the scope of the binding arrangement but have not yet determined the corresponding change in consideration, an entity shall estimate the change to the transaction consideration arising from the modification in accordance with paragraphs 113–117 on estimating variable consideration and paragraphs 119–121 on constraining estimates of variable consideration.

65. An entity shall account for a modification to a binding arrangement as a separate binding arrangement if both of the following conditions are present:
- (a) The scope of the binding arrangement increases because of the addition of promises that are distinct (in accordance with paragraphs 73–77); and
  - (b) The consideration of the binding arrangement increases by an amount of consideration that reflects the entity's stand-alone values of the additional promises and any appropriate adjustments to that value to reflect the circumstances of the particular binding arrangement. For example, an entity may adjust the stand-alone value of an additional good or service for a discount that the resource provider receives, because it is not necessary for the entity to incur the related costs that it would incur when providing a similar good or service to a new resource provider.
66. If a modification to a binding arrangement is not accounted for as a separate binding arrangement in accordance with paragraph 65, an entity shall account for the promises not yet transferred at the date of the modification to a binding arrangement (i.e., the remaining promises) in whichever of the following ways is applicable:
- (a) An entity shall account for the modification to a binding arrangement as if it were a termination of the existing binding arrangement and the creation of a new binding arrangement, if the remaining promises are distinct from the promises satisfied on or before the date of the modification to a binding arrangement. The amount of consideration to be allocated to the remaining compliance obligations (or to the remaining promises in a single compliance obligation identified in accordance with paragraph 68(b)) is the sum of:
    - (i) The consideration promised by the resource provider (including amounts already received from the resource provider) that was included in the estimate of the transaction consideration and that had not been recognized as revenue; and
    - (ii) The consideration promised as part of the modification to a binding arrangement.
  - (b) An entity shall account for the modification to a binding arrangement as if it were a part of the existing binding arrangement if the remaining promises are not distinct and, therefore, form part of a single compliance obligation that is partially satisfied at the date of the modification to a binding arrangement. The effect that the modification to a binding arrangement has on the transaction consideration, and on the entity's measure of progress towards complete satisfaction of the compliance obligation, is recognized as an adjustment to revenue (either as an increase in or a reduction of revenue) at the date of the modification of a binding arrangement (i.e., the adjustment to revenue is made on a cumulative catch-up basis).
  - (c) If the remaining promises are a combination of items (a) and (b), then the entity shall account for the effects of the modification on the unsatisfied (including partially unsatisfied) compliance

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

#### Duration of a Binding Arrangement

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

#### *Identifying Compliance Obligations in a Binding Arrangement*

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

**Paragraphs AG43–AG56 provide additional guidance on identifying compliance obligations.**

69. **A binding arrangement has at least one compliance obligation because its enforceability holds the entity accountable for satisfying its obligations of the arrangement, for which the entity has little or no realistic alternative to avoid.**
70. A series of distinct goods or services has the same pattern of use internally or transfer to the purchaser or third-party beneficiary if both of the following criteria are met:
- (a) Each distinct good or service in the series would meet the criteria in paragraph 92 or 95 to be a compliance obligation satisfied over time; and
  - (b) In accordance with paragraphs 98–99, the same method would be used to measure the entity's progress towards complete satisfaction of the compliance obligation.

#### Promises to Use Resources

71. A binding arrangement generally explicitly states the goods or services that an entity promises to either obtain for use internally or transfer to a purchaser or third-party beneficiary. However, the compliance obligations identified in a binding arrangement may not be limited to the goods or services that are explicitly stated in that binding arrangement. This is because a binding arrangement may also include promises that are implied by an entity's customary practices, published policies or specific statements if, at the time of entering into the binding arrangement, those promises create a valid expectation of the resource provider that the entity will perform, and are of sufficient specificity for them to be able to hold the entity accountable.
72. Compliance obligations do not include activities that an entity must undertake to satisfy a binding arrangement unless the completion of those activities uses resources in a manner clearly specified in the binding arrangement. For example, an entity may need to perform various administrative tasks

to set up a binding arrangement. The performance of those tasks does not use a resource internally for a service or transfer a service to a purchaser or third-party beneficiary as the tasks are performed. Therefore, those setup activities are not a compliance obligation.

#### Identifying Distinct Promises to Use Resources

73. A compliance obligation is a unit of account in a revenue transaction with a binding arrangement that represents a distinct promise or group of promises to which recognition criteria and measurement concepts are applied. A good or service that is promised in a binding arrangement is distinct if both of the following criteria are met:

- (a) The party receiving the good or service can generate economic benefits or service potential from the good or service either on its own or together with other resources that are readily available to that party (i.e., the good or service is capable of being distinct); and
- (b) The entity's promise to use resource internally for the good or service or transfer the good or service to the purchaser or third-party beneficiary is separately identifiable from other promises in the binding arrangement (i.e., the promise is distinct within the context of the binding arrangement).

See paragraphs AG53–AG56 for specific guidance on identifying distinct promises to use resources for another party.

74. An entity determines if the party receiving the good or service is itself, resource provider (purchaser), or a specified third-party beneficiary by considering the nature of its compliance obligation.

- (a) In a compliance obligation where an entity promises to use resources internally for a distinct good or service, the entity itself is the recipient of the goods or services.
- (b) In a compliance obligation where an entity promises to use resources to transfer a distinct good or service to a purchaser or third-party beneficiary, the recipient of the goods or services is either the purchaser, or the third-party beneficiary.

See paragraph AG27 for additional guidance.

75. A party can generate the economic benefits or service potential from the good or service in accordance with paragraph 73(a) if the good or service could be used, consumed, sold for an amount that is greater than scrap value or otherwise held in a way that generates economic benefits or service potential. For some goods or services, a party may be able to generate economic benefits or service potential from the good or service on its own. For other goods or services, a party may be able to generate economic benefits or service potential from the good or service only in conjunction with other readily available resources. A readily available resource is a good or service that is sold separately (by the entity or another entity) or a resource that the party has already obtained from the entity (including goods or services that the entity will use internally or that will be transferred to the purchaser or third-party beneficiary, under the binding arrangement) or from other transactions or events. Various factors may provide evidence that the party can generate economic benefits or service potential from the good or service either on its own or in conjunction with other readily available resources. For example, the fact that the entity regularly internally uses or provides a good or service separately would indicate that a party can generate economic benefits or service potential from the good or service on its own or with other readily available resources.

76. In assessing whether an entity's promises to use resources internally for goods or services or transfer goods or services to the purchaser or third-party beneficiary are separately identifiable in accordance with paragraph 73(b), the objective is to determine whether the nature of the promise, within the context of the binding arrangement, is a promise to use resources in individually specific ways rather than in a combined manner. Factors that indicate that two or more promises are not separately identifiable include, but are not limited to, the following:
- (a) The entity provides a significant service of integrating the goods or services with other goods or services promised in the binding arrangement into a bundle of goods or services that represent the combined output or outputs for which the resource provider has entered into binding arrangements. In other words, the entity is using the goods or services as inputs to produce or deliver the combined output or outputs specified by the resource provider. A combined output or outputs might include more than one phase, element or unit.
  - (b) One or more of the goods or services significantly modifies or customizes, or are significantly modified or customized by, one or more of the other goods or services promised in the binding arrangement.
  - (c) The goods or services are highly interdependent or highly interrelated. In other words, each of the goods or services is significantly affected by one or more of the other goods or services in the binding arrangement. For example, in some cases, two or more goods or services are significantly affected by each other because the entity would not be able to satisfy its promise by using each of the goods or services internally, or transferring each of the goods or services, independently.
77. If a promised good or service is not distinct, an entity shall combine that good or service with other promised goods or services until it identifies a bundle of goods or services that is distinct. In some cases, that would result in the entity accounting for all of the goods or services promised in a binding arrangement as a single compliance obligation.

#### Initial Recognition of Revenue Transactions with a Binding Arrangement

78. When a binding arrangement is wholly unsatisfied in accordance with paragraph 60, an entity shall not recognize any asset, liability or revenue associated with the binding arrangement, unless the binding arrangement is onerous. The recognition of assets, liabilities, and revenues commences when one party to the binding arrangement starts to satisfy its obligations under the arrangement.
79. Where a binding arrangement becomes onerous, an entity shall account for the expected deficit in accordance with IPSAS 19. Paragraphs AG57–AG58 provide additional guidance on unsatisfied binding arrangements.

#### Analysis of the Initial Inflow of Resources

80. An entity may receive or have the right to an inflow of resources arising from a revenue transaction with a binding arrangement before or after it begins satisfying its compliance obligations. An entity should apply paragraphs 18–25, and recognize an inflow of resources from a revenue transaction with a binding arrangement as an asset when the definition of, and the recognition criteria for, an asset are met.

### Existence and Recognition of a Liability

81. Public sector entities typically receive resources from governments or other entities. When an entity recognizes an asset for an inflow of resources, it shall consider if there are compliance obligations related to the inflow which result in the recognition of a liability.
82. A compliance obligation gives rise to a liability when:
- (a) The entity has received resources associated with its unsatisfied or partially unsatisfied compliance obligation in a binding arrangement; and
  - (b) The resource provider can enforce the binding arrangement, if the entity does not satisfy the compliance obligation(s) associated with the consideration received, by requiring the entity to transfer resources to another party in compliance with the terms of the binding arrangement.

See additional guidance in paragraphs AG59–AG62.

83. In accordance with paragraph 27, a liability exists if the entity cannot avoid a transfer of resources as a consequence of past events, and the transfer of resources is probable. An entity should consider the facts and circumstances relating to the binding arrangement to determine if the other party or parties (which is typically the resource provider) are able to enforce their rights and impose a consequence that requires an incremental transfer of resources as a result of the entity's non-compliance (i.e., not satisfying its compliance obligation(s)).
84. As an administrative convenience, a transfer of resources as a consequence of the entity not satisfying its compliance obligations may be effectively returned by deducting the amount to be returned from other assets due to be transferred for other purposes. The entity will still recognize the gross amounts in its financial statements: that is, the entity will recognize a reduction in assets and liabilities for the return of the transfer under the terms of the breached binding arrangement, and will reflect the recognition of assets, liabilities, and/or revenue for the new transfer.
85. If an entity receives resources prior to both the parties agreeing to the terms of the arrangement and it is expected that a binding arrangement will be entered into, it recognizes a liability for an advance receipt until such time as the arrangement becomes binding.
86. A compliance obligation that meets the definition of a liability shall be recognized as a liability when, and only when the amount of the obligation can be measured reliably. The entity shall continue to recognize the liability until one of the events in paragraph 58 is subsequently met.

### *Recognition of Revenue Transactions with a Binding Arrangement*

87. **When an entity receives an inflow of resources in a revenue transaction with a binding arrangement that meets the definition of and recognition criteria for, an asset in accordance with paragraphs 18–25, the entity shall recognize:**
- (a) Revenue for any satisfied compliance obligations in respect of the same inflow; and**
  - (b) A liability for any unsatisfied compliance obligations in respect of the same inflow.**
88. **The timing of revenue recognition is determined by the nature of the requirements in a binding arrangement and their settlement. An entity shall recognize revenue from a transaction with a binding arrangement when (or as) the entity satisfies a compliance obligation by using resources in the specified manner, in compliance with the terms of the binding arrangement.**

**The entity shall reduce the carrying amount of any liability that was recognized in accordance with paragraphs 81–86 by an equal amount. Paragraphs AG63–AG95 provide additional guidance on the satisfaction of compliance obligations.**

89. **An entity satisfies a compliance obligation by using resources internally for a promised good or service (i.e., an asset), or to transfer a promised good or service to a purchaser or third-party beneficiary. An asset is used internally or transferred when (or as) the entity receiving the asset obtains control of that asset.**
90. Goods and services are assets, even if only momentarily, when they are received and used (as in the case of many services). Control includes the ability to prevent other entities from directing the use of, and obtaining the benefits from, a resource (see paragraph 18). The economic benefits or service potential embodied in a resource are the potential cash flows (inflows or savings in outflows), or the capability to provide services that contribute to achieving the entity's objectives, that can be obtained directly or indirectly in many ways, such as by:
- (a) Using the resource to provide internal training;
  - (b) Using the resource to produce goods or provide services (including public services);
  - (c) Using the resource to enhance the value of other assets;
  - (d) Using the resource to settle liabilities or reduce expenses;
  - (e) Selling or exchanging the resource;
  - (f) Pledging the resource to secure a loan; and
  - (g) Holding the resource.
91. For each compliance obligation identified in accordance with paragraphs 68–77, an entity shall determine at the inception of the binding arrangement whether it satisfies the compliance obligation over time (in accordance with paragraphs 92–93 or paragraphs 95–96) or satisfies the compliance obligation at a point in time (in accordance with paragraph 94 or paragraph 97). If the entity does not satisfy a compliance obligation over time, the compliance obligation is satisfied at a point in time.

#### Compliance Obligations to Use Resources for Goods or Services Internally

##### *Satisfied Over Time*

92. An entity obtains control of a good or service over time and, therefore, satisfies a compliance obligation and recognizes revenue over time, if one of the following criteria is met:
- (a) The entity simultaneously receives and consumes the economic benefits or service potential provided by the entity's performance as the entity performs (see paragraphs AG64–AG65);
  - (b) The entity's performance creates or enhances an asset (for example, work in progress) that the entity controls as the asset is created or enhanced (see paragraph AG66); or
  - (c) The entity has an enforceable right to consideration for performance completed to date (see paragraph 93).
93. An entity shall consider the terms of the binding arrangement, as well as any laws that apply to the binding arrangement, when evaluating whether it has an enforceable right to consideration for any compliance obligation completed to date in accordance with paragraph 92(c). The right to

consideration for any compliance obligation completed to date does not need to be for a fixed amount. However, at all times throughout the duration of the binding arrangement, the entity must be entitled to an amount that at least compensates the entity for any compliance obligation completed to date if the binding arrangement is terminated by the resource provider or another party with enforceable rights and obligations in the binding arrangement for reasons other than the entity's failure to perform as promised. Paragraphs AG67–AG71 provide guidance for assessing the existence and enforceability of a right to consideration and whether an entity's right to consideration would entitle the entity to be paid for any compliance obligation completed to date.

*Satisfied at a Point in Time*

94. If a compliance obligation is not satisfied over time in accordance with paragraphs 92–93, an entity satisfies the compliance obligation at a point in time. To determine the point in time at which the entity obtains control of a promised asset and satisfies a compliance obligation, the entity shall consider the requirements for control in paragraphs 89–90.

Compliance Obligations to Transfer Goods or Services to Another Party (Purchaser or Third-Party Beneficiary)

*Satisfied Over Time*

95. An entity transfers control of a good or service over time and, therefore, satisfies a compliance obligation and recognizes revenue over time, if one of the following criteria is met:
- (a) The purchaser or third-party beneficiary simultaneously receives and consumes the economic benefits or service potential provided by the entity's performance as the entity performs (see paragraphs AG73–AG74);
  - (b) The entity's performance creates or enhances an asset (for example, work in progress) that the purchaser or third-party beneficiary controls as the asset is created or enhanced (see paragraph AG75); or
  - (c) The entity's performance does not create an asset with an alternative use to the entity (see paragraph 96) and the entity has an enforceable right to consideration for performance completed to date (see paragraph 93).
96. An asset created by an entity's performance does not have an alternative use to an entity if the entity is either restricted by the binding arrangement from readily directing the asset for another use during the creation or enhancement of that asset or limited practically from readily directing the asset in its completed state for another use. The assessment of whether an asset has an alternative use to the entity is made at the inception of the binding arrangement. After the inception of the binding arrangement, an entity shall not update the assessment of the alternative use of an asset unless the parties to the binding arrangement approve a modification to a binding arrangement that substantively changes the compliance obligation. Paragraphs AG76–AG78 provide guidance for assessing whether an asset has an alternative use to an entity.

*Satisfied at a Point in Time*

97. If a compliance obligation is not satisfied over time in accordance with paragraphs 95–96, an entity satisfies the compliance obligation at a point in time. To determine the point in time at which a purchaser or third-party beneficiary obtains control of a promised asset and the entity satisfies a compliance obligation, the entity shall consider the requirements for control in paragraphs 89–90 (and



AG183–AG185 if the entity has a repurchase agreement). In addition, an entity shall consider indicators of the transfer of control, which include, but are not limited to, the following:

- (a) The entity has a present right to consideration for the asset — if a resource provider is presently obligated to pay for an asset, then that may indicate that the resource provider has obtained the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the asset in exchange.
- (b) The purchaser or third-party beneficiary has legal title to the asset — legal title may indicate which party to a binding arrangement has the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, an asset or to restrict the access of other entities to those economic benefits or service potential. Therefore, the transfer of legal title of an asset may indicate that the purchaser or third-party beneficiary has obtained control of the asset. If an entity retains legal title solely as protection against the resource provider’s failure to pay, those rights of the entity would not preclude the purchaser or third-party beneficiary from obtaining control of an asset.
- (c) The entity has transferred physical possession of the asset — the purchaser’s or third-party beneficiary’s physical possession of an asset may indicate that the resource provider has the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the asset or to restrict the access of other entities to those economic benefits or service potential. However, physical possession may not coincide with control of an asset. For example, in some repurchase agreements and in some consignment arrangements, a resource provider or consignee may have physical possession of an asset that the entity controls. Conversely, in some bill-and-hold arrangements, the entity may have physical possession of an asset that the resource provider controls. Paragraphs AG183–AG196, AG197–AG198, and AG199–AG202 provide guidance on accounting for repurchase agreements, consignment arrangements and bill-and-hold arrangements, respectively.
- (d) The purchaser or third-party beneficiary has the significant risks and rewards of ownership of the asset — the transfer of the significant risks and rewards of ownership of an asset to the purchaser or third-party beneficiary may indicate that the resource provider has obtained the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the asset. However, when evaluating the risks and rewards of ownership of a promised asset, an entity shall exclude any risks that give rise to a separate compliance obligation in addition to the compliance obligation to transfer the asset. For example, an entity may have transferred control of an asset to a resource provider but not yet satisfied an additional compliance obligation to provide maintenance services related to the transferred asset.
- (e) The resource provider has accepted the asset — the resource provider’s acceptance of an asset may indicate that it has obtained the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the asset. To evaluate the effect of an acceptance clause in a binding arrangement on when control of an asset is transferred, an entity shall consider the guidance in paragraphs AG82–AG85.

### Measuring Progress Towards Complete Satisfaction of a Compliance Obligation

98. For each compliance obligation satisfied over time in accordance with paragraphs 92–93 (for compliance obligations to use goods or services internally) or paragraphs 95–96 (for compliance obligations to transfer goods or services to another party), an entity shall recognize revenue over time by measuring the progress towards complete satisfaction of that compliance obligation. The objective when measuring progress is to depict an entity's performance to satisfy its compliance obligation.
99. An entity shall apply a single method of measuring progress for each compliance obligation satisfied over time and the entity shall apply that method consistently to similar compliance obligations and in similar circumstances. At the end of each reporting period, an entity shall remeasure its progress towards complete satisfaction of a compliance obligation satisfied over time.

### Methods for Measuring Progress

100. Appropriate methods of measuring progress include output methods and input methods. Paragraphs AG86–AG95 provide guidance for using output methods and input methods to measure an entity's progress towards complete satisfaction of a compliance obligation. In determining the appropriate method for measuring progress, an entity shall consider the nature of the entity's promise, and whether the terms of the binding arrangement specify the activities or expenditures an entity is to perform or incur, respectively.
101. When applying a method for measuring progress for a specific compliance obligation, an entity shall exclude from the measure of progress any goods or services not directly related to that compliance obligation:
- (a) For a compliance obligation where the entity promises to use resources internally for a distinct good or service, the entity shall exclude from the measure of progress any goods or services for which the entity does not retain control. Conversely, an entity shall include in the measure of progress any goods or services for which the entity retains control when satisfying that compliance obligation; and
  - (b) For a compliance obligation where the entity promises to use resources to transfer a distinct good or service to another party, the entity shall exclude from the measure of progress any goods or services for which the entity does not transfer control to another party (i.e., a purchaser or third-party beneficiary). Conversely, an entity shall include in the measure of progress any goods or services for which the entity does transfer control to another party (i.e., a purchaser or third-party beneficiary) when satisfying that compliance obligation.
102. As circumstances change over time, an entity shall update its measure of progress to reflect any changes in the satisfaction of the compliance obligation. Such changes to an entity's measure of progress shall be accounted for as a change in accounting estimate in accordance with IPSAS 3.

### Reasonable Measures of Progress

103. An entity shall recognize revenue for a compliance obligation satisfied over time only if the entity can reasonably measure its progress towards complete satisfaction of the compliance obligation. An entity would not be able to reasonably measure its progress towards complete satisfaction of a compliance obligation if it lacks reliable information that would be required to apply an appropriate method of measuring progress.

104. In some circumstances (for example, in the early stages of a binding arrangement), an entity may not be able to reasonably measure the outcome of a compliance obligation, but the entity expects to recover the costs incurred in satisfying the compliance obligation. In those circumstances, the entity shall recognize revenue only to the extent of the costs incurred until such time that it can reasonably measure the outcome of the compliance obligation.

Subsequent Consideration of Asset Recognition Criteria

105. When an inflow of resources from a binding arrangement within the scope of this Standard does not meet the criteria in paragraph 18, and an entity subsequently receives an inflow of resources from the resource provider, the entity shall recognize the inflow received as revenue only when either of the following events has occurred:
- (a) The entity has no unsatisfied compliance obligation; or
  - (b) The arrangement has been terminated and the inflow received from the resource provider is non-refundable.

**Measurement**

*Measurement of Assets from an Inflow of Resources*

106. **An asset in a revenue transaction with a binding arrangement shall initially be measured by the entity at its transaction consideration as at the date in which the criteria for asset recognition are satisfied (see paragraphs 109–132). An entity shall subsequently measure the asset in accordance with paragraph 31.**

*Measurement of Liabilities*

107. The amount recognized as a liability shall be the best estimate of the amount required to settle the compliance obligation at the reporting date. For the purposes of this Standard, the best estimate of a liability on initial recognition is limited to the value of the associated asset recognized for the inflow of resources. An entity shall apply paragraph 33 in determining its best estimate of the liability.

*Measurement of Revenue Transactions with Binding Arrangements*

108. **When (or as) a compliance obligation is satisfied, an entity shall recognize as revenue the amount of the transaction consideration (which excludes estimates of variable consideration that are constrained in accordance with paragraphs 119–121) that is allocated to that compliance obligation.**

Determining the Transaction Consideration

109. An entity shall consider the terms of the binding arrangement and its customary practices to determine the transaction consideration. The transaction consideration is the amount of resources to which an entity expects to be entitled in the binding arrangement for satisfying its compliance obligations, excluding amounts collected on behalf of third parties (for example, some sales taxes). The consideration promised in a binding arrangement may include fixed amounts, variable amounts, or both.

110. Credit risk is not considered when determining the amount the entity expects to be entitled to. Impairment losses relating to a credit risk (that is, impairment of a receivable) are measured based on the guidance in IPSAS 41.
111. The nature, timing and amount of consideration affect the estimate of the transaction consideration. When determining the transaction consideration, an entity shall consider the effects of all of the following:
  - (a) Variable consideration (see paragraphs 113–117 and 122);
  - (b) Constraining estimates of variable consideration (see paragraphs 119–121);
  - (c) The existence of a significant financing component in the binding arrangement (see paragraphs 123–128);
  - (d) Non-cash consideration (see paragraphs 129–132); and
  - (e) Consideration payable to a resource provider (see paragraphs AG104–AG106).
112. For the purpose of determining the transaction consideration, an entity shall assume that the consideration will be received in accordance with the terms of the existing binding arrangement and that the binding arrangement will not be cancelled, renewed or modified.

*Variable Consideration*

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

Paragraph AG37 provides additional guidance on implicit price concessions.

116. An entity shall estimate an amount of variable consideration by using either of the following methods, depending on which method the entity expects to better predict the amount of consideration to which it expects to be entitled to:

- (a) The expected value—the expected value is the sum of probability-weighted amounts in a range of possible consideration amounts. An expected value may be an appropriate estimate of the amount of variable consideration if an entity has a large number of binding arrangements with similar characteristics; or
  - (b) The most likely amount—the most likely amount is the single most likely amount in a range of possible consideration amounts (i.e., the single most likely outcome of the binding arrangement). The most likely amount may be an appropriate estimate of the amount of variable consideration if the binding arrangement has only two possible outcomes (for example, an entity either completes construction of infrastructure on schedule or not).
117. An entity shall apply one method consistently when estimating the effect of uncertainty on an amount of variable consideration to which the entity expects to be entitled. In addition, an entity shall consider all the information (historical, current and forecast) that is reasonably available to the entity and shall identify a reasonable number of possible consideration amounts. The information that an entity uses to estimate the amount of variable consideration would typically be similar to the information that the entity's management uses to estimate the amount receivable. In cases where the binding arrangement requires the entity to transfer distinct goods or services to another party, the information would typically be similar to the information that the entity's management uses during the bid-and-proposal process and in establishing prices for promised goods or services.

#### *Refund Liabilities*

118. An entity may enter into a binding arrangement which includes a right of return. In these cases, the entity shall recognize a refund liability if the entity receives consideration from a resource provider and expects to refund some or all of that consideration to the resource provider relating to a transfer of distinct goods or services to a purchaser or third-party beneficiary. A refund liability is measured at the amount of consideration received (or receivable) for which the entity does not expect to be entitled (i.e., amounts not included in the transaction consideration). The refund liability (and corresponding change in the transaction consideration and, therefore, the binding arrangement liability) shall be updated at the end of each reporting period for changes in circumstances. To account for a refund liability relating to a sale with a right of return, an entity shall apply the guidance in paragraphs AG96–AG103.

#### *Constraining Estimates of Variable Consideration*

119. An entity shall include in the transaction consideration some or all of an amount of variable consideration estimated in accordance with paragraph 116 only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.
120. In assessing whether it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur once the uncertainty related to the variable consideration is subsequently resolved, an entity shall consider both the likelihood and the magnitude of the revenue reversal. Factors that could increase the likelihood or the magnitude of a revenue reversal include, but are not limited to, any of the following:
- (a) The amount of consideration is highly susceptible to factors outside the entity's influence. Those factors may include volatility in a market, the judgment or actions of third parties,

weather conditions and a high risk of obsolescence of the consideration (when it is non-cash) or 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. This uncertainty may result from the amount being determined in a period subsequent to timing of the obligating event.
- (c) The entity's experience (or other evidence) with similar types of binding arrangements is limited, or that experience (or other evidence) has limited predictive value.
- (d) The entity has a practice of either offering a broad range of price concessions or changing the payment terms and conditions of similar binding arrangements in similar circumstances.
- (e) The binding arrangement has a large number and broad range of possible consideration amounts.

121. An entity shall apply paragraphs AG180–AG182 to account for consideration in the form of a sales-based or usage-based royalty that is promised in exchange for a license of intellectual property.

*Reassessment of Variable Consideration*

122. At the end of each reporting period, an entity shall update the estimated transaction consideration (including updating its assessment of whether an estimate of variable inflow is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period. The entity shall account for changes in the transaction consideration in accordance with paragraphs 144–147.

*The Existence of a Significant Financing Component in the Binding Arrangement*

123. In determining the transaction consideration, an entity shall adjust the amount of consideration for the effects of the time value of money if the timing of the inflows agreed to by the parties to the binding arrangement (either explicitly or implicitly) provides the resource provider or the entity with a significant benefit of financing the binding arrangement. In those circumstances, the binding arrangement contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the binding arrangement or implied by the terms agreed to by the parties to the binding arrangement or applicable laws and/or regulations.

124. The objective when adjusting the promised amount of consideration for a significant financing component is for an entity to recognize revenue at an amount that reflects the consideration that a resource provider would have transferred if the resource provider had transferred cash (i.e., the cash price) for those goods or services promised in the compliance obligation when (or as) the entity uses them (internally) or transfers them (to the purchaser or third-party beneficiary). An entity shall consider all relevant facts and circumstances in assessing whether a binding arrangement contains a financing component and whether that financing component is significant to the binding arrangement, including both of the following:

- (a) The difference, if any, between the amount of promised consideration and the cash price of the promised goods or services in the compliance obligation; and
- (b) The combined effect of both of the following:

- (i) The expected length of time between when the entity satisfies the compliance obligation (if any) and when the resource provider transfers the consideration; and
  - (ii) The prevailing interest rates in the relevant market.
- 125. Notwithstanding the assessment in paragraph 124, a binding arrangement with a resource provider would not have a significant financing component if any of the following factors exist:
  - (a) The resource provider made the transfer in advance and the timing of when the compliance obligation is satisfied is at the discretion of the resource provider.
  - (b) A substantial amount of the inflow promised by the resource provider is variable and the amount or timing of that consideration varies on the basis of the occurrence or non-occurrence of a future event that is not substantially within the control of the resource provider or the entity.
  - (c) The difference between the consideration and the cash price of the transfer (as described in paragraph 124) arises for reasons other than the provision of finance to either the resource provider or the entity, and the difference between those amounts is proportional to the reason for the difference. For example, the terms might provide the entity or the resource provider with protection from the other party failing to adequately complete some or all of its obligations under the binding arrangement.
- 126. As a practical expedient, an entity need not adjust the consideration for the effects of a significant financing component if the entity expects, at the inception of the binding arrangement, that the period between when the entity satisfies the compliance obligation and when the resource provider transfers the consideration will be one year or less.
- 127. To meet the objective in paragraph 124 when adjusting the consideration for a significant financing component, an entity shall use the discount rate that would be reflected in a separate financing transaction between the entity and its resource provider at the inception of the binding arrangement. That rate would reflect the credit characteristics of the party receiving financing in the binding arrangement, as well as any collateral or security provided by the resource provider or the entity, including assets transferred in the binding arrangement. An entity may be able to determine that rate by identifying the rate that discounts the nominal amount of the consideration to the price that the resource provider would transfer when (or as) the compliance obligation is satisfied (where applicable). After the inception of the binding arrangement, an entity shall not update the discount rate for changes in interest rates or other circumstances (such as a change in the assessment of the resource provider's credit risk).
- 128. An entity shall present the effects of financing (interest revenue or interest expense) separately from revenue from binding arrangements in the statement of financial performance. Interest revenue or interest expense is recognized only to the extent that a binding arrangement asset (or receivable) or a binding arrangement liability is recognized in accounting for a binding arrangement.

#### *Non-Cash Consideration*

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

## REVENUE

130. If an entity cannot reasonably estimate the current value of the non-cash consideration, the entity shall measure the consideration indirectly by reference to the stand-alone value of the goods or services that are required to be used internally or transferred to the purchaser or third-party beneficiary (or class of resource provider) for the consideration.
131. The current value of the non-cash consideration may vary because of the form of the consideration. If the current value of the non-cash consideration promised by a resource provider varies for reasons other than only the form of the consideration, an entity shall apply the requirements in paragraphs 119–121.
132. If a resource provider contributes goods or services (for example, materials, equipment or labor) to facilitate an entity's satisfaction of the binding arrangement, the entity shall assess whether it obtains control of those contributed goods or services. If so, the entity shall account for the contributed goods or services as non-cash consideration received from the resource provider.

### Allocating the Transaction Consideration to Compliance Obligations

133. **The objective when allocating the transaction consideration is for an entity to allocate the transaction consideration to each compliance obligation in the amount that depicts the amount of consideration to which the entity expects to be entitled in satisfying the compliance obligations.**
134. To meet the allocation objective, an entity shall allocate the transaction consideration to each compliance obligation identified in the binding arrangement on a relative stand-alone value basis in accordance with paragraphs 136–140, except as specified in paragraphs AG107–AG109 (for allocating discounts) and paragraphs 141–143 (for allocating consideration that includes variable amounts). The amount of revenue recognized shall be a proportionate amount of the resource inflow recognized as an asset, based on the estimated percentage of the total compliance obligations satisfied.
135. Paragraphs 136–143 do not apply if a binding arrangement has only one compliance obligation. However, paragraphs 141–143 may apply if an entity promises to use or transfer a series of distinct goods or services identified as a single compliance obligation in accordance with paragraph 68(b) and the promised consideration includes variable amounts.

### *Allocation Based on Stand-Alone Values*

136. To allocate the transaction consideration to each compliance obligation on a relative stand-alone value basis, an entity shall determine the stand-alone value at the inception of the binding arrangement of the distinct good or service underlying each compliance obligation in the binding arrangement and allocate the transaction consideration in proportion to those stand-alone values.
137. The stand-alone value is the price of a good or service that is required to be used internally or provided separately to a purchaser or third-party. The best evidence of a stand-alone value is the observable price of a good or service when the entity provides that good or service separately in similar circumstances and to similar resource providers. In a binding arrangement, the stated price or a list price for a good or service may be (but shall not be presumed to be) the stand-alone value of that good or service.
138. If a stand-alone value is not directly observable, an entity shall estimate the stand-alone value at an amount that would result in the allocation of the transaction consideration meeting the allocation



objective in paragraph 133. When estimating a stand-alone value, an entity shall consider all information (including entity-specific factors, information about the resource provider or class of resource provider, and market conditions where relevant) that is reasonably available to the entity. In doing so, an entity shall maximize the use of observable inputs and apply estimation methods consistently in similar circumstances.

139. Suitable methods for estimating the stand-alone value of a good or service include, but are not limited to, the following:
- (a) Adjusted market assessment approach—an entity could evaluate the market in which it uses or provides goods or services and estimate the price that other entities in that market would be willing to pay for those goods or services, or similar goods or services, and adjusting those prices as necessary to reflect the entity’s costs and margins.
  - (b) Expected cost approach—an entity could forecast its expected costs of satisfying a compliance obligation and, if applicable, add an appropriate margin for that good or service.
  - (c) Residual approach—an entity may estimate the stand-alone value by reference to the total transaction consideration less the sum of the observable stand-alone values of other goods or services to be used or transferred in the binding arrangement. However, an entity may use a residual approach to estimate, in accordance with paragraph 138, the stand-alone value of a good or service only if one of the following criteria is met:
    - (i) The entity uses or provides the same good or service to different parties (at or near the same time) for a broad range of amounts (i.e., the price is highly variable because a representative stand-alone value is not discernible from past transactions or other observable evidence); or
    - (ii) The entity has not yet determined a price for that good or service and the good or service has not previously been provided on a stand-alone basis (i.e., the price is uncertain).
140. A combination of methods may need to be used to estimate the stand-alone values of the goods or services to be used or transferred in the binding arrangement if two or more of those goods or services have highly variable or uncertain stand-alone values. For example, an entity may use a residual approach to estimate the aggregate stand-alone value for those goods or services with highly variable or uncertain stand-alone values and then use another method to estimate the stand-alone values of the individual goods or services relative to that estimated aggregate stand-alone value determined by the residual approach. When an entity uses a combination of methods to estimate the stand-alone value of each good or service in the binding arrangement, the entity shall evaluate whether allocating the transaction consideration at those estimated stand-alone values would be consistent with the allocation objective in paragraph 133 and the requirements for estimating stand-alone values in paragraph 138.

*Allocation of Variable Consideration*

141. Variable consideration that is promised in a binding arrangement may be attributable to the entire binding arrangement or to a specific part of the binding arrangement, such as either of the following:
- (a) One or more, but not all, compliance obligations in the binding arrangement (for example, a bonus may be contingent on an entity using or transferring a promised good or service within a specified period of time); or

- (b) One or more, but not all, distinct goods or services in a series of distinct goods or services that forms part of a single compliance obligation in accordance with paragraph 68(b) (for example, the consideration promised for the second year of a two-year cleaning service binding arrangement will increase on the basis of movements in a specified inflation index).
142. An entity shall allocate a variable amount (and subsequent changes to that amount) entirely to a compliance obligation or to a distinct good or service that forms part of a single compliance obligation in accordance with paragraph 68(b) if both of the following criteria are met:
- (a) The terms of a variable payment relate specifically to the entity's efforts to satisfy the compliance obligation or use or transfer the distinct good or service (or to a specific outcome from satisfying the compliance obligation or using or transferring the distinct good or service); and
  - (b) Allocating the variable amount of consideration entirely to the compliance obligation or the distinct good or service is consistent with the allocation objective in paragraph 133 when considering all of the compliance obligations and payment terms in the binding arrangement.
143. The allocation requirements in paragraphs 133–140 shall be applied to allocate the remaining amount of the transaction consideration that does not meet the criteria in paragraph 142.

*Changes in the Transaction Consideration*

144. After the inception of the binding arrangement, the transaction consideration can change for various reasons, including the resolution of uncertain events or other changes in circumstances that change the amount of consideration to which an entity expects to be entitled for satisfying its compliance obligation.
145. An entity shall allocate to the compliance obligations in the binding arrangement any subsequent changes in the transaction consideration on the same basis as at the inception of the binding arrangement. Consequently, an entity shall not reallocate the transaction consideration to reflect changes in stand-alone values after the inception of the binding arrangement. Amounts allocated to a satisfied compliance obligation shall be recognized as revenue, or as a reduction of revenue, in the period in which the transaction consideration changes.
146. An entity shall allocate a change in the transaction consideration entirely to one or more, but not all, compliance obligations or distinct goods or services in a series that forms part of a single compliance obligation in accordance with paragraph 68(b) only if the criteria in paragraph 142 on allocating variable consideration are met.
147. An entity shall account for a change in the transaction consideration that arises as a result of a modification to a binding arrangement in accordance with paragraphs 63–66. However, for a change in the transaction consideration that occurs after a modification to a binding arrangement, an entity shall apply paragraphs 144–146 to allocate the change in the transaction consideration in whichever of the following ways is applicable:
- (a) An entity shall allocate the change in the transaction consideration to the compliance obligations identified in the binding arrangement before the modification if, and to the extent that, the change in the transaction consideration is attributable to an amount of variable consideration promised before the modification and the modification is accounted for in accordance with paragraph 66(a).

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

## **Other Assets from Revenue Transactions with Binding Arrangement Costs**

### *Incremental Costs of Obtaining a Binding Arrangement*

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

### *Costs to Fulfill a Binding Arrangement*

152. **If the costs incurred in fulfilling a binding arrangement are not within the scope of another Standard (for example, IPSAS 12, *Inventories*, IPSAS 31, or IPSAS 45), an entity shall recognize an asset from the costs incurred to fulfill a binding arrangement only if those costs meet all of the following criteria:**
- (a) **The costs relate directly to a binding arrangement or to an anticipated binding arrangement that the entity can specifically identify (for example, costs relating to services to be provided under renewal of an existing binding arrangement or costs of designing an asset to be transferred under a specific binding arrangement that has not yet been approved);**
  - (b) **The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) compliance obligations in the future; and**
  - (c) **The costs are expected to be recovered.**
153. For costs incurred in fulfilling a binding arrangement that are within the scope of another Standard, an entity shall account for those costs in accordance with those other Standards.
154. Costs that relate directly to a binding arrangement (or a specific anticipated binding arrangement) include any of the following:
- (a) Direct labor (for example, salaries and wages of employees who provide the promised services directly to a purchaser or third-party beneficiary);

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

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

- (a) General and administrative costs (unless those costs are explicitly chargeable to the resource provider under the binding arrangement, in which case an entity shall evaluate those costs in accordance with paragraph 154);
- (b) Costs of wasted materials, labor or other resources to fulfill the binding arrangement that were not reflected in the price of the binding arrangement;
- (c) Costs that relate to satisfied compliance obligations (or partially satisfied compliance obligations) in the binding arrangement (i.e., costs that relate to past fulfillment); and
- (d) Costs for which an entity cannot distinguish whether the costs relate to unsatisfied compliance obligations or to satisfied compliance obligations (or partially satisfied compliance obligations).

### *Amortization and Impairment*

156. An asset recognized in accordance with paragraph 148 or 152 shall be amortized on a systematic basis that is consistent with the satisfaction of the compliance obligation to which the asset relates. The asset may relate to promises to be satisfied under a specific anticipated binding arrangement (as described in paragraph 152(a)).

157. An entity shall update the amortization to reflect a significant change in the entity's expected timing of the satisfaction of the compliance obligation to which the asset relates. Such a change shall be accounted for as a change in accounting estimate in accordance with IPSAS 3.

158. An entity shall recognize an impairment loss in surplus or deficit to the extent that the carrying amount of an asset recognized in accordance with paragraph 148 or 152 exceeds:

- (a) The remaining amount of consideration that the entity expects to receive for the satisfaction of the compliance obligations to which the asset relates; less
- (b) The costs that relate directly to satisfying the compliance obligations and that have not been recognized as expenses (see paragraph 154).

159. For the purposes of applying paragraph 158 to determine the amount of consideration that an entity expects to receive, an entity shall use the principles for determining the transaction consideration (except for the requirements in paragraphs 119–121 on constraining estimates of variable consideration) and adjust that amount to reflect the effects of the resource provider's credit risk.

160. Before an entity recognizes an impairment loss for an asset recognized in accordance with paragraph 148 or 152, the entity shall recognize any impairment loss for assets related to the binding arrangement that are recognized in accordance with another Standard (for example, IPSAS 12, IPSAS 31, and IPSAS 45). After applying the impairment test in paragraph 158, an entity shall include the resulting carrying amount of the asset recognized in accordance with paragraph 148 or 152 in the carrying amount of the cash-generating unit to which it belongs for the purpose of applying IPSAS 26, *Impairment of Cash-Generating Assets* to that cash-generating unit.
161. An entity shall recognize in surplus or deficit a reversal of some or all of an impairment loss previously recognized in accordance with paragraph 158 when the impairment conditions no longer exist or have improved. The increased carrying amount of the asset shall not exceed the amount that would have been determined (net of amortization) if no impairment loss had been recognized previously.

## Presentation

### Display

162. When either party to a binding arrangement has performed, an entity shall present the binding arrangement in the statement of financial position as a binding arrangement asset or a binding arrangement liability, depending on the relationship between the entity's performance and the resource provider's transfer of consideration. An entity shall present any unconditional rights to consideration separately as a receivable.
163. If a resource provider transfers cash or another asset, or an entity has a right to consideration that is unconditional (i.e., a receivable), before the entity satisfies its compliance obligation, the entity shall present the binding arrangement as a binding arrangement liability when the transfer of consideration is made or is due (whichever is earlier). A binding arrangement liability is an entity's obligation to satisfy a compliance obligation for which the entity has received consideration (or an amount of an unconditional transfer of consideration is due) from the resource provider.
164. If an entity performs by satisfying a compliance obligation before the transfer of consideration is received or before the unconditional transfer of consideration is due, the entity shall present the binding arrangement as a binding arrangement asset, excluding any amounts presented as a receivable. A binding arrangement asset is an entity's right to consideration for satisfying its compliance obligations in compliance with the terms of the binding arrangement when that right is conditioned on something other than the passage of time. An entity shall assess a binding arrangement asset for impairment in accordance with IPSAS 41. An impairment of a binding arrangement asset shall be measured, presented and disclosed on the same basis as a financial asset that is within the scope of IPSAS 41 (see also paragraph 177(b)).
165. A receivable is an entity's right to consideration that is unconditional. A right to consideration is unconditional if only the passage of time is required before consideration is due. For example, an entity would recognize a receivable if it has a present right to a transfer even though that amount may be subject to refund in the future. In accordance with paragraph 31, an entity shall subsequently measure a receivable in accordance with IPSAS 41. Upon initial recognition of a receivable, any difference between the measurement of the receivable in accordance with IPSAS 41 and the corresponding amount of revenue recognized shall be presented as an expense (for example, as an impairment loss).

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

## Disclosure

167. **The objective of the disclosure requirements is for an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from revenue transactions. To achieve that objective, an entity shall disclose qualitative and quantitative information about all of the following:**
- (a) **Its revenues from transactions without binding arrangements (see paragraphs 172–176);**
  - (b) **Its revenues from transactions with binding arrangements (see paragraphs 177–187);**
  - (c) **The significant judgments, and changes in the judgments, made in applying this Standard to those binding arrangements (see paragraphs 188–190); and**
  - (d) **Any assets recognized from the costs to obtain or fulfill a binding arrangement with a resource provider in accordance with paragraph 148 or 152 (see paragraphs 191–192).**
168. An entity shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. An entity shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have substantially different characteristics. See paragraphs AG203–AG204 for additional guidance.
169. **An entity shall disclose either on the face of, or in the notes to, the general purpose financial statements:**
- (a) **The amount of revenue from transactions recognized during the period, showing separately, and by major classes:**
    - (i) **Taxes;**
    - (ii) **Other compulsory contributions and levies;**
    - (iii) **Transfers; and**
    - (iv) **Compliance obligations in a binding arrangement.**
  - (b) **The amount of receivables recognized at the reporting date in respect of revenue;**
  - (c) **The amount of liabilities recognized at the reporting date in respect of transferred assets subject to compliance obligations;**
  - (d) **The amount of liabilities recognized at the reporting date in respect of concessionary loans that are subject to requirements on transferred assets;**
  - (e) **The existence and amounts of any advance receipts in respect of transactions; and**
  - (f) **The amount of any liabilities forgiven.**

170. **An entity shall disclose in the notes to the general purpose financial statements:**
- (a) The accounting policies adopted for the recognition of revenue;**
  - (b) The judgments, and changes in the judgments, made in applying this Standard that significantly affect the determination of the amount and timing of revenue;**
  - (c) For major classes of revenue from transactions, the basis on which the transaction consideration of inflowing resources was measured;**
  - (d) For major classes of taxation revenue and revenue from other compulsory contributions and levies that the entity cannot measure reliably during the period in which the taxable event or equivalent event for other compulsory contributions and levies occurs, information about the nature of the tax, or other compulsory contribution or levy;**
  - (e) The nature and type of major classes of bequests, gifts, and donations showing separately major classes of goods in-kind received; and**
  - (f) Qualitative and quantitative information about services in-kind that have been recognized.**
171. In the public sector, an entity may have a revenue transaction where the entity is compelled to satisfy an obligation for or impose a cost on the counterparty in the transaction, and the face value of the revenue transaction may not always be collectible. This may occur when the entity is compelled by way of legislation, constitutional authority, legally sanctioned process and policy decisions, or other mechanisms, and the counterparty may not have the ability or intention to pay. Examples of such transactions include revenue from taxes or fines without binding arrangements, or revenue from satisfying a compliance obligation by providing goods or services to a third-party beneficiary in a binding arrangement. The entity shall disclose the following:
- (a) A description of the legislation or policy decision which compels a party in the revenue transaction to satisfy its obligation to the entity in the revenue transaction;
  - (b) The amount of revenue from these transactions that was recognized after application of paragraphs 25 and 105 of this Standard, or the amount of revenue recognized after consideration of an implicit price concession from the application of paragraph 115;
  - (c) The amount from these transactions that was not recognized as revenue, as the collection of consideration was not probable in accordance with paragraph 119, or as the amount from these transactions that was not recognized as revenue as it was considered to be an implicit price concession from the application of paragraph 115; and
  - (d) If the transaction consideration has been reduced after consideration of an implicit price concession from the application of paragraph 115, an entity shall disclose the following:
    - (i) The amount from these transactions that was recognized as revenue after identification of the implicit price concession; and
    - (ii) The amount from these transactions that was not recognized as revenue, as it was considered an implicit price concession.

**Specific Disclosure for Revenue without Binding Arrangements**

172. As noted in paragraph 46, in many cases an entity will be able to reliably measure assets and revenue arising from taxation and other compulsory contributions and levies transactions, using, for example, statistical models. However, there may be exceptional circumstances where an entity is unable to reliably measure the assets and revenue arising until one or more reporting periods has or have elapsed since the taxable event or equivalent event for other compulsory contributions and levies occurred. In these cases, the entity makes disclosures about the nature of major classes of taxation or other compulsory contributions and levies that cannot be reliably measured, and therefore recognized, during the reporting period in which the taxable event or equivalent event for other compulsory contributions and levies occurs.
173. Paragraph 169(e) requires an entity to disclose the existence of advance receipts. These liabilities carry the risk that the entity will have to make a sacrifice of future economic benefits or service potential if the taxable event does not occur, or a transfer arrangement does not become binding.
174. Paragraph 170(e) requires an entity to make disclosures about the nature and type of major classes of bequests, gifts, and donations it has received. These inflows of resources are received at the discretion of the resource provider, which exposes the entity to the risk that, in future periods, such sources of resources may change significantly.
175. Entities that do not recognize services in-kind on the face of the general purpose financial statements are strongly encouraged to disclose qualitative information about the nature and type of major classes of services in-kind received, particularly if those services in-kind received are integral to the operations of the entity. The extent to which an entity is dependent on a class of services in-kind will determine the disclosures it makes in respect of that class.
176. Where services in-kind meet the definition of an asset and satisfy the criteria for recognition as an asset, entities may elect to recognize these services in-kind and measure them at their fair value. Paragraph 175 strongly encourages an entity to make qualitative disclosures about the nature and type of all services in-kind received, whether they are recognized or not. Such disclosures may assist users to make informed judgments about (a) the contribution made by such services to the achievement of the entity's objectives during the reporting period, and (b) the entity's dependence on such services for the achievement of its objectives in the future.

**Specific Disclosure for Revenue with Binding Arrangements**

177. An entity shall disclose all of the following amounts for the reporting period unless those amounts are presented separately in the statement of financial performance in accordance with other Standards:
- (a) Revenue recognized from binding arrangements with compliance obligations, separately from its other sources of revenue; and
  - (b) Any impairment losses recognized (in accordance with IPSAS 41) on any receivables or binding arrangement assets arising from an entity's binding arrangements, which the entity shall disclose separately from impairment losses from other binding arrangements.
178. Compliance obligations impose limits on the use of assets, which impacts the operations of the entity. Disclosure of the amount of liabilities recognized in respect of compliance obligations assists users in making judgments about the ability of the entity to use its assets at its own discretion. Entities are encouraged to disaggregate by class the information required to be disclosed by paragraph 169(c).



*Disaggregation of Revenue*

179. An entity shall disaggregate revenue recognized from binding arrangements into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. An entity shall apply the guidance in paragraphs AG205–AG207 when selecting the categories to use to disaggregate revenue.
180. In addition, an entity shall disclose sufficient information to enable users of financial statements to understand the relationship between the disclosure of disaggregated revenue (in accordance with paragraph 179) and revenue information that is disclosed for each reportable segment, if the entity applies IPSAS 18, *Segment Reporting*.

*Binding Arrangement Balances*

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

*Compliance Obligations*

184. An entity shall disclose information about its compliance obligations in binding arrangements, including a description of all of the following:
- (a) When the entity typically satisfies its compliance obligations (for example, upon shipment, upon delivery, as services are rendered or upon completion of service), including when compliance obligations are satisfied in a bill-and-hold arrangement;
  - (b) The significant payment terms (for example, when payment is typically due, whether the binding arrangement has a significant financing component, whether the consideration amount is variable and whether the estimate of variable consideration is typically constrained in accordance with paragraphs 119–121);
  - (c) The nature of the compliance obligations the entity has promised to satisfy, highlighting any compliance obligations to arrange for another party to incur compliance obligations (i.e., if the entity is acting as an agent);
  - (d) Obligations for returns, refunds and other similar obligations; and
  - (e) Types of warranties and related obligations.

*Transaction Consideration Allocated to the Remaining Compliance Obligations*

185. An entity shall disclose the following information about its remaining compliance obligations:
- (a) The aggregate amount of the transaction consideration allocated to the compliance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period; and
  - (b) An explanation of when the entity expects to recognize as revenue the amount disclosed in accordance with paragraph 185(a), which the entity shall disclose in either of the following ways:
    - (i) On a quantitative basis using the time bands that would be most appropriate for the duration of the remaining compliance obligations; or
    - (ii) By using qualitative information.
186. As a practical expedient, an entity need not disclose the information in paragraph 185 for a compliance obligation if either of the following conditions is met:
- (a) The compliance obligation is part of a binding arrangement that has an original expected duration of one year or less; or
  - (b) The entity recognizes revenue from the satisfaction of the compliance obligation in accordance with paragraph AG90.
187. An entity shall explain qualitatively whether it is applying the practical expedient in paragraph 186 and whether any consideration from binding arrangements is not included in the transaction consideration and, therefore, not included in the information disclosed in accordance with paragraph 185. For example, an estimate of the transaction consideration would not include any estimated amounts of variable consideration that are constrained (see paragraphs 119–121).

*Significant Judgments in the Application of this Standard*

## Determining the Timing of Satisfaction of Compliance Obligations

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

## Determining the Transaction Consideration and the Amounts Allocated to Compliance Obligations

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

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

191. An entity shall describe both of the following:
- (a) The judgments made in determining the amount of the costs incurred to obtain or fulfill a binding arrangement with a resource provider (in accordance with paragraph 148 or 152); and
  - (b) The method it uses to determine the amortization for each reporting period.
192. An entity shall disclose all of the following:
- (a) The closing balances of assets recognized from the costs incurred to obtain or fulfill a binding arrangement with a resource provider (in accordance with paragraph 148 or 152), by main category of asset (for example, costs to obtain binding arrangements with resource providers, pre-binding arrangement costs and setup costs); and
  - (b) The amount of amortization and any impairment losses recognized in the reporting period.

### *Practical Expedients*

193. If an entity elects to use the practical expedient in either paragraph 126 (about the existence of a significant financing component) or paragraph 151 (about the incremental costs of obtaining a binding arrangement), the entity shall disclose that fact.

## **Effective Date and Transition**

### **Effective Date**

194. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is permitted. If an entity applies this Standard earlier, it shall disclose that fact.**
195. When an entity adopts the accrual basis IPSAS as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS.

### **Transition**

196. For the purposes of the transition requirements in paragraphs 197–203:
- (a) The date of initial application is the start of the reporting period in which an entity first applies this Standard; and
  - (b) A completed binding arrangement is a binding arrangement for which:
    - (i) The entity has satisfied all of the conditions identified in accordance with IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*; or
    - (ii) The entity has satisfied all of its promises identified in accordance with IPSAS 9, *Revenue from Exchange Transactions* and IPSAS 11, *Construction Contracts*.
197. An entity shall apply this Standard 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 199; or
  - (b) Retrospectively with the cumulative effect of initially applying this Standard recognized at the date of initial application in accordance with paragraphs 201–203.
198. Notwithstanding the requirements of paragraph 33 of IPSAS 3, when this Standard is first applied, an entity need only present the quantitative information required by paragraph 33(f) of IPSAS 3 for the annual period immediately preceding the first annual period for which this Standard is applied (the “immediately preceding period”) and only if the entity applies this Standard retrospectively in accordance with paragraph 197(a)). An entity may also present this information for the current period or for earlier comparative periods, but is not required to do so.
199. An entity may use one or more of the following practical expedients when applying this Standard retrospectively in accordance with paragraph 197(a):
- (a) For completed binding arrangements, an entity need not restate binding arrangements that:
    - (i) Begin and end within the same annual reporting period; or

- (ii) Are completed binding arrangements at the beginning of the earliest period presented.
  - (b) For completed binding arrangements that have variable consideration, an entity may use the transaction consideration at the date the binding arrangement was completed rather than estimating variable consideration amounts in the comparative reporting periods.
  - (c) For binding arrangements that were modified before the beginning of the earliest period presented, an entity need not retrospectively restate the binding arrangement for those modifications to a binding arrangement in accordance with paragraphs 65–66. Instead, an entity shall reflect the aggregate effect of all of the modifications that occur before the beginning of the earliest period presented when:
    - (i) Identifying the satisfied and unsatisfied compliance obligations;
    - (ii) Determining the transaction consideration; and
    - (iii) Allocating the transaction consideration to the satisfied and unsatisfied compliance obligations.
  - (d) For all reporting periods presented before the date of initial application, an entity need not disclose the amount of the transaction consideration allocated to the remaining compliance obligations and an explanation of when the entity expects to recognize that amount as revenue.
200. For any of the practical expedients in paragraph 199 that an entity uses, the entity shall apply that expedient consistently to all binding arrangements within all reporting periods presented. In addition, the entity shall disclose all of the following information:
- (a) The expedients that have been used; and
  - (b) To the extent reasonably possible, a qualitative assessment of the estimated effect of applying each of those expedients.
201. If an entity elects to apply this Standard retrospectively in accordance with paragraph 197(b), the entity shall recognize the cumulative effect of initially applying this Standard as an adjustment to the opening balance of accumulated surplus (or other component of net assets/equity, as appropriate) of the annual reporting period that includes the date of initial application. Under this transition method, an entity may elect to apply this Standard retrospectively only to binding arrangements that are not completed binding arrangements at the date of initial application (for example, January 1, 20XX for an entity with a December 31 year-end).
202. An entity applying this Standard retrospectively in accordance with paragraph 197(b) may also use the practical expedient described in paragraph 199(c), either:
- (a) For all modifications to a binding arrangement that occur before the beginning of the earliest period presented; or
  - (b) For all modifications to a binding arrangement that occur before the date of initial application.
- If an entity uses this practical expedient, the entity shall apply the expedient consistently to all binding arrangements and disclose the information required by paragraph 200.
203. For reporting periods that include the date of initial application, an entity shall provide both of the following additional disclosures if this Standard is applied retrospectively in accordance with paragraph 197(b):

- (a) The amount by which each financial statement line item is affected in the current reporting period by the application of this Standard as compared to IPSAS 9, IPSAS 11, and IPSAS 23; and
- (b) An explanation of the reasons for significant changes identified.

### **Withdrawal of Other Standards**

204. This Standard supersedes the following Standards:

- (a) IPSAS 9, issued in 2001;
- (b) IPSAS 11, issued in 2001; and
- (c) IPSAS 23, issued in 2006.

IPSAS 9, IPSAS 11, and IPSAS 23 remain applicable until IPSAS 47 is applied or becomes effective, whichever is earlier.

## Application Guidance

*This Appendix is an integral part of IPSAS 47.*

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

- (a) Scope (paragraphs AG2–AG9);
- (b) Definitions (paragraphs AG10–AG12);
- (c) Identify the Revenue Transaction (paragraphs AG13–AG31);
  - (i) Enforceability (paragraphs AG14–AG25);
  - (ii) Parties in an Arrangement (paragraphs AG26–AG31);
- (d) Revenue from Transaction with Binding Arrangements (paragraphs AG32–AG138);
  - (i) Criteria for the Binding Arrangement Accounting Model (paragraphs AG32–AG39);
  - (ii) Breach of Terms and Conditions of a Binding Arrangement (paragraphs AG40–AG42);
  - (iii) Identifying Compliance Obligations in a Binding Arrangement (paragraphs AG43–AG56);
  - (iv) Initial Recognition of Revenue (paragraphs AG57–AG58);
  - (v) Existence and Recognition of a Liability (paragraphs AG59–AG62);
  - (vi) Satisfaction of Compliance Obligations (paragraphs AG63–AG81);
  - (vii) Resource Provider Acceptance of the Entity's Transfer of Goods or Services (paragraphs AG82–AG85);
  - (viii) Methods for Measuring Progress towards Complete Satisfaction of a Compliance Obligation (paragraphs AG86–AG95);
  - (ix) Right of Return for a Transfer of Goods or Services to Another Party (paragraphs AG96–AG103);
  - (x) Consideration Payable to a Resource Provider for a Transfer of Goods or Services to Another Party (paragraphs AG104–AG106);
  - (xi) Allocation of a Discount for a Transfer of Goods or Services to Another Party (paragraphs AG107–AG109);
  - (xii) Determination of the Stand-Alone Value (paragraph AG110);
  - (xiii) Warranties for Goods or Services Transferred to Another Party (paragraphs AG111–AG116);
  - (xiv) Principal Versus Agent Considerations (paragraphs AG117–AG125);
  - (xv) Resource Provider Options for Additional Goods or Services (paragraphs AG126–AG130);
  - (xvi) Resource Providers' Unexercised Rights (paragraphs AG131–AG134);

## REVENUE

- (xvii) Non-Refundable Upfront Fees (and Some Related Costs) for a Transfer of Goods or Services to Another Party (paragraphs AG135–AG138);
- (e) Application of Principles to Specific Transactions (paragraphs AG139–AG202);
  - (i) Capital Transfers (paragraphs AG140–AG142);
  - (ii) Services In-Kind (paragraphs AG143–AG149);
  - (iii) Pledges (paragraph AG150);
  - (iv) Advance Receipts of Transfers (paragraph AG151);
  - (v) Concessionary Loans (paragraphs AG152–AG153);
  - (vi) Measurement of Transferred Assets (paragraph AG154);
  - (vii) Debt Forgiveness and Assumptions of Liabilities (paragraphs AG155–AG158);
  - (viii) Fines (paragraphs AG159–AG160);
  - (ix) Bequests (paragraphs AG161–AG163);
  - (x) Gifts and Donations, including Goods In-Kind (paragraphs AG164–AG167);
  - (xi) Licensing (paragraphs AG168–AG182);
  - (xii) Repurchase Agreements (paragraphs AG183–AG196);
  - (xiii) Consignment Arrangements (paragraphs AG197–AG198);
  - (xiv) Bill-and-Hold Arrangements (paragraphs AG199–AG202); and
- (f) Disclosure (paragraphs AG203–AG207);
  - (i) Disclosure of Disaggregated Revenue (paragraphs AG205–AG207).

### **Scope (paragraph 3)**

- AG2. The scope of this Standard is focused on establishing principles and requirements when accounting for revenue transactions. Revenue may arise from transactions without binding arrangements or with binding arrangements. The definitions in paragraph 4 establish the key elements in applying the scope of the Standard.
- AG3. While taxation is the major source of revenue for many governments, other public sector entities rely on transfers (sometimes known as grants) and other sources of funding. Examples of these revenues include, but are not limited to:
- (a) Taxes;
  - (b) Transfers (whether cash or non-cash), including debt forgiveness, fines, bequests, gifts, donations, goods in-kind, services in-kind, and the off-market portion of concessionary loans received; and
  - (c) Capital transfers.
- AG4. This Standard specifies the accounting for the incremental costs of obtaining a binding arrangement and for the costs incurred to satisfy a binding arrangement if those costs are not within the scope of another Standard (see paragraphs 148–161). An entity shall apply those paragraphs only to the



costs incurred that relate to a binding arrangement (or part of that binding arrangement) that is within the scope of this Standard.

### *Scope Exclusions*

- AG5. Gains from the sale of non-financial assets within the scope of IPSAS 16, *Investment Property*, IPSAS 31, *Intangible Assets*, or IPSAS 45, *Property, Plant, and Equipment*, that are not an output of an entity's activities are not considered revenue. However, the recognition and measurement principles within this Standard may be applied to account for the disposals of such assets.
- AG6. This Standard does not apply to public sector combinations. Governments may reorganize the public sector, merging some public sector entities, and dividing other entities into two or more separate entities. A public sector combination occurs when two or more operations are brought together to form one reporting entity. These restructurings do not ordinarily involve one entity purchasing another operation or entity, but may result in a new or existing entity acquiring all of the assets and liabilities of another operation or entity. Public sector combinations are accounted for in accordance with IPSAS 40, *Public Sector Combinations*.
- AG7. Transfers of resources that satisfy the definition of contributions from owners will not give rise to revenue. Contributions from owners are defined in IPSAS 1, *Presentation of Financial Statements*. For a transaction to qualify as a contribution from owners, it will be necessary to satisfy the characteristics identified in that definition, and to consider the substance rather than the form of the transaction. A contribution from owners may be evidenced by, for example:
- (a) A formal designation of the transfer (or a class of such transfers) by the contributor or a controlling entity of the contributor as forming part of the recipient's contributed net assets/equity, either before the contribution occurs or at the time of the contribution;
  - (b) A formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets/equity of the recipient that can be sold, transferred, or redeemed; or
  - (c) The issuance, in relation to the contribution, of equity instruments that can be sold, transferred, or redeemed.
- AG8. Agreements that (a) specify that the entity providing resources is entitled to distributions of future economic benefits or service potential during the recipient entity's life, or distribution of any excess of assets over liabilities in the event that the recipient entity is wound up, or (b) specify that the entity providing resources acquires a financial interest in the recipient entity that can be sold, exchanged, transferred, or redeemed, are, in substance, agreements to make a contribution from owners.
- AG9. If, despite the form of the transaction, the substance is clearly that of a loan or another kind of liability, or revenue, the entity recognizes it as such and makes an appropriate disclosure in the notes to the general purpose financial statements, if material. For example, if a transaction purports to be a contribution from owners but specifies that the entity will pay fixed distributions to the resource provider, with a return of the resource provider's investment at a specified future time, the transaction is more characteristic of a loan. For contractual arrangements, an entity also considers the guidance in IPSAS 28, *Financial Instruments: Presentation*, when distinguishing liabilities from contributions from owners.

**Definitions (paragraphs 4–8)***Binding Arrangement*

- AG10. A binding arrangement is an arrangement that confers both enforceable rights and obligations on the parties to the arrangement. A contract is a type of binding arrangement. Each party in the binding arrangement willingly entered into the arrangement and is able to enforce their respective rights and obligations conferred on them in the arrangement.
- AG11. This Standard specifies the accounting for an individual binding arrangement. However, as a practical expedient, an entity may apply this Standard to a portfolio of binding arrangements (or compliance obligations) with similar characteristics if the entity reasonably expects that the effects on the financial statements of applying this Standard to the portfolio would not differ materially from applying this Standard to the individual binding arrangements (or compliance obligations) within that portfolio. When accounting for a portfolio, an entity shall use estimates and assumptions that reflect the size and composition of the portfolio.
- AG12. 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.

**Identify the Revenue Transaction (paragraphs 9–15)**

- AG13. An entity shall consider the terms of its revenue transaction and all relevant facts and circumstances when applying this Standard. An entity shall apply this Standard, including the use of any practical expedients, consistently to arrangements with similar characteristics and in similar circumstances.

*Enforceability*

- AG14. The interdependent rights and obligations in an arrangement must be enforceable to meet the definition of a binding arrangement. Enforceability can arise from various mechanisms, so long as the mechanism(s) provide(s) the entity with the ability to enforce the terms of the arrangement and hold the parties in the arrangement accountable for the satisfaction of stated obligations. An entity should determine whether an arrangement is enforceable based on whether each entity in the arrangement has the ability to enforce the rights and the obligations. The entity's assessment of enforceability occurs at inception and when a significant external change indicates that there may be a change in the enforceability of that arrangement.
- AG15. Since enforceability can arise from various mechanisms, an entity should objectively assess all relevant factors to determine whether an arrangement is enforceable. In some jurisdictions, public sector entities cannot enter into legal obligations, because they are not permitted to contract in their own name; however, there are alternative processes with equivalent effect to legal arrangements (described as enforceable through equivalent means). For an arrangement to be enforceable through "equivalent means", the presence of an enforcement mechanism outside the legal system, that is similar to the force of law without being legal in nature, is required to establish the right of

the resource provider to obligate the entity to complete the agreed obligation or be subject to remedies for non-completion. Similarly, a mechanism outside the legal systems, that is similar to the force of law without being legal in nature, is required to establish the right of the entity to obligate the resource provider to pay the agreed consideration. Thus, an entity should identify and assess all relevant factors by considering legal or equivalent means in which the involved parties enforce each of the respective rights and obligations under the arrangement.

- AG16. In the public sector, an arrangement is enforceable when each of the parties in the arrangement is able to enforce their respective rights and obligations. An arrangement is enforceable if the agreement includes:
- (a) Clearly specified rights and obligations for each involved party; and
  - (b) Remedies for non-completion by each involved party which can be enforced through the identified enforcement mechanisms.
- AG17. When an entity assesses enforceability, the entity should consider how the identified mechanisms of enforceability impose implicit or explicit consequences on any party or parties that do not satisfy their obligation(s) in the arrangement, through legal or equivalent means. If the entity is not able to determine how the mechanisms of enforceability identified would in substance enable the entity to hold the other parties in the arrangement accountable for satisfying their obligation(s) in cases of non-completion, then the arrangement is not enforceable and does not meet the definition of a binding arrangement.
- AG18. Enforceability arises from the compulsion by a legal system, including through legal means (enforced in the courts in a jurisdiction, as well as judicial rulings and case law precedence to comply with the terms of the arrangement) or compliance through equivalent means (laws and regulations, including legislation, executive authority, cabinet or ministerial directives).
- AG19. Executive authority (sometimes called an executive order) is an authority given to a member or selected members of a government administration to create legislation without ratification by the full parliament. This may be considered a valid enforcement mechanism if such an order was issued directing an entity to satisfy the stated obligations in the arrangement.
- AG20. Cabinet or ministerial directives may create an enforcement mechanism between different government departments or different levels of government of the same government structure. For example, a directive given by a minister or government department to an entity controlled by the government to satisfy the stated obligations in the arrangement may be enforceable. Each party must be able to enforce both the rights and obligations conferred on them in the arrangement to meet the definition of a binding arrangement. Each party must have the ability and authority to compel the other party or parties to fulfill the promises established within the arrangement or to seek redress should these promises not be satisfied.
- AG21. Sovereign rights are the authority to make, amend and repeal legal provisions. On its own, this authority does not establish enforceable rights and obligations for the purposes of applying this Standard. However, if the use of sovereign rights were detailed in the arrangement as a means of enforcing the satisfaction of obligations by an entity, this may result in a valid enforcement mechanism.
- AG22. An entity may feel compelled to deliver on the obligations in an arrangement because of the risk that it might not receive future funding from the other party. In general, the ability to reduce or

withhold future funding to which the entity is not presently entitled would not be considered a valid enforcement mechanism in the context of this Standard because there is no obligation on the resource provider to provide such funding. However, if the entity is presently entitled to funding in the future through another binding arrangement, and the terms of this other binding arrangement specifically allow for a reduction in the future funding if other arrangements are breached, then the reduction in future funding could be considered a valid enforcement mechanism.

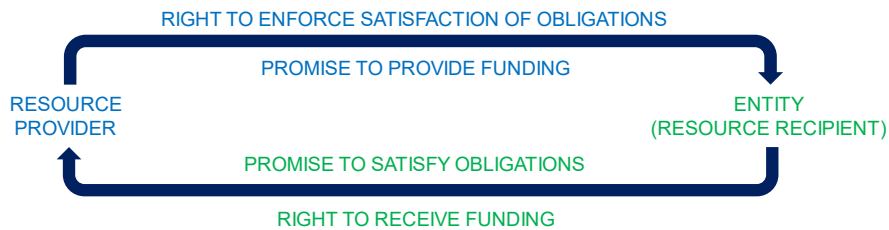
- AG23. When determining if a reduction of future funding would be an enforcement mechanism, the entity shall apply judgment based on the facts and circumstances. Key factors that may indicate the resource provider would reduce future funding in the event of a breach of promises made in another binding arrangement are the resource provider's ability to reduce future funding and its past history of doing so.
- AG24. A statement of intent or public announcement by a resource provider (e.g., government) to spend money or deliver goods and/or services in a certain way is not, in and of itself, an enforceable arrangement for the purposes of this Standard. Such a declaration is general in nature and does not create a binding arrangement between a resource provider and an entity (resource recipient).
- AG25. In some jurisdictions, specific terms and conditions may be included in arrangements that are intended to enforce the rights and obligations, but they have not been historically enforced. If past experience with a resource provider indicates that the resource provider never enforces the terms of the arrangement when breaches have occurred, then the entity may conclude that the terms of the arrangement are not substantive, and may indicate that such terms do not in substance hold the other entity accountable and the arrangement is not considered enforceable. However, if the entity has no experience with the resource provider, or has not previously breached any terms that would prompt the resource provider to enforce the arrangement, and it has no evidence to the contrary, the entity would assume that the resource provider would enforce the terms, and the arrangement is considered enforceable. An entity should consider any past history of enforcement as one of the relevant factors in its overall assessment of enforceability and whether the entities can objectively be held accountable for enforcing the rights and satisfying the obligations they agreed to in the arrangement.

### *Parties in an Arrangement*

- AG26. Arrangements in the public sector often include two or more parties. For the arrangement to meet the definition of a binding arrangement for the purposes of this Standard, at least two of the parties to the arrangement must have their own rights and obligations conferred by the arrangement, and the ability to enforce these rights and obligations.
- AG27. For public sector-specific transactions with binding arrangements, the resource provider is the party that provides consideration to the entity for goods or services set out in a binding arrangement but is not necessarily the party that receives those goods or services. The resource provider may provide consideration for the entity to:
- (a) Use resources internally for goods or services. In these cases, the resource provider does not directly receive any goods, services, or other assets in return;

- (b) Transfer distinct goods or services to the resource provider. In these cases, the resource provider is a purchaser<sup>7</sup>, as it receives goods or services that are an output of an entity's activities under a binding arrangement for its own consumption; or
- (c) Transfer distinct goods or services to a third-party beneficiary. In multi-party arrangements (discussed below), the resource provider has a binding arrangement with and provides consideration to the entity to deliver goods or services to a third-party beneficiary. For example, if a central government provides funding to a regional health department to conduct bone density screening for citizens over the age of 55, the central government is the resource provider and the citizens are the third-party beneficiaries. The resource provider can enforce delivery of those goods or services or seek recourse from the entity if the promises in the binding arrangement are not satisfied.

AG28. That is, at a minimum, the entity receiving the consideration (resource recipient) must be able to enforce the promise to receive funding (consideration), and the entity providing the funding (the resource provider) must be able to enforce satisfaction of the obligations assumed by the entity receiving the consideration. The minimum two-way enforceability in a binding arrangement is illustrated in the diagram below:

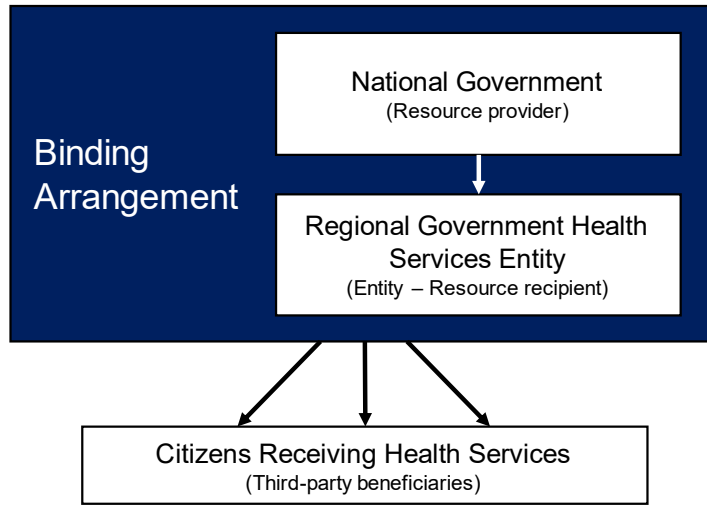


AG29. Parties noted within a binding arrangement that do not have enforceable rights and obligations are third-party beneficiaries. Third-party beneficiaries in multi-party binding arrangements do not have any rights to force the entity to deliver goods or services. However, for these multi-party arrangements to be within the scope of this Standard the resource provider must have the ability to force the entity to deliver distinct goods or services to the third-party beneficiaries. In these multi-party arrangements, the entity (resource recipient) is not an agent of the resource provider because the entity gains control of the consideration from the resource provider and is responsible for

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<sup>7</sup> A purchaser is a resource provider that provides a resource to the entity in exchange for goods or services that are an output of an entity's activities under a binding arrangement for its own consumption. A customer is a type of purchaser.

providing goods or services to the third-party beneficiaries. This relationship is illustrated in the following diagram:



- AG30. In assessing enforceability of an arrangement, the entity considers not only its ability to enforce its right to receive funds related to the completed obligation(s), but also the resource provider’s ability to compel the entity to satisfy its obligations.
- AG31. Some revenue transactions may be enforceable, but only create enforceable rights and obligations for one party in the arrangement. These transactions do not meet the definition of a binding arrangement for the purposes of this Standard because of the lack of two-way enforceability.

**Revenue from Transactions with Binding Arrangements**

*Criteria for the Binding Arrangement Accounting Model (paragraphs 56–61)*

Economic Substance

- AG32. An entity shall determine whether a transaction with a binding arrangement that requires a transfer of distinct goods or services to a purchaser or third-party beneficiary has economic substance by considering the extent to which its future cash flows or service potential is expected to change as a result of the transaction. A transaction has economic substance if:
- (a) The configuration (risk, timing, and amount) of the cash flows or service potential of the asset received differs from the configuration of the cash flows or service potential of the asset transferred: or
  - (b) The entity-specific value of the portion of the entity’s operations affected by the transaction changes as a result of the exchange; and
  - (c) The differences in (a) and (b) are significant relative to the current value of the assets exchanged.
- AG33. For the purposes of determining whether a transaction has economic substance, the entity-specific value of the portion of the entity’s operations affected by the transaction shall reflect post-tax cash

flows, if tax applies. The results of these analyses may be clear without an entity having to perform detailed calculations.

AG34. For the purposes of this Standard, economic substance includes commercial substance.

Probability of Collection of Consideration to which an Entity is Entitled – Consequences of Paragraph 56(e)

AG35. An entity should apply judgment in considering the facts and circumstances upon entering into a binding arrangement to assess the resource provider's ability and intent at inception to pay the expected consideration at a future date.

AG36. An entity should assess collectability at the inception of the binding arrangement based on the entity's best estimate of the risks associated with the resource provider in the binding arrangement. This initial assessment may differ from actual consideration collected subsequently as a result of changes in conditions or expectations. Such changes would be reflected as either impairment (decline from initial circumstances) or recognition of the full consideration (exceeding the expected collection determined at inception).

AG37. A price concession may be provided as part of the binding arrangement. A price concession is generally known by the parties at the inception of the binding arrangement, either implicitly or explicitly, and potentially informed by past history with the parties. This Standard typically measures revenue based on the transaction consideration to which an entity expects to be entitled rather than the amount that it expects to ultimately collect. Revenue is adjusted for discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties or other similar items, but it is not reduced for impairment losses. However, where an entity is providing goods or services and accepts a lower amount of consideration from the resource provider than the price stated in the binding arrangement, the acceptance of the lower amount of consideration represents an implicit price concession (see paragraphs 109 and 115(b)). The entity assesses whether this lower amount of consideration, after taking the implicit price concession into account, meets the collectability criterion in paragraph 56(e).

AG38. In some binding arrangements, entities are compelled by legislation to provide certain goods or services (such as water and electricity) to all citizens, regardless of whether the citizens have the intention or ability to pay for those goods or services.

AG39. When payment of the consideration, less any price concession, is not probable for delivering the good or service to certain groups of citizens, the criterion for identifying a binding arrangement in paragraph 56(e) is not met. In these circumstances, where the collection of the consideration, less any price concession, is not probable at the inception of the binding arrangement, an entity shall apply paragraph 58 of this Standard.

### *Breach of Terms and Conditions of a Binding Arrangement*

AG40. The accounting treatment of a breach of the terms and conditions of a binding arrangement depends on:

- (a) Whether there are any incomplete compliance obligations remaining under the arrangement;
- (b) When the breach occurred – i.e., whether it was in the period in which the breach is discovered or in a prior period; and
- (c) The reason for the breach.

- AG41. If the breach occurs in the current period and is identified before the authorization of the financial statements for issue, the entity will recognize a liability for the amount to be refunded to the resource provider and derecognize any revenue recognized during the reporting period.
- AG42. Where the breach is determined to have occurred in a prior period, the accounting treatment will be decided by assessing whether the breach has resulted in a:
- (a) Change in accounting estimate as defined in IPSAS 3, *Accounting Policies, Changes in Accounting Estimates, and Errors*. Accounting estimates are used where items in financial statements cannot be measured with precision and judgment may be required in measuring those items as described in IPSAS 3;
  - (b) Prior period error which has arisen from a failure to use, or from the misuse of, faithfully representative information that was available when the financial statements for the period were authorized for issue or could reasonably be expected to have been obtained; or
  - (c) Separate past event because the amount recognized in prior period financial statements is not an estimated amount and was based on the use of faithfully representative information available at the date of the approval of the financial statements for the relevant reporting period.

*Identifying Compliance Obligations in a Binding Arrangement (paragraphs 68–77)*

Promises to Use Resources

- AG43. A compliance obligation is an entity's promise in a binding arrangement to either use resources internally for a distinct good or service or transfer a distinct good or service to a purchaser (i.e., resource provider) or third-party beneficiary. The objectives of a compliance obligation may be incremental to the entity's service delivery objectives, or additional objectives in which the entity has engaged through the binding arrangement. The promise to use resources results in other resources (i.e., distinct goods or services that provide rights to economic benefits or service potential, or both) for either the reporting entity or another external party (either the purchaser or a third-party beneficiary. See paragraph AG49 for further guidance). The entity may also receive the benefit of the good or service but directs the use of the benefit to other parties.
- AG44. This Standard requires an entity to appropriately identify any compliance obligations when it enters into a binding arrangement, and then recognize revenue as or when it satisfies each of the identified compliance obligations in accordance with the terms and conditions of the binding arrangement.
- AG45. In the public sector, identifying compliance obligations may require significant judgment. A necessary condition for the existence of a compliance obligation is that the promise must be sufficiently specific to be able to determine when that compliance obligation is satisfied. An entity considers the following factors in identifying whether a promise is sufficiently specific:
- (a) The nature or type of the promise to use resources;
  - (b) The cost or value of the distinct goods or services from the promise to use resources;
  - (c) The quantity of the distinct goods or services from the promise to use resources; and
  - (d) The period over which the use of resources occurs.



AG46. The existence of performance indicators in relation to the promises may, but does not necessarily, indicate the existence of a compliance obligation as defined in this Standard. A performance indicator is a type of performance measurement (either quantitative, qualitative or descriptive) used to evaluate the success and extent to which an entity is using resources, providing services and achieving its service performance objectives. A performance indicator is often an internally imposed measure of performance and not a compliance obligation.

*Promises to Use Resources Internally*

AG47. In many instances, an entity's promise in a binding arrangement requires the entity to use resources internally for a distinct good or service to achieve specific service delivery objectives. Examples of resources provided to a public sector entity in a binding arrangement may include:

- (a) Transfers from national governments to provincial, state or local governments;
- (b) Transfers from state/provincial governments to local governments;
- (c) Transfers from governments to other public sector entities;
- (d) Transfers to governmental agencies that are created by laws or regulations to perform specific functions with operational autonomy, such as statutory authorities or regional boards or authorities; and
- (e) Transfers from donor agencies to governments or other public sector entities.

AG48. A resource provider in the binding arrangement would have the ability to enforce how the entity uses resources to achieve specific objectives and hold the entity accountable in complying with such terms. The compliance obligations may be imposed by requirements in binding arrangements establishing the basis of transfers, or may arise from the normal operating environment, such as the recognition of advance receipts.

*Promises to Use Resources for Another Party (A Resource Provider (Purchaser) or Third-Party Beneficiary)*

AG49. In some instances, an entity's promise in a binding arrangement requires the entity to use resources to transfer a distinct good or service to an external party or parties (i.e., to the purchaser (resource provider) or a third-party beneficiary) identified in the binding arrangement, in compliance with the terms and conditions of the binding arrangement. In practice, an entity will consider whether it maintains control of the resources, or the resources are converted into a good and/or service and are required to be transferred to the resource provider or a third-party beneficiary. In this case, the resource provider is effectively a purchaser of distinct goods or services from the entity.

AG50. A key feature distinguishing an entity's promise to transfer a distinct good or service from other promises in the binding arrangement is the clear identification of an external party receiving the distinct goods or services. A binding arrangement which imposes an obligation on an entity to transfer a distinct good or service to a specified external party (i.e., the purchaser or a specified third-party beneficiary) generally provides a clear indicator of specificity and transfer of control of the economic benefits and service potential of the resources from the entity to the external party.

AG51. Depending on the binding arrangement, goods or services promised in a compliance obligation may include, but are not limited to, the following:

- (a) Provision of goods produced by an entity (for example, inventory such as publications or municipal water provided for a fee);

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- (b) Purchase of goods by an entity and provided to citizens (for example, waste collection bins);
- (c) Resale of rights to goods or services purchased by an entity (for example, an emission allowance resold by an entity acting as a principal, see paragraphs AG117–AG125);
- (d) Provision of goods or services by an entity to third-party beneficiaries (for example a vaccination program for children provided by a hospital that was funded by a government for that purpose);
- (e) Performing a task for a purchaser that is specified in the binding arrangement (for example, management of water facilities);
- (f) Providing a service of standing ready to provide goods or services (for example, paramedics on site at an athletic competition organized by a community group);
- (g) Providing a service of arranging for another party to transfer goods or services to a purchaser or third-party beneficiary (for example, the Post Office acting as an agent of another party by collecting telephone and electricity payments, see paragraphs AG117–AG125);
- (h) Granting rights to goods or services to be provided in the future that a purchaser can resell or provide to its customer (for example, the health department providing drugs and supplements to pharmacies promises to transfer an additional good or service to clinics that purchase the drugs and supplements from the pharmacies);
- (i) Constructing, manufacturing or developing an asset on behalf of a purchaser (for example, a government works department building a recreational facility for another municipality);
- (j) Granting licenses (see paragraphs AG168–AG182); and
- (k) Granting options to purchase additional goods or services (when those options provide a purchaser with a material right (see paragraphs AG126–AG130)).

AG52. An entity earns and recognizes revenue when it satisfies a compliance obligation by transferring a promised good or service to a purchaser or third-party beneficiary. The transfer of the good or service is indicated when the purchaser or third-party beneficiary gains control of the promised goods or services. Paragraph 18 provides indicators of control, which include:

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

Identifying Distinct Promises to Use Resources for Another Party (A Resource Provider (Purchaser) or Third-Party Beneficiary)

AG53. Promises to use resources to transfer distinct goods or services to an external party generally have a greater degree of specificity. An entity is required to clearly identify such compliance obligations in order to complete a more objective analysis and precise account for the recognition and measurement of revenue from these transactions.

AG54. In cases where a binding arrangement includes a compliance obligation to transfer distinct goods or services to a purchaser or third-party beneficiary, a good or service promised is distinct if both of the following criteria are met (see paragraph 73):

- (a) The promise to use resources to transfer a distinct good or service to the purchaser or third-party beneficiary can generate other resources that provide rights to economic benefits and/or service potential either on its own or together with other resources that are readily available to the party receiving the good or service (i.e., the good or service is capable of being distinct); and
- (b) The entity's promise to use resources to transfer a distinct good or service to the purchaser or third-party beneficiary is separately identifiable from other promises in the binding arrangement (i.e., the promise to transfer the good or service is distinct within the context of the binding arrangement).

AG55. In such binding arrangements, the promise to use resources to transfer distinct goods or services to the purchaser or a third-party beneficiary can generate other resources that provide rights to economic benefits and/or service potential when the entity's transfer of the good or service to the party receiving the goods or services contributes to the purchaser achieving its service delivery objectives.

AG56. Compliance obligations that require the transfer of promised goods or services to the purchaser or a third-party beneficiary are separately identifiable (i.e., distinct) from other promises in the same binding arrangement to allow for the purchaser to be able to determine when that promise is satisfied. Therefore, it is possible to have several compliance obligations in one binding arrangement.

*Initial Recognition of Revenue Transactions with a Binding Arrangement (paragraph 78)*

AG57. In accordance with paragraph 78, when a binding arrangement is wholly unsatisfied, an entity shall not recognize any asset, liability or revenue associated with the binding arrangement, unless the binding arrangement is onerous. An entity's rights and obligations under a wholly unsatisfied binding arrangement are interdependent and inseparable. The combined rights and obligations constitute a single asset or liability that is measured at zero. Individual rights and obligations are recognized as items (assets, liabilities, revenue and expenses depending on their nature) only when (or as) one or more parties to the binding arrangement satisfy their obligations.

AG58. Where parts of the binding arrangement remain equally unsatisfied, the entity shall not recognize any asset, liability or revenue for the equally unsatisfied parts of the binding arrangement. Such equally unsatisfied parts of the binding arrangement continue to constitute a single asset or liability that is measured at zero.

*Existence and Recognition of a Liability (paragraphs 81–86)*

AG59. An entity's compliance obligation in a binding arrangement may give rise to a liability. A liability is defined as a present obligation of the entity to transfer resources as a result of past events.

**A Present Obligation**

AG60. A present obligation may be legally binding (i.e., through legal or equivalent means) or non-legally binding. A compliance obligation is a legally binding present obligation, in revenue transactions with binding arrangements, to use resources in compliance with the terms of the binding arrangement. All binding arrangements include at least one compliance obligation.

### As a Result of Past Events

AG61. Public sector entities may willingly enter into binding arrangements in order to deliver their service objectives and obtain assets from governments or other entities, or by purchasing or producing them. A liability may exist as a result of past events, specifically when:

- (a) The entity enters into a binding arrangement with one or more parties; and
- (b) The resource provider has provided promised resources before the entity satisfies the associated compliance obligation(s) (i.e., the entity has received a prepayment and the binding arrangement is partially satisfied).

Transactions or events expected to occur in the future do not in themselves give rise to compliance obligations.

### A Transfer of Resources

AG62. The enforceability of a binding arrangement provides each party in the arrangement with the ability to hold the parties accountable to either satisfy their compliance obligations or face consequences if they do not satisfy their compliance obligations. When the entity has received resources after entering into a binding arrangement as a willing party, a liability exists if the consequence of the entity not satisfying its compliance obligation, as a result of these past events, is to transfer resources to another party (e.g., to the resource provider). Examples of consequences of non-compliance requiring a transfer of resources include, but are not limited to, repaying the resources to the resource provider or incurring some other form of penalty. Such a consequence requires a transfer of resources that the entity would not otherwise have had to transfer (i.e., incremental) had it not willingly entered into the binding arrangement and received resources from the resource provider associated with an unsatisfied or partially unsatisfied obligation (i.e., as a consequence of past events).

### *Satisfaction of Compliance Obligations (paragraphs 87–104)*

#### Compliance Obligations to Use Resources for Goods or Services Internally

AG63. Paragraph 92 provides that a compliance obligation is satisfied over time if one of the following criteria is met:

- (a) The entity simultaneously receives and consumes the economic benefits or service potential provided by the entity's performance as the entity performs (see paragraphs AG64–AG65);
- (b) The entity's performance creates or enhances an asset (for example, work in progress) that the entity controls as the asset is created or enhanced (see paragraph AG66); or
- (c) The entity has an enforceable right to consideration for performance completed to date (see paragraphs AG67–AG71).

#### *Simultaneous Receipt and Consumption of the Economic Benefits or Service Potential (paragraph 92(a))*

AG64. For some types of compliance obligations, the assessment of whether the entity receives the economic benefits or service potential provided by the entity's performance as the entity performs and simultaneously consumes those economic benefits or service potential as they are received will be straightforward. Examples include routine or recurring services (such as a daily volunteer

service) in which the receipt and simultaneous consumption of the economic benefits or service potential by the entity as it satisfies its compliance obligation can be readily identified.

AG65. For other types of compliance obligations, an entity may not be able to readily identify whether the entity simultaneously receives and consumes the economic benefits or service potential from the entity's performance as the entity performs. In those circumstances, a compliance obligation is satisfied over time if an entity determines that another entity would not need to substantially re-perform the work that the entity has completed to date if that other entity were to satisfy the remaining compliance obligation. In determining whether another entity would not need to substantially re-perform the work the entity has completed to date, an entity shall make both of the following assumptions:

- (a) Disregard potential restrictions or practical limitations in the binding arrangement that otherwise would prevent the entity from transferring the remaining compliance obligation to another entity; and
- (b) Presume that another entity satisfying the remainder of the compliance obligation would not have the economic benefits or service potential of any asset that is presently controlled by the entity and that would remain controlled by the entity if the compliance obligation were to transfer to another entity.

*Entity Controls the Asset as it is Created or Enhanced (paragraph 92(b))*

AG66. In determining whether the entity controls an asset as it is created or enhanced in accordance with paragraph 92(b), an entity shall apply the requirements for control in paragraphs 89–90, 94, and AG183-AG196. The asset that is being created or enhanced (for example, a work-in-progress asset) could be either tangible or intangible.

*Right to Consideration for Performance Completed to Date (paragraph 92(c))*

AG67. In accordance with paragraphs 92(c) and 93, an entity has a right to consideration for compliance obligations completed to date if the entity would be entitled to an amount that at least compensates the entity for its compliance obligations completed to date in the event that the resource provider or another party terminates the binding arrangement for reasons other than the entity's failure to perform as promised. An amount that would compensate an entity for compliance obligations completed to date would be an amount that approximates the total cost of the goods or services used to date for no charge or for a nominal charge, or the price of the goods or services used to date (for example, recovery of the costs incurred by an entity in satisfying the compliance obligation plus a reasonable margin) rather than compensation for only the entity's potential loss of surplus if the binding arrangement were to be terminated. Compensation for a reasonable margin need not equal the margin expected if the binding arrangement was satisfied as promised, but an entity should be entitled to compensation for either of the following amounts:

- (a) A proportion of the expected margin in the binding arrangement that reasonably reflects the extent of the entity's performance under the binding arrangement before termination by the resource provider (or another party); or
- (b) A reasonable return on the entity's cost of capital for similar binding arrangements (or the entity's typical operating margin for similar binding arrangements) if the specific margin of the binding arrangement is higher than the return the entity usually generates from similar binding arrangements.

- AG68. An entity's right to consideration for compliance obligations completed to date need not be a present unconditional right to consideration. In many cases, an entity will have an unconditional right to consideration only at an agreed-upon milestone or upon complete satisfaction of the compliance obligation. In assessing whether it has a right to consideration for compliance obligations completed to date, an entity shall consider whether it would have an enforceable right to demand or retain consideration for compliance obligations completed to date if the binding arrangement were to be terminated before completion for reasons other than the entity's failure to perform as promised.
- AG69. In some binding arrangements, a resource provider may have a right to terminate the binding arrangement only at specified times during the life of the binding arrangement or the resource provider might not have any right to terminate the binding arrangement. If a resource provider acts to terminate a binding arrangement without having the right to terminate the binding arrangement at that time (including when a resource provider fails to perform its obligations as promised), the binding arrangement (or other laws) might entitle the entity to continue to use resources internally for distinct goods or services in compliance with the binding arrangement and require the resource provider to pay the consideration promised in exchange for those satisfied compliance obligations. In those circumstances, an entity has a right to consideration for compliance obligations completed to date because the entity has a right to continue to perform its obligations in accordance with the binding arrangement and to require the resource provider to perform its obligations (which include paying the promised consideration).
- AG70. In assessing the existence and enforceability of a right to consideration for compliance obligations completed to date, an entity shall consider the terms of the binding arrangement as well as any legislation or legal precedent that could supplement or override those terms of the binding arrangement. This would include an assessment of whether:
- (a) Legislation, administrative practice or legal precedent confers upon the entity a right to consideration for performance to date even though that right is not specified in the binding arrangement with the resource provider;
  - (b) Relevant legal precedent indicates that similar rights to consideration for performance completed to date in similar binding arrangements have no binding legal effect; or
  - (c) An entity's customary practices of choosing not to enforce a right to consideration has resulted in the right being rendered unenforceable in that legal environment. However, notwithstanding that an entity may choose to waive its right to consideration in similar binding arrangements, an entity would continue to have a right to consideration to date if, in the binding arrangement with the resource provider, its right to consideration for performance to date remains enforceable.
- AG71. The payment schedule specified in a binding arrangement does not necessarily indicate whether an entity has an enforceable right to consideration for compliance obligations completed to date. Although the payment schedule in a binding arrangement specifies the timing and amount of consideration that is payable by a resource provider, the payment schedule might not necessarily provide evidence of the entity's right to consideration for compliance obligations completed to date. This is because, for example, the binding arrangement could specify that the consideration received from the resource provider is refundable for reasons other than the entity failing to perform as promised in the binding arrangement.

Compliance Obligations to Transfer Goods or Services to Another Party

AG72. Paragraph 95 provides that a compliance obligation is satisfied over time if one of the following criteria is met:

- (a) The purchaser (the resource provider in the binding arrangement) or third-party beneficiary simultaneously receives and consumes the economic benefits or service potential provided by the entity's performance as the entity performs (see paragraphs AG73–AG74);
- (b) The entity's performance creates or enhances an asset (for example, work in progress) that the purchaser or third-party beneficiary controls as the asset is created or enhanced (see paragraph AG75); or
- (c) The entity's performance does not create an asset with an alternative use to the entity (see paragraphs AG76–AG78) and the entity has an enforceable right to consideration for performance completed to date (see paragraphs AG79–AG81).

*Simultaneous Receipt and Consumption of the Economic Benefits or Service Potential (paragraph 95(a))*

AG73. For some types of compliance obligations, the assessment of whether a resource provider receives the economic benefits or service potential of an entity's performance as the entity performs and simultaneously consumes those economic benefits or service potential as they are received will be straightforward. Examples include routine or recurring services (such as a cleaning service) in which the receipt and simultaneous consumption by the purchaser or third-party beneficiary of the economic benefits or service potential of the entity's performance can be readily identified.

AG74. For other types of compliance obligations, an entity may not be able to readily identify whether a resource provider simultaneously receives and consumes the economic benefits or service potential from the entity's performance as the entity performs. In those circumstances, a compliance obligation is satisfied over time if an entity determines that another entity would not need to substantially re-perform the work that the entity has completed to date if that other entity were to satisfy the remaining compliance obligation to the resource provider. In determining whether another entity would not need to substantially re-perform the work the entity has completed to date, an entity shall make both of the following assumptions:

- (a) Disregard potential restrictions or practical limitations in the binding arrangement that otherwise would prevent the entity from transferring the remaining compliance obligation to another entity; and
- (b) Presume that another entity satisfying the remainder of the compliance obligation would not have the economic benefits or service potential of any asset that is presently controlled by the entity and that would remain controlled by the entity if the compliance obligation were to transfer to another entity.

*Entity Controls the Asset as it is Created or Enhanced (paragraph 95(b))*

AG75. In determining whether a resource provider controls an asset as it is created or enhanced in accordance with paragraph 95(b), an entity shall apply the requirements for control in paragraphs 89–90, 97, and AG183–AG185. The asset that is being created or enhanced (for example, a work-in-progress asset) could be either tangible or intangible.

*Entity's Satisfaction does not Create an Asset with an Alternative Use (paragraph 95(c))*

- AG76. In assessing whether an asset has an alternative use to an entity in accordance with paragraphs 95(c) and 96, an entity shall consider the effects of restrictions and practical limitations in the binding arrangement on the entity's ability to readily direct that asset for another use, such as providing it to a different entity. The possibility of the binding arrangement with the resource provider being terminated is not a relevant consideration in assessing whether the entity would be able to readily direct the asset for another use.
- AG77. A restriction in the binding arrangement on an entity's ability to direct an asset for another use must be substantive for the asset not to have an alternative use to the entity. A restriction in the binding arrangement is substantive if a resource provider could enforce its rights to the promised asset if the entity sought to direct the asset for another use. In contrast, a restriction in the binding arrangement is not substantive if, for example, an asset is largely interchangeable with other assets that the entity could transfer to another resource provider without breaching the binding arrangement and without incurring significant costs that otherwise would not have been incurred in relation to that binding arrangement.
- AG78. A practical limitation on an entity's ability to direct an asset for another use exists if an entity would incur significant economic losses to direct the asset for another use. A significant economic loss could arise because the entity either would incur significant costs to rework the asset or would only be able to provide the asset at a significant loss. For example, an entity may be practically limited from redirecting assets that either have design specifications that are unique to a resource provider or are located in remote areas.

*Right to Consideration for Performance Completed to Date (paragraph 95(c))*

- AG79. In accordance with paragraphs 95(c) and 93, an entity has a right to consideration for compliance obligations completed to date if the entity would be entitled to an amount that at least compensates the entity for its performance completed to date in the event that the resource provider or another party terminates the binding arrangement for reasons other than the entity's failure to perform as promised. An amount that would compensate an entity for compliance obligations completed to date would be an amount that approximates the total cost of the goods or services transferred to date for no charge or for a nominal charge, or the price of the goods or services transferred to date (for example, recovery of the costs incurred by an entity in satisfying the compliance obligation plus a reasonable margin) rather than compensation for only the entity's potential loss of surplus if the binding arrangement were to be terminated. Compensation for a reasonable margin need not equal the margin expected if the binding arrangement was satisfied as promised, but an entity should be entitled to compensation for either of the following amounts:
- (a) A proportion of the expected margin in the binding arrangement that reasonably reflects the extent of the entity's performance under the binding arrangement before termination by the resource provider (or another party); or
  - (b) A reasonable return on the entity's cost of capital for similar binding arrangements (or the entity's typical operating margin for similar binding arrangements) if the specific margin of the binding arrangement is higher than the return the entity usually generates from similar binding arrangements.



- AG80. In some binding arrangements, a resource provider may have a right to terminate the binding arrangement only at specified times during the life of the binding arrangement or the resource provider might not have any right to terminate the binding arrangement. If a resource provider acts to terminate a binding arrangement without having the right to terminate the binding arrangement at that time (including when a resource provider fails to perform its obligations as promised), the binding arrangement (or other laws) might entitle the entity to continue to transfer to the purchaser or third-party beneficiary the goods or services promised in the binding arrangement and require the resource provider to pay the consideration promised in exchange for those goods or services. In those circumstances, an entity has a right to consideration for compliance obligations completed to date because the entity has a right to continue to perform its obligations in accordance with the binding arrangement and to require the resource provider to perform its obligations (which include paying the promised consideration).
- AG81. An entity should also consider paragraphs AG68, AG70 and AG71 in assessing its right to consideration for performance completed to date related to compliance obligations that require a transfer of goods or services to another party.

*Resource Provider Acceptance of the Entity's Transfer of Goods or Services (paragraph 97)*

- AG82. In accordance with paragraph 97(e), a resource provider's acceptance of an asset may indicate that the resource provider has obtained control of the asset. Resource provider acceptance clauses may allow the resource provider to cancel a binding arrangement or require an entity to take remedial action if a good or service does not meet agreed-upon specifications. An entity shall consider such clauses when evaluating when the resource provider obtains control of a good or service.
- AG83. If an entity can objectively determine that control of a good or service has been transferred to the resource provider in accordance with the agreed-upon specifications in the binding arrangement, then resource provider acceptance is a formality that would not affect the entity's determination of when the resource provider has obtained control of the good or service. For example, if the acceptance clause is based on meeting specified size and weight characteristics, an entity would be able to determine whether those criteria have been met before receiving confirmation of resource provider acceptance. The entity's experience with binding arrangements for similar goods or services may provide evidence that a good or service provided to the purchaser or third-party beneficiary is in accordance with the agreed-upon specifications in the binding arrangement. If revenue is recognized before the resource provider accepts the asset, the entity still must consider whether there are any remaining compliance obligations (for example, installation of equipment) and evaluate whether to account for them separately.
- AG84. However, if an entity cannot objectively determine that the good or service provided to the purchaser or third-party beneficiary is in accordance with the agreed-upon specifications in the binding arrangement, then the entity would not be able to conclude that the resource provider has obtained control until the entity receives acceptance by the resource provider. That is because in that circumstance the entity cannot determine that the resource provider has the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from the good or service.
- AG85. If an entity delivers a product to a purchaser or third-party beneficiary for trial or evaluation purposes and the resource provider is not committed to pay any consideration until the trial period lapses,

control of the product is not transferred to the resource provider until either the resource provider accepts the product or the trial period lapses.

*Methods for Measuring Progress towards Complete Satisfaction of a Compliance Obligation (paragraphs 98–104)*

- AG86. Methods that can be used to measure an entity's progress towards complete satisfaction of a compliance obligation satisfied over time include the following:
- (a) Output methods (see paragraphs AG87–AG91); and
  - (b) Input methods (see paragraphs AG92–AG95).

Output Methods

- AG87. Output methods recognize revenue on the basis of direct measurements of the value to the entity receiving the outputs from the compliance obligations satisfied to date relative to the remaining compliance obligations under the binding arrangement. Output methods include methods such as specified activities performed to date, surveys of performance completed to date, appraisals of results achieved, milestones reached, time elapsed and units produced or units delivered.
- AG88. A specified activity is a particular action, stated in a binding arrangement, that the entity must perform and for which the resource provider can compel the entity to perform, such as construct a hospital or conduct a form of research. As a detailed example, a resource provider provides funding to a government science agency (resource recipient) to conduct research and development into a plant-based meat substitute. Any intellectual property developed by the government science agency remains the property of that agency. The funding is provided on the basis of a detailed project plan (with the individual stages of research and development identified) provided by the government science agency and the resource provider requires the government science agency to report back at each stage. Each of these stages constitutes a specified activity and revenue would be recognized when (or as) they are completed and for the amount incurred in completing that specified action. The enforceability of the binding arrangement enables the resource provider to require the entity to use resources to deliver the specified activity, or face consequences stated in the binding arrangement for non-compliance (such as the return of resources, or another form of redress).
- AG89. When an entity evaluates whether to apply an output method to measure its progress, the entity shall consider whether the output selected would faithfully depict the entity's performance towards complete satisfaction of the compliance obligation. An output method would not provide a faithful depiction of the entity's performance if the output selected would fail to measure some of the promises to use resources in the specified manner. For example, output methods based on units produced or units delivered would not faithfully depict an entity's performance in satisfying a compliance obligation if, at the end of the reporting period, the entity's performance has produced work in progress or finished goods controlled by the resource provider that are not included in the measurement of the output.
- AG90. As a practical expedient for compliance obligations where the entity is required to transfer a distinct good or service to an external party, if an entity has a right to consideration from a resource provider in an amount that corresponds directly with the value to the resource provider of the entity's compliance obligations completed to date (for example, a binding arrangement to render or provide

a service in which an entity bills a fixed amount for each hour of service provided), the entity may recognize revenue in the amount to which the entity has a right to invoice.

- AG91. The disadvantages of output methods are that the outputs used to measure progress may not be directly observable and the information required to apply them may not be available to an entity without undue cost. Therefore, an input method may be necessary.

#### Input Methods

- AG92. Input methods recognize revenue on the basis of the entity's efforts or inputs to the satisfaction of a compliance obligation (for example, resources consumed, labor hours expended, eligible expenditures incurred, time elapsed or machine hours used) relative to the total expected inputs to the satisfaction of that compliance obligation. If the entity's efforts or inputs are expended evenly throughout the performance period, it may be appropriate for the entity to recognize revenue on a straight-line basis.

- AG93. An eligible expenditure is a transfer of resources incurred in accordance with the requirements set out in a binding arrangement. A binding arrangement may require an entity to use resources for a particular purpose, such as to further the entity's objectives, and incur eligible expenditure for that purpose, but does not have an identifiable specified activity. For example, funding may be provided to a university to employ a marketing manager to promote the university's courses to overseas students. The binding arrangement specifies that the funding is to be spent on promoting the university overseas and that the marketing manager's salary, travel expenses and any promotional materials used would all be classified as eligible expenditures. The enforceability of the binding arrangement enables the resource provider to require the entity to use resources to incur the eligible expenditure, or face consequences stated in the binding arrangement for non-compliance (such as the return of resources, or another form of redress).

- AG94. The resource provider needs to be able to confirm that the entity's compliance obligations in the binding arrangement have been satisfied in the specified manner. Therefore, the entity needs to keep appropriate documentation to show that the inputs, such as any eligible expenditures, were incurred by the entity and directly related to the entity's satisfaction of the promises in the specified manner.

- AG95. A shortcoming of input methods is that there may not be a direct relationship between an entity's inputs and the satisfaction of its compliance obligation. Therefore, an entity shall exclude from an input method the effects of any inputs that, in accordance with the objective of measuring progress in paragraph 98, do not depict the entity's performance in satisfying its compliance obligations. For instance, when using a cost-based input method, an adjustment to the measure of progress may be required in the following circumstances:

- (a) When a cost incurred does not contribute to an entity's progress in satisfying the compliance obligation. For example, an entity would not recognize revenue on the basis of costs incurred that are attributable to significant inefficiencies in the entity's performance that were not reflected in the transaction consideration of the binding arrangement (for example, the costs of unexpected amounts of wasted materials, labor or other resources that were incurred to satisfy the compliance obligation).
- (b) When a cost incurred is not proportionate to the entity's progress in satisfying the compliance obligation. In those circumstances, the best depiction of the entity's performance may be to

adjust the input method to recognize revenue only to the extent of that cost incurred. For example, a faithful depiction of an entity's performance might be to recognize revenue at an amount equal to the cost of a good used to satisfy a compliance obligation if the entity expects at the inception of the binding arrangement that all of the following conditions would be met:

- (i) The good is not distinct;
- (ii) The party receiving the good or service is expected to obtain control of the good significantly before receiving services related to the good;
- (iii) The cost of the transferred good is significant relative to the total expected costs to completely satisfy the compliance obligation; and
- (iv) The entity procures the good from a third party and is not significantly involved in designing and manufacturing the good (but the entity is acting as a principal in accordance with paragraphs AG117–AG125).

*Right of Return for a Transfer of Goods or Services to Another Party (paragraph 118)*

AG96. In some binding arrangements, an entity transfers control of a product to a resource provider and also grants the resource provider the right to return the product for various reasons (such as dissatisfaction with the product) and receive any combination of the following:

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

AG97. To account for the transfer of products with a right of return (and for some services that are provided subject to a refund), an entity shall recognize all of the following:

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

AG98. An entity's promise to stand ready to accept a returned product during the return period shall not be accounted for as a compliance obligation in addition to the obligation to provide a refund.

AG99. An entity shall apply the requirements in paragraphs 109–122 (including the requirements for constraining measurement in paragraphs 119–121) to determine the amount of consideration to which the entity expects to be entitled. In transactions where the binding arrangement requires an entity to transfer distinct goods or services to another party (i.e., the purchaser (resource provider) or third-party beneficiary), this amount would exclude the products expected to be returned. For any amounts received (or receivable) for which an entity does not expect to be entitled, the entity shall not recognize revenue but shall recognize those amounts received (or receivable) as a refund liability. Subsequently, at the end of each reporting period, the entity shall update its assessment of amounts for which it expects to be entitled for satisfying its compliance obligations in the binding

arrangement and make a corresponding change to the transaction consideration and, therefore, in the amount of revenue recognized.

- AG100. An entity shall update the measurement of the refund liability at the end of each reporting period for changes in expectations about the amount of refunds. An entity shall recognize corresponding adjustments as revenue (or reductions of revenue).
- AG101. An asset recognized for an entity's right to recover products from a resource provider on settling a refund liability shall initially be measured by reference to the former carrying amount of the product (for example, inventory) less any expected costs to recover those products (including potential decreases in the value to the entity of returned products). At the end of each reporting period, an entity shall update the measurement of the asset arising from changes in expectations about products to be returned. An entity shall present the asset separately from the refund liability.
- AG102. Exchanges by resource providers of one product for another of the same type, quality, condition and price (for example, one color or size for another) are not considered returns for the purposes of applying this Standard.
- AG103. Binding arrangements in which a resource provider may return a defective product in exchange for a functioning product shall be evaluated in accordance with the guidance on warranties in paragraphs AG111–AG116.

*Consideration Payable to a Resource Provider for a Transfer of Goods or Services to Another Party (paragraph 111(e))*

- AG104. Consideration payable to a resource provider includes cash amounts that an entity pays, or expects to pay, to the resource provider (or to other parties that purchase the entity's goods or services from the resource provider). Consideration payable to a resource provider also includes credit or other items (for example, a coupon or voucher) that can be applied against amounts owed to the entity (or to other parties that purchase the entity's goods or services from the resource provider). An entity shall account for consideration payable to a resource provider as a reduction of the transaction consideration and, therefore, of revenue unless the payment to the resource provider is in exchange for a distinct good or service (as described in paragraphs 73–77) that the resource provider transfers to the entity. If the consideration payable to a resource provider includes a variable amount, an entity shall estimate the transaction consideration (including assessing whether the estimate of variable consideration is constrained) in accordance with paragraphs 113–121.
- AG105. If consideration payable to a resource provider is a payment for a distinct good or service from the resource provider, then an entity shall account for the purchase of the good or service in the same way that it accounts for other purchases from suppliers. If the amount of consideration payable to the resource provider exceeds the current value of the distinct good or service that the entity receives from the resource provider, then the entity shall account for such an excess as a reduction of the transaction consideration. If the entity cannot reasonably estimate the current value of the good or service received from the resource provider, it shall account for all of the consideration payable to the resource provider as a reduction of the transaction consideration.
- AG106. Accordingly, if consideration payable to a resource provider is accounted for as a reduction of the transaction consideration, an entity shall recognize the reduction of revenue when (or as) the later of either of the following events occurs:

- (a) The entity recognizes revenue for the transfer of the related goods or services to the purchaser or third-party beneficiary; and
- (b) The entity pays or promises to pay the consideration (even if the payment is conditional on a future event). That promise might be implied by the entity's customary practices.

*Allocation of a Discount for a Transfer of Goods or Services to Another Party (paragraph 134)*

AG107. A resource provider receives a discount for purchasing a bundle of goods or services if the sum of the stand-alone values of those promised goods or services in the binding arrangement exceeds the promised consideration in a binding arrangement. Except when an entity has observable evidence in accordance with paragraph AG108 that the entire discount relates to only one or more, but not all, compliance obligations in a binding arrangement, the entity shall allocate a discount proportionately to all compliance obligations in the binding arrangement. The proportionate allocation of the discount in those circumstances is a consequence of the entity allocating the transaction consideration to each compliance obligation on the basis of the relative stand-alone values of the underlying distinct goods or services.

AG108. An entity shall allocate a discount entirely to one or more, but not all, compliance obligations in the binding arrangement if all of the following criteria are met:

- (a) The entity regularly provides each distinct good or service (or each bundle of distinct goods or services) in the binding arrangement on a stand-alone basis;
- (b) The entity also regularly provides on a stand-alone basis a bundle (or bundles) of some of those distinct goods or services at a discount to the stand-alone values of the goods or services in each bundle; and
- (c) The discount attributable to each bundle of goods or services described in paragraph AG108(b) is substantially the same as the discount in the binding arrangement and an analysis of the goods or services in each bundle provides observable evidence of the compliance obligation (or compliance obligations) to which the entire discount in the binding arrangement belongs.

AG109. If a discount is allocated entirely to one or more compliance obligations in the binding arrangement in accordance with paragraph AG108, an entity shall allocate the discount before using the residual approach to estimate the stand-alone value of a good or service in accordance with paragraph 139(c).

*Determination of the Stand-Alone Value (paragraphs 137–140)*

AG110. In the public sector, the determination of a stand-alone value for a compliance obligation in accordance with paragraph 137 may be challenging, particularly in situations where an entity (being the resource recipient) is providing goods or services to third-party beneficiaries. In these circumstances, the stand-alone value is estimated based on the amount the resource provider would need to pay in market terms to acquire the economic benefits or service potential of the goods or services provided to the third-party beneficiaries, plus an appropriate margin if applicable. Where the stand-alone value of the goods or services cannot be estimated from market information, the entity estimates the stand-alone value using the expected cost approach, as noted in paragraph 139(b).

### *Warranties for Goods or Services Transferred to Another Party*

- AG111. In binding arrangements where the entity provides distinct goods or services to another party, it is common for an entity to provide (in accordance with the binding arrangement, the law or the entity's customary practices) a warranty in connection with the sale of a product (whether a good or service). The nature of a warranty can vary significantly across sectors and binding arrangements. Some warranties provide a resource provider with assurance that the related product will function as the parties intended because it complies with agreed-upon specifications. Other warranties provide the resource provider with a service in addition to the assurance that the product complies with agreed-upon specifications.
- AG112. If a resource provider has the option to purchase a warranty separately (for example, because the warranty is priced or negotiated separately), the warranty is a distinct service because the entity promises to provide the service to the purchaser or third-party beneficiary in addition to the product that has the functionality described in the binding arrangement. In those circumstances, an entity shall account for the promised warranty as a compliance obligation in accordance with paragraphs 68–77 and allocate a portion of the transaction consideration to that compliance obligation in accordance with paragraphs 133–143.
- AG113. If a resource provider does not have the option to purchase a warranty separately, an entity shall account for the warranty in accordance with IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* unless the promised warranty, or a part of the promised warranty, provides the purchaser or third-party beneficiary with a service in addition to the assurance that the product complies with agreed-upon specifications.
- AG114. In assessing whether a warranty provides a purchaser or third-party beneficiary with a service in addition to the assurance that the product complies with agreed-upon specifications, an entity shall consider factors such as:
- (a) Whether the warranty is required by law – if the entity is required by law to provide a warranty, the existence of that law indicates that the promised warranty is not a compliance obligation because such requirements typically exist to protect resource providers from the risk of purchasing defective products.
  - (b) The length of the warranty coverage period – the longer the coverage period, the more likely it is that the promised warranty is a compliance obligation because it is more likely to provide a service in addition to the assurance that the product complies with agreed-upon specifications.
  - (c) The nature of the tasks that the entity promises to perform – if it is necessary for an entity to perform specified tasks to provide the assurance that a product complies with agreed-upon specifications (for example, a return shipping service for a defective product), then those tasks likely do not give rise to a compliance obligation.
- AG115. If a warranty, or a part of a warranty, provides a purchaser or third-party beneficiary with a service in addition to the assurance that the product complies with agreed-upon specifications, the promised service is a compliance obligation. Therefore, an entity shall allocate the transaction consideration to the product and the service. If an entity promises both an assurance-type warranty and a service-type warranty but cannot reasonably account for them separately, the entity shall account for both of the warranties together as a single compliance obligation.

AG116. A law that requires an entity to pay compensation if its products cause harm or damage does not give rise to a compliance obligation. For example, a manufacturer such as a government medical laboratory might sell products such as diagnostic ultrasound scanners to both government-owned and privately-owned medical centers and hospitals in a jurisdiction in which the law holds the manufacturer liable for any damages (for example, to personal property) that might be caused by a purchaser or third-party beneficiary using a product for its intended purpose. Similarly, an entity's promise to indemnify the resource provider for liabilities and damages arising from claims of patent, copyright, trademark or other infringement by the entity's products does not give rise to a compliance obligation. The entity shall account for such obligations in accordance with IPSAS 19.

### *Principal versus Agent Considerations*

AG117. When another party is involved in providing goods or services to a purchaser or third-party beneficiary, the entity shall determine whether the nature of its promise is a compliance obligation to provide the specified goods or services itself (i.e., the entity is a principal) or to arrange for those goods or services to be provided by the other party (i.e., the entity is an agent). An entity determines whether it is a principal or an agent for each specified good or service promised to the purchaser or third-party beneficiary. A specified good or service is a distinct good or service (or a distinct bundle of goods or services) to be provided to the purchaser or third-party beneficiary (see paragraphs 73–77 and AG53–AG56). If a binding arrangement with a resource provider includes more than one specified good or service, an entity could be a principal for some specified goods or services and an agent for others.

AG118. To determine the nature of its promise (as described in paragraph AG117), the entity shall:

- (a) Identify the specified goods or services to be provided to the purchaser or third-party beneficiary (which, for example, could be a right to a good or service to be provided by another party (see paragraph AG51)); and
- (b) Assess whether it controls (as described in paragraph 90) each specified good or service before that good or service is transferred to the purchaser or third-party beneficiary.

AG119. An entity is a principal if it controls the specified good or service before that good or service is transferred to a purchaser or third-party beneficiary. However, an entity does not necessarily control a specified good if the entity obtains legal title to that good only momentarily before legal title is transferred to a purchaser or third-party beneficiary. An entity that is a principal may satisfy its compliance obligation to provide the specified good or service itself or it may engage another party (for example, a subcontractor) to satisfy some or all of the compliance obligation on its behalf.

AG120. When another party is involved in providing goods or services to a purchaser or third-party beneficiary, an entity that is a principal obtains control of any one of the following:

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



example, if an entity provides a significant service of integrating goods or services (see paragraph 76(a)) provided by another party into the specified good or service for which the resource provider has entered into a binding arrangement, the entity controls the specified good or service before that good or service is transferred to the purchaser or third-party beneficiary. This is because the entity first obtains control of the inputs to the specified good or service (which includes goods or services from other parties) and directs their use to create the combined output that is the specified good or service.

AG121. When (or as) an entity that is a principal satisfies a compliance obligation, the entity recognizes revenue in the gross amount of consideration to which it expects to be entitled in exchange for the specified good or service transferred.

AG122. An entity is an agent if the entity's compliance obligation is to arrange for the provision of the specified good or service by another party. An entity that is an agent does not control the specified good or service provided by another party before that good or service is transferred to the purchaser or third-party beneficiary. When (or as) an entity that is an agent satisfies a compliance obligation, the entity recognizes revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party. An entity's fee or commission might be the net amount of consideration that the entity retains after paying the other party the consideration received in exchange for the goods or services to be provided by that party.

AG123. Indicators that an entity controls the specified good or service before it is transferred to the purchaser or third-party beneficiary (and is therefore a principal (see paragraph AG119)) include, but are not limited to, the following:

- (a) The entity is primarily responsible for satisfying the promise to provide the specified good or service. This typically includes responsibility for the acceptability of the specified good or service (for example, primary responsibility for the good or service meeting resource provider specifications). If the entity is primarily responsible for satisfying the promise to provide the specified good or service, this may indicate that the other party involved in providing the specified good or service is acting on the entity's behalf.
- (b) The entity has inventory risk before the specified good or service has been transferred to a purchaser or third-party beneficiary or after transfer of control to the resource provider (for example, if the resource provider has a right of return). For example, if the entity obtains, or commits itself to obtain, the specified good or service before obtaining a binding arrangement with a resource provider, that may indicate that the entity has the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the good or service before it is transferred to the purchaser or third-party beneficiary.
- (c) The entity has discretion in establishing the price for the specified good or service. Establishing the price that the resource provider pays for the specified good or service may indicate that the entity has the ability to direct the use of that good or service and obtain substantially all of the remaining economic benefits or service potential. However, an agent can have discretion in establishing prices in some cases. For example, an agent may have some flexibility in setting prices in order to generate additional revenue from its service of arranging for goods or services to be provided by other parties to purchasers or third-party beneficiaries.

AG124. The indicators in paragraph AG123 may be more or less relevant to the assessment of control depending on the nature of the specified good or service and the terms and conditions of the binding arrangement. In addition, different indicators may provide more persuasive evidence in different binding arrangements.

AG125. If another entity assumes the entity's compliance obligations and rights in the binding arrangement so that the entity is no longer required to satisfy the compliance obligation to transfer the specified good or service to the purchaser or third-party beneficiary (i.e., the entity is no longer acting as the principal), the entity shall not recognize revenue for that compliance obligation. Instead, the entity shall evaluate whether to recognize revenue for satisfying a compliance obligation to obtain a binding arrangement for the other party (i.e., whether the entity is acting as an agent).

### *Resource Provider Options for Additional Goods or Services*

AG126. Resource provider options to acquire additional goods or services for free or at a discount come in many forms, including sales incentives, resource provider award credits (or points), renewal options in a binding arrangement or other discounts on future goods or services.

AG127. If, in a binding arrangement, an entity grants a resource provider the option to acquire additional goods or services, that option gives rise to a compliance obligation in the binding arrangement only if the option provides a material right to the resource provider that it would not receive without entering into that binding arrangement (for example, a discount that is incremental to the range of discounts typically given for those goods or services to that class of resource provider in that geographical area or market). If the option provides a material right to the resource provider, the resource provider in effect pays the entity in advance for future goods or services and the entity recognizes revenue when those future goods or services are transferred or when the option expires.

AG128. If a resource provider has the option to acquire an additional good or service at a price that would reflect the stand-alone value for that good or service, that option does not provide the resource provider with a material right even if the option can be exercised only by entering into a previous binding arrangement. In those cases, the entity has made a marketing offer that it shall account for in accordance with this Standard only when the resource provider exercises the option to purchase the additional goods or services.

AG129. Paragraph 134 requires an entity to allocate the transaction consideration to compliance obligations on a relative stand-alone value basis. If the stand-alone value for a resource provider's option to acquire additional goods or services is not directly observable, an entity shall estimate it. That estimate shall reflect the discount that the resource provider would obtain when exercising the option, adjusted for both of the following:

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

AG130. If a resource provider has a material right to acquire future goods or services and those goods or services are similar to the original goods or services in the binding arrangement and are provided in accordance with the terms of the original binding arrangement, then an entity may, as a practical alternative to estimating the stand-alone value of the option, allocate the transaction consideration to the optional goods or services by reference to the goods or services expected to be provided

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

*Resource Providers' Unexercised Rights*

AG131. In accordance with paragraph 163, upon receipt of a prepayment from a resource provider, an entity shall recognize a binding arrangement liability in the amount of the prepayment for its compliance obligation. An entity shall derecognize its binding arrangement liability (and recognize revenue) when it satisfies the compliance obligation associated with the consideration previously received from the resource provider.

AG132. A resource provider's non-refundable prepayment to an entity gives the resource provider a right to have the resource recipient satisfy its obligations (or face consequences outlined in the binding arrangement). However, resource providers may not exercise all of their rights in the binding arrangement. Those unexercised rights are often referred to as breakage.

AG133. If an entity expects to be entitled to a breakage amount in a binding arrangement liability, the entity shall recognize the expected breakage amount as revenue in proportion to the pattern of rights exercised by the resource provider. If an entity does not expect to be entitled to a breakage amount, the entity shall recognize the expected breakage amount as revenue when the likelihood of the resource provider exercising its remaining rights becomes remote. To determine whether an entity expects to be entitled to a breakage amount, the entity shall consider the requirements in paragraphs 119–121 on constraining estimates of variable consideration.

AG134. An entity shall recognize a liability (and not revenue) for any consideration received that is attributable to a resource provider's unexercised rights for which the entity is required to remit to another party, for example, a government entity in accordance with applicable unclaimed property laws.

*Non-Refundable Upfront Fees (and some Related Costs) for a Transfer of Goods or Services to Another Party*

AG135. In some binding arrangements, an entity charges a resource provider a non-refundable upfront fee at or near the inception of the binding arrangement. Examples include joining fees for a healthcare membership, activation fees from telecommunication companies, setup fees for some services and initial fees for some supplies.

AG136. To identify compliance obligations in such binding arrangements, an entity shall assess whether the fee relates to the transfer of a promised good or service. In many cases, even though a non-refundable upfront fee relates to an activity that the entity is required to undertake at or near the inception of the binding arrangement to satisfy the binding arrangement, that activity does not result in the transfer of a promised good or service to the purchaser or third-party beneficiary (see paragraph 72). Instead, the upfront fee is an advance payment for future goods or services and, therefore, would be recognized as revenue when those future goods or services are provided. The revenue recognition period would extend beyond the initial period of the binding arrangement if the entity grants the resource provider the option to renew the binding arrangement and that option provides the resource provider with a material right as described in paragraph AG127.

AG137. If the non-refundable upfront fee relates to a good or service, the entity shall evaluate whether to account for the good or service as a separate compliance obligation in accordance with paragraphs 68–77.

AG138. An entity may charge a non-refundable fee in part as compensation for costs incurred in setting up a binding arrangement (or other administrative tasks as described in paragraph 72). If those setup activities do not satisfy a compliance obligation, the entity shall disregard those activities (and related costs) when measuring progress in accordance with paragraph AG95. That is because the costs of setup activities do not depict the transfer of services to a purchaser or third-party beneficiary. The entity shall assess whether costs incurred in setting up a binding arrangement have resulted in an asset that shall be recognized in accordance with paragraph 152.

### **Application of Principles to Specific Transactions**

AG139. Public sector entities receive various types of transfers. Transfers may or may not arise from a binding arrangement. Subject to paragraph AG143, an entity shall recognize an asset in respect of transfer revenue when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

#### *Capital Transfers*

AG140. This Standard defines a capital transfer as a transaction that arises from a binding arrangement where a resource provider provides cash or another asset with a specification that the entity acquires or constructs a non-financial asset that will be controlled by the entity. A capital transfer imposes at least one compliance obligation on the entity.

AG141. An entity shall recognize revenue as it satisfies its compliance obligations in its capital transfer transaction by applying paragraphs 87–104. An entity shall separately determine whether any inflow of resources from a capital transfer is to be recognized as an asset by applying paragraph 80, and whether its compliance obligation is to be recognized as a liability by applying paragraphs 81–86. The carrying amount of any such liability is reduced as revenue is recognized.

AG142. Some capital transfer transactions may include a compliance obligation for the operation of the acquired or constructed asset, which would not meet the capital transfer definition. The entity determines whether the binding arrangement includes one or more compliance obligations relating to the operation of the asset by assessing whether the transaction consideration is associated with the operation of the asset, once acquired or constructed. Any compliance obligations related to the operation of the asset would be accounted for in accordance with the requirements of this Standard.

#### *Services In-Kind*

AG143. An entity may, but is not required to, recognize services in-kind as revenue and as an asset.

AG144. Although recognition of services in-kind is not required by this Standard, entities are strongly encouraged to disclose services in-kind received particularly if they are integral to an entity's operations.

AG145. Services in-kind are services provided by individuals to public sector entities for no consideration. Some services in-kind meet the definition of an asset because the entity controls a resource from which future economic benefits or service potential are expected to flow to the entity. These assets are, however, immediately consumed, and a transaction of equal value is also recognized to reflect

the consumption of these services in-kind. For example, a public school that receives volunteer services from teachers' aides, the fair value of which can be reliably measured, may recognize an increase in an asset and revenue, and a decrease in an asset and an expense. In many cases, the entity will recognize an expense for the consumption of services in-kind. However, services in-kind may also be utilized to construct an asset, in which case the amount recognized in respect of services in-kind is included in the cost of the asset being constructed.

AG146. Public sector entities may be recipients of services in-kind under voluntary or non-voluntary schemes operated in the public interest. For example:

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

AG147. Some services in-kind do not meet the definition of an asset because the entity has insufficient control over the services provided. In other circumstances, the entity may have control over the services in-kind, but may not be able to measure them reliably, and thus they fail to satisfy the criteria for recognition as an asset. Entities may, however, be able to measure the fair value of certain services in-kind, such as professional or other services in-kind that are otherwise readily available in the national or international marketplace. When determining the fair value of the types of services in-kind described in paragraph AG146, the entity may conclude that the value of the services is not material. In many instances, services in-kind are rendered by persons with little or no training, and are fundamentally different from the services the entity would acquire if the services in-kind were not available.

AG148. Due to the many uncertainties surrounding services in-kind, including the ability to exercise control over the services, and measuring the fair value of the services, this Standard does not require the recognition of services in-kind. Paragraph 175, however, strongly encourages the disclosure of qualitative information on the nature and type of services in-kind received during the reporting period. As for all disclosures, disclosures relating to services in-kind are only made if they are material. For some public sector entities, the services provided by volunteers are not material in amount, but may be material by nature.

AG149. In developing an accounting policy addressing a class of services in-kind, various factors would be considered, including the effects of those services in-kind on the financial position, performance, and cash flows of the entity. The extent to which an entity is dependent on a class of services in-kind to meet its objectives may influence the accounting policy an entity develops regarding the recognition of assets. For example, an entity that is dependent on a class of services in-kind to meet its objectives may be more likely to recognize those services in-kind that meet the definition of an asset and satisfy the criteria for recognition. In determining whether to recognize a class of services in-kind, the practices of similar entities operating in a similar environment are also considered.

*Pledges*

AG150. Pledges are unenforceable promises to transfer assets to the entity in the future. Pledges do not meet the definition of an asset, because the entity is unable to control the access of the resource provider to the future economic benefits or service potential embodied in the item pledged. Entities do not recognize pledged items as assets or revenue. If the pledged item is subsequently transferred to the entity, it is recognized as a gift or donation, in accordance with paragraphs AG164–AG167. Pledges may warrant disclosure as contingent assets under the requirements of IPSAS 19.

*Advance Receipts of Transfers*

AG151. Where an entity receives resources before a transfer arrangement becomes binding, the resources are recognized as an asset when they meet the definition of an asset and satisfy the criteria for recognition as an asset. The entity will also recognize an advance receipt liability if the transfer arrangement is not yet binding. Advance receipts in respect of transfers are not fundamentally different from other advance receipts. This liability (advance receipt) may be recognized as a liability (deferred revenue), in accordance with paragraphs 81–86, when the event that makes the transfer arrangement binding occurs, and is subsequently extinguished when (or as) all compliance obligations under the agreement are satisfied.

*Concessionary Loans*

AG152. Concessionary loans are loans received by an entity at below-market terms. The portion of the loan that is repayable, along with any interest payments, is accounted for in accordance with IPSAS 41. An entity considers whether any difference between the transaction consideration (loan proceeds) and the fair value of the loan on initial recognition (see IPSAS 41) is revenue that should be accounted for in accordance with this Standard.

AG153. Where an entity determines that the difference between the transaction consideration (loan proceeds) and the fair value of the loan on initial recognition is revenue, an entity recognizes the difference as revenue, except if a compliance obligation exists, for example, where specific requirements are imposed on the transferred assets by the entity result in a compliance obligation. Where a compliance obligation exists, the entity considers if it gives rise to the existence and recognition of a liability. As the entity satisfies the compliance obligation, the liability is reduced and an equal amount of revenue is recognized.

*Measurement of Transferred Assets*

AG154. As required by paragraph 106, transferred assets are measured at their transaction consideration as at the date of recognition. When an entity receives consideration in a form other than cash, the non-cash consideration is initially measured at its current value in accordance with relevant IPSAS;

- (a) Assets such as inventories, investment property, and intangible assets acquired through revenue transactions are to be initially measured at their fair value at the acquisition date;
- (b) Property, plant, and equipment assets acquired through revenue transactions are to be measured at their deemed cost as at the acquisition date. The primary objective for which an entity holds property, plant, and equipment determines the current value measurement basis used to determine deemed cost (where such assets held for their operational capacity are

measured at current operational value, and assets held for their financial capacity are measured at fair value); and

- (c) Financial instruments, including cash and transfers receivable that satisfy the definition of a financial instrument are to be measured at their transaction consideration as at the acquisition date in accordance with paragraph 109 and the appropriate accounting policy.

### *Debt Forgiveness and Assumptions of Liabilities*

AG155. Lenders will sometimes waive their right to collect a debt owed by a public sector entity, effectively canceling the debt. For example, a national government may cancel a loan owed by a local government. In circumstances when a creditor forgives a liability, the local government decreases the carrying amount of the existing liability and recognizes an increase in net assets.

AG156. Entities recognize revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

AG157. Where a controlling entity forgives debt owed by a wholly-owned controlled entity, or assumes its liabilities, the transaction may be a contribution from owners, as described in paragraphs AG7–AG9.

AG158. Revenue arising from debt forgiveness is measured at the carrying amount of the debt forgiven.

### *Fines*

AG159. Fines are economic benefits or service potential received or receivable by a public sector entity, from an individual or other entity, as determined by a court or other law enforcement body, as a consequence of the individual or other entity breaching the requirements of laws and/or regulations. In some jurisdictions, law enforcement officials are able to impose fines on individuals considered to have breached the law. In these cases, the individual will normally have the choice of paying the fine, or going to court to defend the matter. Where a defendant reaches an agreement with a prosecutor that includes the payment of a penalty instead of being tried in court, the payment is recognized as a fine.

AG160. Fines normally require an entity to transfer a fixed amount of cash to the government, and do not impose on the government any obligations which may be recognized as a liability. As such, fines are recognized as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset set out in paragraph 18. As noted in paragraph 5, where an entity collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity. Assets arising from fines are measured at the best estimate of the inflow of resources to the entity.

### *Bequests*

AG161. A bequest is a transfer of resources made according to the provisions of a deceased person's will. The past event giving rise to the control of resources embodying future economic benefits or service potential for a bequest occurs when the entity has an enforceable claim, for example on the death of the testator, or the granting of probate, depending on the laws and/or regulations of the jurisdiction.

AG162. Bequests that satisfy the definition of an asset are recognized as assets and revenue when it is probable that the future economic benefits or service potential will flow to the entity, and the transaction consideration of the assets can be measured reliably. Determining the probability of an inflow of future economic benefits or service potential may be problematic if a period of time elapses between the death of the testator and the entity receiving any assets. The entity will need to determine if the deceased person's estate is sufficient to meet all claims on it, and satisfy all bequests. If the will is disputed, this will also affect the probability of assets flowing to the entity.

AG163. The transaction consideration of bequeathed assets is determined in the same manner as for gifts and donations, as is described in paragraph AG166. In jurisdictions where deceased estates are subject to taxation, the tax authority may already have determined the transaction consideration of the asset bequeathed to the entity, and this amount may be available to the entity. Bequests are measured at the transaction consideration of the resources received or receivable.

### *Gifts and Donations, including Goods In-kind*

AG164. Gifts and donations are voluntary transfers of assets, including cash or other monetary assets, goods in-kind, and services in-kind that one entity makes to another, normally free from requirements. The resource provider may be an entity or an individual. For gifts and donations of cash or other monetary assets and goods in-kind, the past event giving rise to the control of resources embodying future economic benefits or service potential is normally the receipt of the gift or donation. The making of the gift or donation and the transfer of legal title are often simultaneous; in such circumstances, there is no doubt as to the future economic benefits or service potential flowing to the entity.

AG165. Goods in-kind are tangible assets transferred to an entity in a transaction that do not require a transfer of distinct goods or services to an external party but may be subject to certain obligations. External assistance provided by multilateral or bilateral development organizations often includes a component of goods in-kind.

AG166. Recognition of gifts or donations of services in-kind are addressed in paragraphs AG143–AG149. Gifts and donations other than services in-kind and goods in-kind are recognized as assets in accordance with paragraphs 18–25, and the recognition of revenue depends on whether they arise from a transaction with a binding arrangement.

AG167. On initial recognition, gifts and donations (including goods in-kind) are measured at their transaction consideration as at the acquisition date, in accordance with paragraph 30.

### *Licensing*

AG168. A license establishes a resource provider's rights to the intellectual property of an entity. Licenses of intellectual property may include, but are not limited to, licenses of any of the following:

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



AG169. In addition to a promise to grant a license (or licenses) to a resource provider, an entity may also promise to transfer other goods or services to the purchaser or third-party beneficiary. Those promises may be explicitly stated in the binding arrangement or implied by an entity's customary practices, published policies or specific statements (see paragraph 71). As with other types of binding arrangements, when a binding arrangement with a resource provider includes a promise to grant a license (or licenses) in addition to other promised goods or services, an entity applies paragraphs 68–77 to identify each of the compliance obligations in the binding arrangement.

AG170. If the promise to grant a license is not distinct from other promised goods or services in the binding arrangement in accordance with paragraphs 73–77, an entity shall account for the promise to grant a license and those other promised goods or services together as a single compliance obligation. Examples of licenses that are not distinct from other goods or services promised in the binding arrangement include the following:

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

AG171. If the license is not distinct, an entity shall apply paragraphs 87–97 to determine whether the compliance obligation (which includes the promised license) is a compliance obligation that is satisfied over time or satisfied at a point in time.

AG172. If the promise to grant the license is distinct from the other promised goods or services in the binding arrangement and, therefore, the promise to grant the license is a separate compliance obligation, an entity shall determine whether the license transfers to a purchaser or third-party beneficiary either at a point in time or over time. In making this determination, an entity shall consider whether the nature of the entity's promise in granting the license to a purchaser or third-party beneficiary is to provide the resource provider with either:

- (a) A right to access the entity's intellectual property as it exists throughout the license period; or
- (b) A right to use the entity's intellectual property as it exists at the point in time at which the license is granted.

#### Determining the Nature of the Entity's Promise

AG173. The nature of an entity's promise in granting a license is a promise to provide a right to access the entity's intellectual property if all of the following criteria are met:

- (a) The binding arrangement requires, or the resource provider reasonably expects, that the entity will undertake activities that significantly affect the intellectual property to which the resource provider has rights (see paragraphs AG174–AG175);
- (b) The rights granted by the license directly expose the purchaser or third-party beneficiary to any positive or negative effects of the entity's activities identified in paragraph AG173(a); and

- (c) Those activities do not result in the transfer of a good or a service to the purchaser or third-party beneficiary as those activities occur (see paragraph 72).

AG174. Factors that may indicate that a resource provider could reasonably expect that an entity will undertake activities that significantly affect the intellectual property include the entity's customary practices, published policies or specific statements. Although not determinative, the existence of a shared economic interest (for example, a sales-based royalty) between the entity and the resource provider related to the intellectual property to which the resource provider has rights may also indicate that the resource provider could reasonably expect that the entity will undertake such activities.

AG175. An entity's activities significantly affect the intellectual property to which the resource provider has rights when either:

- (a) Those activities are expected to significantly change the form (for example, the design or content) or the functionality (for example, the ability to perform a function or task) of the intellectual property; or
- (b) The ability of the resource provider to obtain economic benefits or service potential from the intellectual property is substantially derived from, or dependent upon, those activities. For example, the economic benefits or service potential from a brand is often derived from, or dependent upon, the entity's ongoing activities that support or maintain the value of the intellectual property.

AG176. Accordingly, if the intellectual property to which the resource provider has rights has significant stand-alone functionality, a substantial portion of the economic benefits or service potential of that intellectual property is derived from that functionality. Consequently, the ability of the purchaser or third-party beneficiary to obtain economic benefits or service potential from that intellectual property would not be significantly affected by the entity's activities unless those activities significantly change its form or functionality. Types of intellectual property that often have significant stand-alone functionality include software, biological compounds or drug formulas, and completed media content (for example, films, television shows and music recordings).

AG177. If the criteria in paragraph AG173 are met, an entity shall account for the promise to grant a license as a compliance obligation satisfied over time because the purchaser or third-party beneficiary will simultaneously receive and consume the economic benefits or service potential from the entity's performance of providing access to its intellectual property as the performance occurs (see paragraph 95(a)). An entity shall apply paragraphs 98–104 to select an appropriate method to measure its progress towards complete satisfaction of that compliance obligation to provide access.

AG178. If the criteria in paragraph AG173 are not met, the nature of an entity's promise is to provide a right to use the entity's intellectual property as that intellectual property exists (in terms of form and functionality) at the point in time at which the license is granted to the resource provider. This means that the resource provider can direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the license at the point in time at which the license transfers. An entity shall account for the promise to provide a right to use the entity's intellectual property as a compliance obligation satisfied at a point in time. An entity shall apply paragraph 97 to determine the point in time at which the license transfers to the purchaser or third-party beneficiary. However, revenue cannot be recognized for a license that provides a right to use the entity's intellectual property before the beginning of the period during which the purchaser or third-

party beneficiary is able to use and to derive the economic benefits or service potential from the license. For example, if a software license period begins before an entity provides (or otherwise makes available) to the purchaser or third-party beneficiary a code that enables the purchaser or third-party beneficiary to immediately use the software, the entity would not recognize revenue before that code has been provided (or otherwise made available).

AG179. An entity shall disregard the following factors when determining whether a license provides a right to access the entity's intellectual property or a right to use the entity's intellectual property:

- (a) Restrictions of time, geographical region or use—those restrictions define the attributes of the promised license, rather than define whether the entity satisfies its compliance obligation at a point in time or over time.
- (b) Guarantees provided by the entity that it has a valid patent to intellectual property and that it will defend that patent from unauthorized use—a promise to defend a patent right is not a compliance obligation because the act of defending a patent protects the value of the entity's intellectual property assets and provides assurance to the resource provider that the license transferred meets the specifications of the license promised in the binding arrangement.

#### Sales-Based or Usage-Based Royalties

AG180. Notwithstanding the requirements in paragraphs 119–121, an entity shall recognize revenue for a sales-based or usage-based royalty promised in exchange for a license of intellectual property only when (or as) the later of the following events occurs:

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

AG181. The requirement for a sales-based or usage-based royalty in paragraph AG180 applies when the royalty relates only to a license of intellectual property or when a license of intellectual property is the predominant item to which the royalty relates (for example, the license of intellectual property may be the predominant item to which the royalty relates when the entity has a reasonable expectation that the resource provider would ascribe significantly more value to the license than to the other goods or services to which the royalty relates).

AG182. When the requirement in paragraph AG181 is met, revenue from a sales-based or usage-based royalty shall be recognized wholly in accordance with paragraph AG180. When the requirement in paragraph AG181 is not met, the requirements on variable consideration in paragraphs 113–122 apply to the sales-based or usage-based royalty.

#### *Repurchase Agreements*

AG183. When evaluating whether an entity transfers control of an asset to the purchaser or an identified third-party beneficiary, an entity shall consider any agreement to repurchase the asset.

AG184. A repurchase agreement is a binding arrangement in which an entity provides an asset and also promises or has the option (either in the same binding arrangement or in another binding arrangement) to repurchase the asset. The repurchased asset may be the asset that was originally provided to the resource provider, an asset that is substantially the same as that asset, or another asset of which the asset that was originally provided is a component.

AG185. Repurchase agreements generally come in three forms:

- (a) An entity's obligation to repurchase the asset (a forward);
- (b) An entity's right to repurchase the asset (a call option); and
- (c) An entity's obligation to repurchase the asset at the resource provider's request (a put option).

#### A Forward or a Call Option

AG186. If an entity has an obligation or a right to repurchase the asset (a forward or a call option), a resource provider does not obtain control of the asset because the resource provider is limited in its ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the asset even though the purchaser or third-party beneficiary may have physical possession of the asset. Consequently, the entity shall account for the binding arrangement as either of the following:

- (a) A lease in accordance with IPSAS 43, *Leases*, if the entity can or must repurchase the asset for an amount that is less than the original price of the asset; or
- (b) A financing arrangement in accordance with paragraph AG188 if the entity can or must repurchase the asset for an amount that is equal to or more than the original price of the asset.

AG187. When comparing the repurchase price with the price, an entity shall consider the time value of money.

AG188. If the repurchase agreement is a financing arrangement, the entity shall continue to recognize the asset and also recognize a financial liability for any consideration received from the resource provider. The entity shall recognize the difference between the amount of consideration received from the resource provider and the amount of consideration to be paid to the resource provider as interest and, if applicable, as processing or holding costs (for example, insurance).

AG189. If the option lapses unexercised, an entity shall derecognize the liability and recognize revenue.

#### A Put Option

AG190. If an entity has an obligation to repurchase the asset at the resource provider's request (a put option) at a price that is lower than the original price of the asset, the entity shall consider at the inception of the binding arrangement whether the resource provider has a significant economic incentive to exercise that right. The resource provider's exercising of that right results in the resource provider effectively paying the entity consideration for the right to use a specified asset for a period of time. Therefore, if the resource provider has a significant economic incentive to exercise that right, the entity shall account for the agreement as a lease in accordance with IPSAS 43.

AG191. To determine whether a resource provider has a significant economic incentive to exercise its right, an entity shall consider various factors, including the relationship of the repurchase price to the expected market value of the asset at the date of the repurchase and the amount of time until the right expires. For example, if the repurchase price is expected to significantly exceed the market

value of the asset, this may indicate that the resource provider has a significant economic incentive to exercise the put option.

AG192. If the resource provider does not have a significant economic incentive to exercise its right at a price that is lower than the original price of the asset, the entity shall account for the agreement as if it were the sale of a product with a right of return as described in paragraphs AG96–AG103.

AG193. If the repurchase price of the asset is equal to or greater than the original price and is more than the expected market value of the asset, the binding arrangement is in effect a financing arrangement and, therefore, shall be accounted for as described in paragraph AG188.

AG194. If the repurchase price of the asset is equal to or greater than the original price and is less than or equal to the expected market value of the asset, and the resource provider does not have a significant economic incentive to exercise its right, then the entity shall account for the agreement as if it were the sale of a product with a right of return as described in paragraphs AG96–AG103.

AG195. When comparing the repurchase price with the price, an entity shall consider the time value of money.

AG196. If the option lapses unexercised, an entity shall derecognize the liability and recognize revenue.

### *Consignment Arrangements*

AG197. When an entity delivers a product to another party (such as a dealer or a distributor) for sale to end purchasers, the entity shall evaluate whether that other party has obtained control of the product at that point in time. A product that has been delivered to another party may be held in a consignment arrangement if that other party has not obtained control of the product. Accordingly, an entity shall not recognize revenue upon delivery of a product to another party if the delivered product is held on consignment.

AG198. Indicators that an arrangement is a consignment arrangement include, but are not limited to, the following:

- (a) The product is controlled by the entity until a specified event occurs, such as the sale of the product to a resource provider of the dealer or until a specified period expires;
- (b) The entity is able to require the return of the product or transfer the product to a third party (such as another dealer); and
- (c) The dealer does not have an unconditional obligation to pay for the product (although it might be required to pay a deposit).

### *Bill-and-Hold Arrangements*

AG199. A bill-and-hold arrangement is a binding arrangement under which an entity bills a resource provider for a product, but the entity retains physical possession of the product until it is transferred to the purchaser or third-party beneficiary at a point in time in the future. For example, a purchaser may request an entity to enter into such a binding arrangement because of the resource provider's lack of available space for the product or because of delays in the resource provider's production schedules.

AG200. An entity shall determine when it has satisfied its compliance obligation to transfer a product by evaluating when a resource provider obtains control of that product (see paragraph 97). For some

binding arrangements, control is transferred either when the product is delivered to the purchaser or third-party beneficiary's site or when the product is shipped, depending on the terms of the binding arrangement (including delivery and shipping terms). However, for some binding arrangements, a resource provider may obtain control of a product even though that product remains in an entity's physical possession. In that case, the resource provider has the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the product even though it has decided not to exercise its right to take physical possession of that product. Consequently, the entity does not control the product. Instead, the entity provides custodial services to the resource provider over the resource provider's asset.

AG201. In addition to applying the requirements in paragraph 97, for a resource provider to have obtained control of a product in a bill-and-hold arrangement, all of the following criteria must be met:

- (a) The reason for the bill-and-hold arrangement must be substantive (for example, the resource provider has requested the arrangement);
- (b) The product must be identified separately as belonging to the resource provider;
- (c) The product currently must be ready for physical transfer to the purchaser or third-party beneficiary; and
- (d) The entity cannot have the ability to use the product or to direct it to another resource provider.

AG202. If an entity recognizes revenue for the sale of a product on a bill-and-hold basis, the entity shall consider whether it has remaining compliance obligations (for example, for custodial services) in accordance with paragraphs 68–77 to which the entity shall allocate a portion of the transaction consideration in accordance with paragraphs 133–143.

### **Disclosure (paragraphs 167–193)**

AG203. An entity need not disclose information in accordance with this Standard if it has provided the information in accordance with another Standard.

AG204. In making the disclosures required by this Standard, an entity shall consider the requirements of paragraphs 45–47 of IPSAS 1, which provide guidance on materiality and aggregation. A specific disclosure requirement in this Standard need not be satisfied if the information is not material.

### ***Disclosure of Disaggregated Revenue (paragraphs 179–180)***

AG205. Paragraph 179 requires an entity to disaggregate revenue from binding arrangements into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. Consequently, the extent to which an entity's revenue is disaggregated for the purposes of this disclosure depends on the facts and circumstances that pertain to the entity's binding arrangements. Some entities may need to use more than one type of category to meet the objective in paragraph 179 for disaggregating revenue. Other entities may meet the objective by using only one type of category to disaggregate revenue.

AG206. When selecting the type of category (or categories) to use to disaggregate revenue, an entity shall consider how information about the entity's revenue has been presented for other purposes, including all of the following:

## REVENUE

- (a) Disclosures presented outside the financial statements (for example, in press releases, annual reports or stakeholder presentations);
- (b) Information regularly reviewed for evaluating the financial performance of segments; and
- (c) Other information that is similar to the types of information identified in paragraphs AG206(a) and (b) and that is used by the entity or users of the entity's financial statements to evaluate the entity's financial performance or make resource allocation decisions.

AG207. Examples of categories that might be appropriate include, but are not limited to, the following:

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

## Amendments to Other IPSAS

### Amendments to IPSAS 1, *Presentation of Financial Statements*

Paragraphs 50, 88, 94, and 135 are amended, and paragraph 153Q is added. New text is underlined and deleted text is struck through.

...

### Overall Considerations

...

### Offsetting

50. ~~IPSAS 9, *Revenue from Exchange Transactions*, IPSAS 47, *Revenue*, defines revenue and requires it~~ revenue to be measured at the fair value of consideration received or receivable, taking into account the amount of consideration to which the entity expects to be entitled in the transaction. The amount of revenue recognized reflects any trade discounts and volume rebates allowed by the entity. ~~An entity undertakes, in the course of its ordinary activities, an entity undertakes~~ other transactions that do not generate revenue but are incidental to the main revenue-generating activities. The results of such transactions are presented, when this presentation reflects the substance of the transaction or other event, by netting any revenue with related expenses arising on the same transaction. For example:

- (a) Gains and losses on the disposal of non-current assets, including investments and operating assets, are reported by deducting from the ~~proceeds~~ amount of consideration on disposal the carrying amount of the asset and related selling expenses; and
- (b) ...

...

### Structure and Content

...

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

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

...

**(g) ~~Recoverables from non-exchange transactions (taxes and transfers); [deleted]~~**

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

...

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

...

...



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

...

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

...

- (b) Receivables are disaggregated into amounts receivable from user charges, taxes and other ~~non-exchange-revenue transactions~~, receivables from related parties, prepayment, and other amounts;

...

...

*Disclosure of Accounting Policies*

...

135. Each entity considers the nature of its operations and the policies that the user of its financial statements would expect to be disclosed for that type of entity. For example, public sector entities would be expected to disclose an accounting policy for recognition of taxes, donations, and other forms of ~~non-exchange-revenue~~. When an entity has significant foreign operations or transactions in foreign currencies, disclosure of accounting policies for the recognition of foreign exchange gains and losses would be expected. When public sector combinations have occurred, the policies used for measuring goodwill and non-controlling interest are disclosed.

...

**Effective Date**

...

**153Q. Paragraphs 50, 88, 94, and 135 were amended by IPSAS 47, issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.**

...

**Implementation Guidance**

*This guidance accompanies, but is not part of, IPSAS 1.*

**Illustrative Financial Statement Structure**

...

**Public Sector Entity—Statement of Accounting Policies (Extract)**

*Reporting Entity*

...

REVENUE

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

**(Illustrating the Classification of Expenses by Function)**

(in thousands of currency units)

	<b>20X2</b>	<b>20X1</b>
<b>Revenue</b>		
Taxes	X	X
<del>Fees, fines, penalties, and licenses</del> <u>Other compulsory contributions and levies</u>	X	X
<del>Revenue from exchange transactions</del>	X	X
<del>Transfers from other government entities</del> <u>without a binding arrangement</u>	X	X
<u>Revenue from compliance obligations in a binding arrangement</u>	X	X
Other revenue	X	X
<b>Total revenue</b>	<u>X</u>	<u>X</u>
...	...	...
...		

**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)

	<b>20X2</b>	<b>20X1</b>
<b>Revenue</b>		
Taxes	X	X
<del>Fees, fines, penalties, and licenses</del> <u>Other compulsory contributions and levies</u>	X	X
<del>Revenue from exchange transactions</del>	X	X
<del>Transfers from other government entities</del> <u>without a binding arrangement</u>	X	X
<u>Revenue from compliance obligations in a binding arrangement</u>	X	X
Other revenue	X	X
<b>Total Revenue</b>	<u>X</u>	<u>X</u>
...	...	...
...		

**Amendments to IPSAS 2, *Cash Flow Statements***

Paragraphs 21 and 22 are amended, and paragraph 63K is added. New text is underlined and deleted text is struck through.

...

**Operating Activities**

21. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the entity are funded, for example, by:

- (a) ~~By way of:~~ Taxes (directly and indirectly); or
- (b) ~~From the recipients of goods and services provided by the entity; [deleted]~~
- (c) Other compulsory contributions and levies;
- (d) Transfers; or
- (e) Provision of goods or services to another entity in a binding arrangement.

...

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:

....

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

...

**Effective Date**

...

**63K. Paragraphs 21 and 22 were amended by IPSAS 47, *Revenue*, issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.**

...

**Illustrative Examples**

...

**Notes to the Cash Flow Statement**

...

(b) *Property, Plant, and Equipment*

During the period, the economic entity acquired property, plant, and equipment with an aggregate cost of X, of which X was acquired by means of a capital grants transfer by the national government. Cash payments of X were made to purchase property, plant, and equipment.

...

**Indirect Method Cash Flow Statement (paragraph 27(a))**

...

(b) *Property, Plant, and Equipment*

During the period, the economic entity acquired property, plant, and equipment with an aggregate cost of X, of which X was acquired by means of a capital grants transfer by the national government. Cash payments of X were made to purchase property, plant, and equipment.

**Amendments to IPSAS 4, *The Effects of Changes in Foreign Exchange Rates***

Paragraph 11 is amended, and paragraph 71I is added. New text is underlined and deleted text is struck through.

...

**Functional Currency**

11. The primary economic environment in which an entity operates is normally the one in which it primarily generates and expends cash. An entity considers the following factors in determining its functional currency:

(a) The currency:

(i) That revenue is raised from, such as taxes, grants, transfers, and fines;

...

...

**Effective Date**

...

**71I. Paragraph 11 was amended by IPSAS 47, *Revenue* issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.**

...

**Illustrative Examples**

...

Example 2—Multiple Receipts for Revenue Recognized at a Single Point in Time

...

IE7. Applying ~~paragraph 28 of IPSAS 9, *Revenue from Exchange Transactions*~~, IPSAS 47, *Revenue*, Entity B recognizes revenue on September 1, 20X2, the date on which it transfers the goods to the customer, thereby satisfying its compliance obligation in the contract.

...

### **Amendments to IPSAS 5, *Borrowing Costs***

Paragraph 26 is amended, and paragraph 42G is added. New text is underlined and deleted text is struck through.

...

26. Only those borrowing costs applicable to the borrowings of the entity may be capitalized. When a controlling entity borrows funds that are passed on to a controlled entity with no, or only partial, allocation of borrowing costs, the controlled entity may capitalize only those borrowing costs which it itself has incurred. Where a controlled entity receives an interest free capital contribution or capital ~~grant-transfer~~, it will not incur any borrowing costs, and consequently will not capitalize any such costs.

...

### **Effective Date**

...

- 42G. Paragraph 26 was amended by IPSAS 47, *Revenue*, issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.**

...

### **Amendments to IPSAS 9, *Revenue from Exchange Transactions***

Paragraph 11 is amended, and paragraph 41G is added. New text is underlined and deleted text is struck through.

...

### **Definitions**

...

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

...

~~**Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.**~~

...

~~**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.~~

...

...

## Effective Date

...

**41G.** Paragraph 11 was amended by IPSAS 47, *Revenue*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.

...

## Amendments to IPSAS 12, *Inventories*

Paragraphs 2, 9, 11, 39, and 48 are amended, paragraph 511 is added, and paragraph 28 is deleted. New text is underlined and deleted text is struck through.

...

## Scope

...

2. An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for all inventories except:
  - (a) ~~Work in progress arising under construction contracts, including directly related service contracts (see IPSAS 11, *Construction Contracts*); [Deleted]~~

...

...

## Definitions

...

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

...

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

...

Non-exchange transactions are transactions that are not exchange transactions, where 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.**

...

...

## **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 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. ~~In the case of a service provider, inventories include the costs of the service, as described in paragraph 28, for which the entity has not yet recognized the related revenue. (guidance on recognition of revenue can be found in IPSAS 9, *Revenue from Exchange Transactions*.)~~ Costs incurred to fulfill a binding arrangement that does not give rise to inventories (or assets within the scope of another Standard) are accounted for in accordance with IPSAS 47, *Revenue*.

...

### ~~*Cost of Inventories of a Service Provider*~~ [Deleted]

28. ~~To the extent that service providers have inventories (except those referred to in paragraph 2(d)), they measure them at the costs of their production. These costs consist primarily of the labor and other costs of personnel directly engaged in providing the service, including supervisory personnel and attributable overheads. The costs of labor not engaged in providing the service are not included. Labor and other costs relating to sales and general administrative personnel are not included, but are recognized as expenses in the period in which they are incurred. The cost of inventories of a service provider does not include surplus margins or non-attributable overheads that are often factored into prices charged by service providers. [Deleted]~~

...

## **Net Realizable Value**

...

39. Inventories are usually written down to net realizable value on an item by item basis. In some circumstances, however, it may be appropriate to group similar or related items. This may be the case with items of inventory that have similar purposes or end uses, and cannot practicably be evaluated separately from other items in that product line. It is not appropriate to write down inventories based on a classification of inventory, for example, finished goods, or all the inventories in a particular operation or geographical segment. ~~Service providers generally accumulate costs in respect of each service for which a separate selling price is charged. Therefore, each such service is treated as a separate item.~~

...

## Disclosure

...

48. Information about the carrying amounts held in different classifications of inventories and the extent of the changes in these assets is useful to financial statement users. Common classifications of inventories are merchandise, production supplies, materials, work-in-progress, and finished goods. ~~The inventories of a service provider may be described as work-in-progress.~~

...

## Effective Date

...

- 51. Paragraphs 2, 9, 11, 39, and 48 were amended, and paragraph 28 was deleted by IPSAS 47, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.**

...

## Amendments to IPSAS 16, *Investment Property*

Paragraphs 13, 78, and 81 are amended, and paragraph 101L is added. New text is underlined and deleted text is struck through.

...

## Classification of Property as Investment Property or Owner-Occupied Property

...

13. The following are examples of items that are not investment property and are therefore outside the scope of this Standard:

...

- (b) ~~Property being constructed or developed on behalf of third parties. For example, a property and service department may enter into construction contracts with entities external to its government (see IPSAS 11, *Construction Contracts*).~~ [Deleted]

...

...

## Disposals

...

78. The disposal of an investment property may be achieved by sale or by entering into a finance lease. ~~In determining t~~ The date of disposal for the investment property, an entity applies the criteria in IPSAS 9 for recognizing revenue from the sale of goods and considers the related guidance in the



~~Implementation Guidance to IPSAS 9 is the date the recipient obtains control of the investment property in accordance with the requirements in IPSAS 47, *Revenue*. IPSAS 43 applies to a disposal effected by entering into a finance lease and to a sale and leaseback.~~

...

81. ~~The amount of consideration receivable on disposal to be included in the surplus or deficit arising from the derecognition of an investment property is recognized initially at fair value. In particular, if payment for an investment property is deferred, the consideration received is recognized initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognized as interest revenue in accordance with IPSAS 9, using the effective interest method determined in accordance with the requirements for determining the transaction consideration in paragraphs 109–132 of IPSAS 47. Subsequent changes to the estimated amount of consideration included in surplus or deficit shall be accounted for in accordance with the requirements for changes in the transaction consideration in IPSAS 47.~~

...

### Effective Date

...

- 101L. Paragraphs 13, 78, and 81 were amended by IPSAS 47, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.**

...

### Amendments to IPSAS 17, *Property, Plant, and Equipment*

Paragraphs 83A, 84, and 87 are amended, and paragraph 107T is added. New text is underlined and deleted text is struck through.

...

### Derecognition

...

- 83A. However, an entity that, in the course of its ~~ordinary~~ activities, routinely ~~sells~~ provides items of property, plant, and equipment that it has held for rental to others shall transfer such assets to inventories at their carrying amount when they cease to be rented and become held for sale. The ~~proceeds amount of consideration~~ from the ~~sale-disposal~~ of such assets shall be recognized as revenue in accordance with ~~IPSAS 9, *Revenue from Exchange Transactions*~~ IPSAS 47, *Revenue*.
84. The disposal of an item of property, plant, and equipment may occur in a variety of ways (e.g., by sale, by entering into a finance lease or by donation). ~~In determining t~~ The date of disposal of an item, an entity applies the criteria in IPSAS 9 for recognizing revenue from the sale of goods of property, plant, and equipment is the date the recipient obtains control of that item in accordance

with the requirements, and any enforceable obligations or compliance obligations are satisfied in IPSAS 47. IPSAS 43 applies to disposal by a sale and leaseback.

...

87. The amount of consideration receivable on disposal to be included in the surplus or deficit arising from the derecognition of an item of property, plant, and equipment is recognized initially at its fair value. If payment for the item is deferred, the consideration received is recognized initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognized as interest revenue in accordance with IPSAS 9, reflecting the effective yield on the receivable determined in accordance with the requirements for determining the transaction consideration in paragraphs 109–132 of IPSAS 47. Subsequent changes to the estimated amount of consideration included in surplus or deficit shall be accounted for in accordance with the requirements for changes in the transaction consideration in IPSAS 47.

...

### **Effective Date**

...

- 107T. Paragraphs 83A, 84, and 87 were amended by IPSAS 47, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.**

...

### **Amendments to IPSAS 18, *Segment Reporting***

Paragraphs 27 and 39 are amended, and paragraph 76H is added. New text is underlined and deleted text is struck through.

...

### **Definitions of Segment Revenue, Expense, Assets, Liabilities, and Accounting Policies**

27. **The following additional terms are used in this Standard with the meanings specified:**

...

**Segment revenue is revenue reported in the entity’s statement of financial performance that is directly attributable to a segment, and the relevant portion of entity revenue that can be allocated on a reasonable basis to a segment, whether from budget appropriations or similar, grants, transfers, fines, fees, or sales to external customers ~~the provision of goods or services to other parties~~ or from transactions with other segments of the same entity. Segment revenue does not include:**

...

**Segment Assets, Liabilities, Revenue, and Expense**

...

39. Some guidance for cost allocation can be found in other IPSAS and may be useful in attributing and allocating costs to segments. For example, IPSAS 12, *Inventories*, provides guidance for attributing and allocating costs to inventories, ~~and IPSAS 11, *Construction Contracts*, provides guidance for attributing and allocating costs to contracts. That guidance may be useful in attributing and allocating costs to segments.~~

...

**Effective Date**

...

- 76H. Paragraphs 27 and 39 were amended by IPSAS 47, *Revenue*, issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.**

...

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

Paragraphs 13, 15, and 107 are amended, and paragraph 111O is added. New text is underlined and deleted text is struck through.

...

**Scope**

...

**Other Exclusions from the Scope of the Standard**

...

13. Where another IPSAS deals with a specific type of provision, contingent liability, or contingent asset, an entity applies that standard instead of this Standard. For example, certain types of provisions are also addressed in Standards on:
- (a) ~~Construction contracts (see IPSAS 11, *Construction Contracts*); and [Deleted]~~
  - (b) ... ~~;~~ and
  - (c) Revenue from binding arrangements (see IPSAS 47, *Revenue*). However, as IPSAS 47 contains no specific requirements to address binding arrangements that are, or have become, onerous, this Standard applies to such cases.

...

15. Some amounts treated as provisions may relate to the recognition of revenue, for example where an entity gives guarantees in exchange for a fee. This Standard does not address the recognition

of revenue. ~~IPSAS 9, Revenue from Exchange Transactions~~IPSAS 47 identifies the circumstances in which revenue ~~from exchange transactions~~ arising from binding arrangements that include compliance obligations to transfer promised goods or services to the purchaser or third-party beneficiary is recognized, and provides practical guidance on the application of the recognition criteria. This Standard does not change the requirements of ~~IPSAS 9~~IPSAS 47.

...

## Disclosure

...

107. The disclosure requirement in paragraph 105 encompasses contingent assets from an entity's transactions. Whether a contingent asset exists in relation to taxation revenues rests on the interpretation of what constitutes a taxable event. The determination of the taxable event for taxation revenue and its possible implications for the disclosure of contingent assets related to taxation revenues are ~~to be dealt with as a part of a separate project on non-exchange~~ addressed in IPSAS 47.

...

## Effective Date

...

**1110. Paragraphs 13, 15, and 107 were amended by IPSAS 47, issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.**

...

## Amendments to IPSAS 21, *Impairment of Non-Cash-Generating Assets*

Paragraphs 2 and 8 are amended, and paragraph 82N is added. New text is underlined and deleted text is struck through.

...

## Scope

...

2. An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for impairment of non-cash-generating assets, except for:

...

(b) ~~Assets arising from construction contracts (see IPSAS 11, *Construction Contracts*);~~ Binding arrangement assets and assets arising from costs to obtain or fulfill a binding arrangement that are recognized in accordance with IPSAS 47, *Revenue*;

...

8. This Standard does not apply to inventories, ~~and assets arising from construction contracts binding arrangement assets,~~ and assets arising from costs to obtain or fulfill a binding arrangement, because existing IPSASs applicable to these assets contain requirements for recognizing and measuring these assets.

...

**Effective Date**

...

**82N. Paragraphs 2 and 8 were amended by IPSAS 47, issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.**

...

**Amendments to IPSAS 24, Presentation of Budget Information in Financial Statements**

...

**Illustrative Examples**

*These examples accompany, but are not part of, IPSAS 24.*

...

**Additional Column Approach**

For Government YY for the Year Ended December 31, 20XX

Both Annual Budget and Financial Statements Adopt Accrual Basis

(Illustrated only for Statement of Financial Performance. Similar presentation would be adopted for other financial statements.)

Actual 20XX-1	(in currency units)	Actual 20XX	Final Budget 20XX	Original Budget 20XX	*Difference: Original Budget and Actual
	<b>Revenue</b>				
X	Taxes	X	X	X	X
X	<del>Fees, fines, penalties, and licenses</del> Other compulsory contributions and levies	X	X	X	X
X	<del>Revenue from exchange transactions</del>	X	X	X	X
X	<del>Transfers from other governments without a binding arrangement</del>	X	X	X	X
X	<u>Revenue from compliance obligations in a binding arrangement</u>	X	X	X	X
	...				

...

\* The "Difference..." column is not required. However, a comparison between actual and the original or the final budget, clearly identified as appropriate, may be included.

## Amendments to IPSAS 26, *Impairment of Cash-Generating Assets*

Paragraphs 2, 8 and 29 are amended, and paragraph 126P is added. New text is underlined and deleted text is struck through.

...

### Scope

...

2. An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for the impairment of cash-generating assets, except for:

...

- (b) ~~Assets arising from construction contracts (see IPSAS 11, *Construction Contracts*)~~ Binding arrangement assets and assets arising from costs to obtain or fulfill a binding arrangement that are recognized in accordance with IPSAS 47, *Revenue*;

...

...

8. This Standard does not apply to inventories, ~~and cash-generating assets arising from construction contracts~~ binding arrangement assets and assets arising from costs to obtain or fulfill a binding arrangement, because existing standards applicable to these assets contain requirements for recognizing and measuring such assets. This Standard does not apply to deferred tax assets, assets related to employee benefits, or deferred acquisition costs and intangible assets arising from an insurer's contractual rights under insurance contracts. The impairment of such assets is addressed in the relevant international or national accounting standards. In addition, this Standard does not apply to biological assets related to agricultural activity that are measured at fair value less costs to sell. IPSAS 27 dealing with biological assets related to agricultural activity contains measurement requirements.

...

29. As an illustration of paragraph 28, if market interest rates or other market rates of return on investments have increased during the period, an entity is not required to make a formal estimate of an asset's recoverable amount in the following cases:

- (a) ...

- (b) If the discount rate used in calculating the asset's value in use is likely to be affected by the increase in these market rates, but previous sensitivity analysis of recoverable amount shows that:

- (i) It is unlikely that there will be a material decrease in recoverable amount because future cash flows are also likely to increase (for example, in some cases, an entity may be able to demonstrate that it adjusts its revenues (mainly ~~exchange~~ revenues arising from transactions with binding arrangements) to compensate for any increase in market rates); or

- (ii) The decrease in recoverable amount is unlikely to result in a material impairment loss.

...

### Effective Date

...

**126P. Paragraph 2, 8, and 29 were amended by IPSAS 47, issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.**

...

### Amendments to IPSAS 27, *Agriculture*

...

#### Basis for Conclusions

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

...

#### Government Grants

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

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

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

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

- (a) ...

...

- BC9. In analyzing approach 3, the IPSASB considered the requirements of IPSAS 23 in relation to the measurement of other types of assets. ~~At the time this Standard was developed,~~ IPSAS 23.13 ~~states stated~~ that: "...If a reporting entity is required to pay delivery and installation costs in relation to the transfer of an item of plant to it from another entity, those costs are recognized separately from revenue arising from the transfer of the item of plant. Delivery and installation costs are included in the amount recognized as an asset, in accordance with IPSAS 17." This ~~implies~~ implied that for other assets, an entity ~~considers~~ considered the measurement requirements of other IPSASs as well as IPSAS 23 in initially measuring assets acquired through a non-exchange transaction.
- BC10. An additional attribute relevant to the measurement of biological assets is costs to sell. The IPSASB therefore concluded that in accordance with approach 3, an entity ~~considers~~ considered the requirements of both IPSAS 23 and this Standard in measuring biological assets and agricultural produce acquired in a non-exchange transaction at fair value less costs to sell at their initial recognition. The IPSASB noted that this is the same outcome as under approach 2.

...

### Comparison with IAS 41

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

- ...
- IAS 41 includes requirements for government grants relating to biological assets measured at fair value less costs to sell. IPSAS 27 does not include requirements and guidance for government grants, because ~~IPSAS 23, Revenue from Non-Exchange Transactions (Taxes and Transfers)~~ IPSAS 47, Revenue provides requirements and guidance related to government grants ~~in non-exchange transactions~~.
- ...

...

### **Amendments to IPSAS 28, *Financial Instruments: Presentation***

Paragraphs AG21, AG22, and AG46 are amended, and paragraph 60J is added. New text is underlined and deleted text is struck through.

...

#### **Effective Date**

...

- 60J. Paragraphs AG21, AG22 and AG46 were amended by IPSAS 47, Revenue, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.**

...



## Application Guidance

...

### Scope

...

AG21. In the public sector, it is possible that contractual and non-contractual arrangements are non-exchange in nature. Assets and liabilities arising from ~~non-exchange~~ revenue transactions are accounted for in accordance with ~~IPSAS 23, Revenue from Non-Exchange Transactions (Taxes and Transfers)~~ IPSAS 47, *Revenue*. If non-exchange revenue transactions are contractual, an entity assesses if the assets or liabilities arising from such transactions are financial assets or financial liabilities by using paragraphs 10 and AG10–AG18 of this Standard. An entity uses the guidance in this Standard and ~~IPSAS 23~~ IPSAS 47 in assessing whether a ~~non-exchange revenue~~ transaction gives rise to a liability or an equity instrument (contribution from owners).

AG22. An entity would particularly consider the classification requirements of this Standard in determining whether an inflow of resources as part of a contractual non-exchange revenue transaction is in substance a liability or an equity instrument.

...

AG46. Except as required by IPSAS 47, a contract that involves the receipt or delivery of physical assets does not give rise to a financial asset of one party and a financial liability of the other party unless any corresponding payment is deferred past the date on which the physical assets are transferred. Such is the case with the purchase or sale of goods on credit.

...

### Basis for Conclusions

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

...

### Definitions

...

#### Contractual Non-Exchange Revenue Transactions

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

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

- ...

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

donor to the recipient. In these instances, assets arising from non-exchange revenue transactions ~~are~~ were financial assets.

- BC20. ~~Therefore, when this Standard was developed, the~~ The IPSASB agreed that, for financial assets arising from non-exchange transactions, an entity should apply the requirements of IPSAS 23 in conjunction with IPSAS 28. In particular, an entity should consider the principles in IPSAS 28 in considering whether an inflow of resources from a non-exchange revenue transaction ~~results~~ resulted in a liability or a transaction that evidences a residual interest in the net assets of the entity, i.e., an equity instrument.
- BC21. The IPSASB considered whether liabilities arising from non-exchange revenue transactions ~~are~~ were financial liabilities. Liabilities ~~are~~ were recognized in IPSAS 23 when an entity ~~receives~~ received an inflow of resources that is was subject to specific conditions. Conditions on a transfer of resources ~~are~~ imposed on an entity by a transferor ~~and require~~ required that the resources ~~are~~ were used in a certain way, often to provide goods ~~and/or~~ services to third parties, or ~~are~~ were returned to the transferor. This ~~gives~~ gave rise to an obligation to perform in terms of the agreement. At initial recognition, an entity ~~recognizes~~ recognized the resources as an asset and, where they are subject to conditions, ~~recognizes~~ recognized a corresponding liability.
- BC22. ~~While developing this Standard, the~~ The IPSASB considered whether the liability initially recognized is in the nature of a financial liability or another liability, e.g., a provision. The IPSASB agreed that, at the time the asset is recognized, the liability is not usually a financial liability as the entity's obligation is to fulfil the terms and conditions of the arrangement by utilizing the resources as intended, usually by providing goods ~~and/or~~ services to third parties over a period of time. If after initial recognition, the entity cannot the fulfil the terms of the arrangement and is required to return the resources to the transferor, an entity would assess at this stage whether the liability is a financial liability considering the requirements set out in paragraph BC18 and the definitions of a financial instrument and a financial liability. In rare circumstances, a financial liability may arise from conditions imposed on a transfer of resources as part of a non-exchange revenue transaction. The IPSASB may consider such a scenario as part of a future project.
- BC23. ~~While developing this Standard, the~~ The IPSASB also noted that other liabilities may arise from non-exchange revenue transactions after initial recognition. For example, an entity may receive resources under an arrangement that ~~requires~~ required the resources to be returned only after the occurrence or non-occurrence of a future event. An entity assesses whether other liabilities arising from non-exchange revenue transactions are financial liabilities by considering whether the requirements in paragraph BC18 have been fulfilled and the definitions of a financial instrument and a financial liability have been met.

...

## Amendments to IPSAS 29, *Financial Instruments: Recognition and Measurement*

...

### Basis for Conclusions

*This Basis for Conclusions accompanies, but is not part of, IPSAS 29.*

...

### Scope

BC5. Assets and liabilities may arise out of contractual non-exchange revenue transactions. The initial recognition and measurement of assets and liabilities arising out of non-exchange revenue transactions ~~is~~was addressed in IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*. IPSAS 23 ~~does~~did not provide requirements and guidance for the subsequent measurement or derecognition of these assets and liabilities. The IPSASB considered the interaction between this Standard and IPSAS 23 for assets and liabilities that arise out of non-exchange revenue transactions that meet the definition of financial assets and financial liabilities.

BC6. When this Standard was being developed, ~~The~~ the IPSASB agreed that where an asset acquired in a non-exchange transaction ~~is~~was a financial asset, an entity:

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

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

...

### Initial Measurement

BC9. The IPSASB acknowledged that there ~~is~~was an interaction between IPSAS 23 and this Standard for assets acquired through a non-exchange transaction that also meet the definition of a financial asset. IPSAS 23 ~~requires~~required that assets acquired in a non-exchange revenue transaction are measured initially at fair value. This Standard ~~requires~~required financial assets to be measured initially at fair value, plus transaction costs, if the asset is not subsequently measured at fair value through surplus or deficit. The two measurement approaches are broadly consistent, except for the treatment of transaction costs.

BC10. At that time, ~~t~~he IPSASB concluded that it would be inappropriate for financial assets arising from non-exchange transactions to be measured differently from those arising from exchange transactions. Consequently, the IPSASB agreed that assets acquired in a non-exchange transaction should be measured initially at fair value using the requirements in IPSAS 23, but that this Standard should also be considered where transaction costs are incurred to acquire the asset.

...

### Financial Guarantees Issued Through a Non-Exchange Transaction

...

BC17. Where the financial guarantee contract is entered into for consideration, the IPSASB considered whether the amount of such consideration should be deemed to be a fair value. Application Guidance in IAS 39 states that “the fair value of a financial instrument on initial recognition is normally the transaction price.” In the public sector the IPSASB considered that in many cases the transaction price (consideration) related to a financial guarantee contract will not reflect fair value and that recognition at such an amount would be an inaccurate and misleading reflection of the issuer’s exposure to financial risk. The IPSASB concluded that where there is consideration for a financial guarantee, an entity should determine whether that consideration arises from an exchange transaction and therefore represents a fair value. If the consideration does represent a fair value, the IPSASB concluded that entities should recognize the financial guarantee at the amount of the consideration and that subsequent measurement should be at the higher of the amount determined in accordance with IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognized, less, when appropriate, the cumulative amount of revenue amortization recognized in accordance with ~~IPSAS 9, *Revenue from Exchange Transactions*~~ IPSAS 47, *Revenue*. Where the transaction ~~price~~ consideration is not a fair value, an entity should be required to determine measurement at initial recognition in the same way as if no consideration had been paid.

...

**Amendments to IPSAS 30, *Financial Instruments: Disclosures***

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

...

**Scope**

...

5A. The credit risk disclosure requirements in paragraphs 42A–42N apply to those rights for receivables that result from ~~exchange-revenue~~ exchange-revenue transactions ~~that are within the scope of IPSAS 9 and non-exchange transactions within the scope of IPSAS 23~~ within the scope of IPSAS 47, *Revenue* which give rise to financial instruments for the purpose of recognizing impairment gains or losses in accordance with paragraph 3 of IPSAS 41. Any reference to financial assets or financial instruments in these paragraphs shall include those rights unless otherwise specified.

...

**Nature and Extent of Risks Arising from Financial Instruments**

...

**Quantitative Disclosures**

...

*Credit Risk*

Scope and Objectives

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

- (a) For receivables that result from ~~exchange~~ revenue transactions that are within the scope of ~~IPSAS 9 and non-exchange transactions within the scope of IPSAS 23~~IPSAS 47 and lease receivables, paragraph 42J(a) applies to those receivables or lease receivables on which lifetime expected credit losses are recognized in accordance with paragraph 87 of IPSAS 41, if those financial assets are modified while more than 30 days past due; and
- (b) Paragraph 42K(b) does not apply to lease receivables.

...

Quantitative and Qualitative Information about Amounts Arising from Expected Credit Losses

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

...

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

...

- (iii) Receivables that result from ~~exchange~~ revenue transactions ~~that are within the scope of IPSAS 9 or non-exchange transactions that are within the scope of IPSAS 23~~IPSAS 47 or lease receivables for which the loss allowances are measured in accordance with paragraph 87 of IPSAS 41.

...

...

Credit Risk Exposure

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

...

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

...

- (iii) Receivables that result from ~~exchange~~ revenue transactions ~~that are within the scope of IPSAS 9 or non-exchange transactions that are within the scope of IPSAS 23~~IPSAS 47 or lease receivables for which the loss allowances are measured in accordance with paragraph 87 of IPSAS 41.

...

42N. For receivables that result from ~~exchange~~ revenue transactions ~~that are within the scope of IPSAS 9 or non-exchange transactions that are within the scope of IPSAS 23~~ IPSAS 47 or lease receivables to which an entity applies paragraph 87 of IPSAS 41, the information provided in accordance with paragraph 42M may be based on a provision matrix (see paragraph AG199 of IPSAS 41).

...

### Effective Date

...

**52N. Paragraphs 5A, 42A, 42H, 42M, and 42N were amended by IPSAS 47, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.**

...

### Amendments to IPSAS 31, *Intangible Assets*

Paragraphs 6, 26, 113, 115, and AG6 are amended, and paragraph 132O is added. New text is underlined and deleted text is struck through.

...

### Scope

...

6. If another IPSAS prescribes the accounting for a specific type of intangible asset, an entity applies that IPSAS instead of this Standard. For example, this Standard does not apply to:
- (a) Intangible assets held by an entity for sale in the ~~ordinary~~ course of its operations (see ~~IPSAS 11, *Construction Contracts*, and IPSAS 12, *Inventories*~~);
  - (e) ~~...; and~~
  - (f) ~~...; and~~
  - (g) Assets arising from binding arrangements that are recognized in accordance with IPSAS 47, *Revenue*.

...

### Recognition and Measurement

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

...

This requirement applies to the cost measured at recognition (the cost incurred in an exchange transaction to acquire or to internally generate an intangible asset, or the fair value of an intangible asset acquired through a non-exchange transaction) and those incurred subsequently to add to, replace part of, or service it.

...

## Retirements and Disposals

...

113. The disposal of an intangible asset may occur in a variety of ways (e.g., by sale, by entering into a finance lease, or through a non-exchange transaction). ~~In determining t~~ The date of disposal of such an asset, an entity applies the criteria in IPSAS 9, *Revenue from Exchange Transactions* for recognizing revenue from the sale of goods ~~an intangible asset is the date that the recipient obtains control of that asset in accordance with the requirements for determining when a compliance obligation in the binding arrangement is satisfied in IPSAS 47.~~ IPSAS 43 applies to disposal by a sale and leaseback.

...

115. ~~The amount of consideration receivable on disposal to be included in the surplus or deficit arising from the derecognition of an intangible asset is recognized initially at its fair value. If payment for the intangible asset is deferred, the consideration received is recognized initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognized as interest revenue in accordance with IPSAS 9 reflecting the effective yield on the receivable determined in accordance with the requirements for determining the transaction consideration in paragraphs 109–132 of IPSAS 47. Subsequent changes to the estimated amount of the consideration included in the gain or loss shall be accounted for in accordance with the requirements for changes in the transaction consideration in IPSAS 47.~~

...

## Effective Date

...

- 1320. Paragraphs 6, 26, 113, 115, and AG6 were amended by IPSAS 47, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.**

...

## Application Guidance

...

- AG6. IPSAS 31 does not apply to intangible assets held by an entity for sale in the ~~ordinary~~ course of its operations (see ~~IPSAS 11 and IPSAS 12 and IPSAS 47~~) or leases that fall within the scope of IPSAS 43. Accordingly, this Application Guidance does not apply to expenditure on the development or operation of a website (or website software) for sale to another entity or that is accounted for in accordance with IPSAS 43.

...

### **Basis for Conclusions**

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

...

### **Scope**

...

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

...

### **Intangible Assets Acquired through a Non-Exchange Transaction**

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

...

### **Amendments to IPSAS 32, Service Concession Arrangements: Grantor**

Paragraphs 30, AG56, and AG64 are amended, and paragraph 36G is added. New text is underlined and deleted text is struck through.

...

### **Other Revenues (see paragraphs AG55–AG64)**

30. The grantor shall account for revenues from a service concession arrangement, other than those specified in paragraphs 24–26, in accordance with ~~IPSAS 9, Revenue from Exchange Transactions~~IPSAS 47, Revenue.

...

### **Effective Date**

...

**36G. Paragraphs 30, AG56, and AG64 were amended by IPSAS 47, issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.**



...

### **Application Guidance**

*This Appendix is an integral part of IPSAS 32.*

...

### **Other Revenues (see paragraph 30)**

...

AG56. When the operator provides an upfront payment, a stream of payments, or other consideration to the grantor for the right to use the service concession asset over the term of the service concession arrangement, the grantor accounts for these payments in accordance with ~~IPSAS 9~~IPSAS 47, Revenue. The timing of the revenue recognition is determined by the terms and conditions of the service concession arrangement that specify the grantor's obligation to provide the operator with access to the service concession asset.

...

AG64. When the operator pays a nominal rent for access to a revenue-generating asset, the rental revenue is recognized in accordance with ~~IPSAS 23, Revenue from Non-Exchange Transactions (Taxes and Transfers)~~IPSAS 47.

...

### **Basis for Conclusions**

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

...

### **Scope**

...

BC5. When this Standard was issued, the ~~The~~ IPSASB had also concluded that guidance was necessary on applying the general revenue recognition principles in IPSAS 9, *Revenue from Exchange Transactions* to service concession arrangements because of the unique features of some service concession arrangements (e.g., revenue-sharing provisions).

...

### **Recognition of a Liability**

...

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

...

*Grant of a Right to the Operator Model*

BC29. In responding to the issues raised by respondents to ED 43, the IPSASB had reconsidered the nature of the consideration given by the grantor for the service concession asset where the operator recoups the price of the asset from earning revenue from third-party users of the service concession asset or another revenue-generating asset. The IPSASB had noted that in this situation, the cash consideration for the service concession asset is not being met by the grantor but by users of the service concession asset or other revenue-generating asset. The economic substance of this arrangement provides an increase in net assets to the grantor, and therefore revenue accrues and should be recognized. As the service concession arrangement is an exchange transaction, the ~~Board~~ IPSASB had referred to IPSAS 9 when considering the nature of the revenue and the timing of the recognition of that revenue.

...

BC31. The IPSASB therefore had considered whether the credit should be accounted for as a liability, as a direct increase to net assets/equity, or as revenue.

BC32. The IPSASB had ~~it was~~ agreed that, in this circumstance, the grantor does not have a liability because the service concession arrangement is an exchange of assets, with the service concession asset being obtained by the grantor in exchange for a transfer of rights to the operator to earn revenue from third-party users of the asset over the period of the service concession arrangement.

BC33. Some respondents to ED 43 had indicated that the credit should be treated as net assets/equity, consistent with IPSAS 1, *Presentation of Financial Statements* which defines net assets/equity as the residual interest in the assets of the entity after deducting all its liabilities. IPSAS 1 envisages four components of net assets/equity. Those components include:

...

BC34. The IPSASB had concluded that the credit did not represent a direct increase in the grantor's net assets/equity because the credit is not one of the components of net assets/equity identified in paragraph BC33 for the reasons noted below:

...

BC35. When this Standard was issued, the ~~The~~ IPSASB had agreed that the credit represents revenue. As a service concession arrangement is an exchange transaction, the IPSASB referred to IPSAS 9 when considering the nature of the revenue and the timing of the recognition of that revenue. In accordance with IPSAS 9, when goods are sold or services are rendered in exchange for dissimilar goods or services, the exchange is regarded as a transaction that generates revenue as it results in an increase in the net assets of the grantor. In this situation, the grantor has received a service concession asset in exchange for granting a right (a license) to the operator to charge the third-party users of the public service that it provides on the grantor's behalf. The service concession asset recognized by the grantor and the right (intangible asset) recognized by the operator are dissimilar. However, until the criteria for recognition of revenue have been satisfied, the credit is recognized as a liability.

BC36. When this Standard was issued, the ~~The~~ IPSASB noted that, in this situation, there is no cash inflow to equal the revenue recognized. This result was ~~is~~ consistent with IPSAS 9 in which an

entity provides goods or services in exchange for another dissimilar asset that is subsequently used to generate cash revenues.

BC37. When this Standard was issued, the ~~The~~ revenue was ~~is~~ measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received could not ~~cannot~~ be measured reliably, the revenue was ~~is~~ measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

BC38. When this Standard was issued, IPSAS 9 had identified ~~identifies~~ three types of transaction that give rise to revenue: the rendering of services, the sale of goods (or other assets) and revenue arising from the use by others of the entity’s assets, yielding interest, royalties, and dividends. In considering the nature of the revenue, the IPSASB had considered these types of transactions separately.

BC39. The IPSASB had considered the approaches to revenue recognition set out in IPSAS 9 in relation to the “grant of a right to the operator” model and concluded that none of those scenarios fully met the circumstances of this model. Nevertheless, the IPSASB had noted that the timing of revenue recognition under each of them is over the term of the arrangement, rather than immediately. The IPSASB had determined that, by analogy, such a pattern of revenue recognition was also appropriate for recognizing the revenue arising from the liability related to this model. As a result, until the criteria for recognition of revenue have been satisfied, the credit is recognized as a liability.

...

**Implementation Guidance**

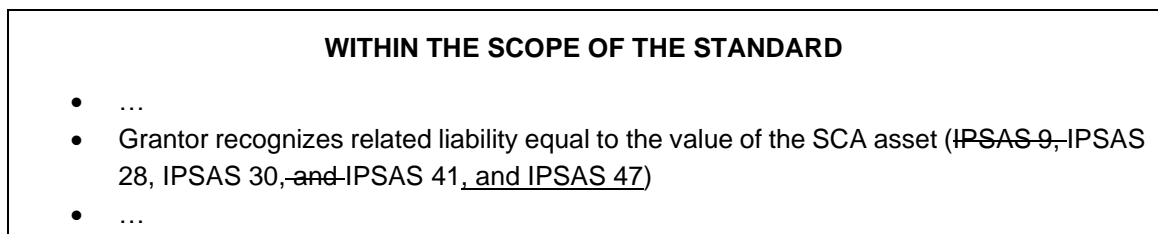
*This guidance accompanies, but is not part of, IPSAS 32.*

...

**Accounting Framework for Service Concession Arrangements**

IG2. The diagram below summarizes the accounting for service concession arrangements established by IPSAS 32.

...



...

IG4. Shaded text shows arrangements within the scope of IPSAS 32.

Category	Lessee	Service provider			Owner	
Typical arrangement types	Lease (e.g., operator leases asset from grantor)	Service and/or maintenance contract (specific tasks e.g., debt collection, facility management)	Rehabilitate-operate-transfer	Build-operate-transfer	Build-own-operate	100% Divestment/ Privatization/ Corporation
Asset ownership	Grantor				Operator	
Capital investment	Grantor		Operator			
Demand risk	Shared	Grantor	Grantor and/or Operator		Operator	
Typical duration	8–20 years	1–5 years	25–30 years		Indefinite (or may be limited by binding arrangement or license)	
Residual interest	Grantor				Operator	
Relevant IPSASs	IPSAS 43	IPSAS 1	This IPSAS/IPSAS 17/ IPSAS 31		IPSAS 17/IPSAS 31 (derecognition) <del>IPSAS 9</del> IPSAS 47 (revenue recognition)	

...

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

Paragraphs 32, 41, and 42 and 43 and their related heading are amended, and paragraph 154N is added. New text is underlined and deleted text is struck through.

...

**Fair Presentation and Compliance with IPSASs**

...

32. For example, a first-time adopter adopts the three-year transitional relief period for the recognition and measurement of traffic fines because insufficient data is available about the value of fines issued, fines written off, the compromises reached with offenders etc. The relief period is not applied to any other class of ~~non-exchange~~ revenue. The revenue received from fines is not material in relation to the financial statements as a whole. The entity concludes that, by adopting the transitional exemption and provisions, fair presentation and compliance with IPSASs will not be affected. As a result, the first-time adopter will still be able to achieve fair presentation and assert compliance with accrual basis IPSASs at the date of adoption of accrual basis IPSASs or during the period of transition.

...

## Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSASs during 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*

...

41. To the extent that a first-time adopter applies the exemptions in paragraphs 36 and 38 which allows a three-year transitional relief period to not recognize and/or measure financial assets, it is not required to recognize and/or measure any related revenue ~~in terms of IPSAS 9, Revenue from Exchange Transactions~~, or other receivables settled in cash or another financial asset, in terms of ~~IPSAS 23, Revenue from Non-Exchange Transactions (Taxes and Transfers)~~ IPSAS 47, Revenue.

#### *Recognition and/or Measurement of Non-Exchange Revenue*

42. A first-time adopter is not required to change its accounting policy in respect of the recognition and measurement of ~~non-exchange revenue~~ for reporting periods beginning on a date within three years following the date of adoption of IPSASs. A first-time adopter may change its accounting policy in respect of revenue ~~from non-exchange transactions~~ on a class-by-class basis.
43. The transitional provision in paragraph 42 is intended to allow a first-time adopter a period to develop reliable models for recognizing and measuring revenue ~~from non-exchange transactions~~ in accordance with ~~IPSAS 23, Revenue from Non-Exchange Transactions (Taxes and Transfers)~~ IPSAS 47 during the period of transition. The first-time adopter may apply accounting policies for the recognition and/or measurement of revenue ~~from non-exchange transactions~~ that do not comply with the provisions of ~~IPSAS 23-IPSAS 47~~. The transitional provision in paragraph 42 allows a first-time adopter to apply ~~IPSAS 23-IPSAS 47~~ incrementally to different classes of revenue ~~from non-exchange transactions~~. For example, a first-time adopter may be able to recognize and measure property taxes and some other classes of revenue from transactions without binding arrangements in accordance with ~~IPSAS 23-IPSAS 47~~ from the date of adoption of IPSASs, but may require three years to fully develop a reliable model for reorganizing and measuring revenue from income tax and revenue from transactions with binding arrangements.

...

### Effective Date

...

- 154N. Paragraphs 32, 41, and 42 and 43 and their related heading were amended by IPSAS 47, issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.**

...

## Basis for Conclusions

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

...

### Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSAS

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

*IPSAS 23, Revenue from Non-Exchange Transactions (Taxes and Transfers) and IPSAS 47, Revenue*

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

BC65. The IPSASB concluded that it ~~will~~ would be challenging for many public sector entities to implement IPSAS 23 as new systems may be required and/or existing systems may need to be upgraded. Because of these practical challenges, the IPSASB agreed that a transitional relief period should be provided. The IPSASB, however, acknowledged that a first-time adopter should build up models to assist with the transition to accrual accounting prior to the adoption of the accrual basis. In line with the relief period of three years provided for the recognition of assets and/or liabilities in other IPSASs, and in line with the existing three year transitional relief period provided for other non-exchange revenue in IPSAS 23 at the time this Standard was developed, it was agreed that a first-time adopter should be granted a relief period of three years to develop reliable models for recognizing and measuring revenue from non-exchange transactions. The IPSASB agreed that a transitional period of three years is manageable, and reduces the period over which an entity will not be able to assert compliance with accrual basis IPSASs. During the period of transition, a first-time adopter will be allowed to apply accounting policies for the recognition of non-exchange revenue transactions that do not comply with the provisions in IPSAS 23.

BC65A. IPSAS 47, Revenue, was issued in May 2023 and replaced IPSAS 9, IPSAS 11, Construction Contracts, and IPSAS 23, and requires an entity to identify and account for revenue based on whether it arises from a binding arrangement rather than by its classification as exchange or non-exchange. In its development, the IPSASB noted that it will be similarly challenging for public sector entities to implement IPSAS 47. The accounting for revenues without binding arrangements, which will encompass most non-exchange transactions previously in the scope of IPSAS 23, would continue to pose practical challenges. The accounting for revenues arising from binding arrangements (which may include both exchange or non-exchange revenues) may also require complex models, and new systems, processes, or internal controls. Consequently, the IPSASB concluded that the 3-year transitional exemption should also be available for revenues accounted for in accordance with IPSAS 47 in order to provide transition relief for first-time adopters.

...

**Implementation Guidance**

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

...

**IPSAS 9, Revenue from Exchange Transactions ~~IPSAS 47, Revenue~~**

IG45. If a first-time adopter has received amounts that do not yet qualify for recognition as revenue in accordance with ~~IPSAS 9~~IPSAS 47 (for example, the proceeds of a transaction sale that does not qualify for recognition as revenue), the first-time adopter recognizes the amounts received as a liability in its opening statement of financial position and measures that liability at the amount received. It shall derecognize the liability and recognize the revenue in its statement of financial performance when the recognition criteria in ~~IPSAS 9~~IPSAS 47 are met.

...

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

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

IPSAS	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
...	...	...	...	...	...	...	...	...
IPSAS 9, <i>Revenue from Exchange Transactions</i>	√				↓ To the extent that 3-year relief period was adopted for assets and/or liabilities			
...	...	...	...	...	...	...	...	...
IPSAS 11, <i>Construction Contracts</i>	√							
...	...	...	...	...	...	...	...	...
IPSAS 23, <i>Revenue from Non-Exchange Transactions</i>			↓ All non-exchange revenue not recognized under previous basis of accounting	↓ All non-exchange revenue recognized under previous basis of accounting	↓ To the extent that 3-year relief period was adopted for assets and/or liabilities			
IPSAS 47, <i>Revenue</i>			√ All revenue not recognized under previous basis of accounting	√ All revenue recognized under previous basis of accounting	√ To the extent that 3-year relief period was adopted for assets and/or liabilities			

Appendix

Differentiation between transitional exemptions and provisions that a first-time adopter is required to apply and/or can elect to apply on adoption of accrual basis IPSASs

...

Transitional exemption or provision	Transitional exemptions or provisions that have to be applied		
	Transitional exemptions or provisions that may be applied or elected		
	Do not affect fair presentation and compliance with accrual basis IPSAS	Do not affect fair presentation and compliance with accrual basis IPSAS	Affect fair presentation and compliance with accrual basis IPSAS
...	...	...	...
IPSAS 9: • <del>Relief for recognition and/or measurement of revenue related to adoption of three-year relief period for recognition and/or measurement of financial instruments</del>			√
...	...	...	...
IPSAS 47: • <u>Relief for recognition and/or measurement of revenue related to adoption of three-year relief period for recognition and/or measurement of assets and/or liabilities</u>			√

...

**Amendments to IPSAS 35, Consolidated Financial Statements**

Paragraph AG13 is amended, and paragraph 79F is added. New text is underlined and deleted text is struck through.

...

**Effective Date**

...

**79F. Paragraph AG13 was amended by IPSAS 47, Revenue, issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.**

...

**Application Guidance**

...

**Assessing Control**

...

**Power**

...



### Relevant Activities and Direction of Relevant Activities

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

...

(c) Collecting revenue ~~through non-exchange transactions~~;

...

...

### **Amendments to IPSAS 40, *Public Sector Combinations***

Paragraphs 34, 79, 115, AG58, and AG86 are amended, and paragraph 126H is added. New text is underlined and deleted text is struck through.

...

### **Accounting for Amalgamations**

...

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

...

Exceptions to Both the Recognition and Measurement Principles

Income Taxes (Where Included in the Terms of the Amalgamation)

...

34. The resulting entity shall recognize and measure any remaining taxation items included in or arising from an amalgamation in accordance with the relevant international or national accounting standard dealing with income taxes. The resulting entity shall recognize and measure any remaining revenue from taxation included in or arising from an amalgamation in accordance with ~~IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*~~ IPSAS 47, *Revenue*.

...

### **The Acquisition Method of Accounting**

...

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

...

Exceptions to Both the Recognition and Measurement Principles

Income Taxes (Where Included in the Terms of the Acquisition)

...

79. The acquirer shall recognize and measure any remaining taxation items included in or arising from an acquisition in accordance with the relevant international or national accounting standard dealing with income taxes. The acquirer entity shall recognize and measure any remaining revenue from taxation included in or arising from an acquisition in accordance with ~~IPSAS 23~~ IPSAS 47.

...

**Subsequent Measurement and Accounting**

...

*Contingent Liabilities*

115. After initial recognition and until the liability is settled, cancelled or expires, the acquirer shall measure a contingent liability recognized in an acquisition at the higher of:

- (a) The amount that would be recognized in accordance with IPSAS 19; and
- (b) The amount initially recognized less, if appropriate, the cumulative amortization amount of revenue recognized in accordance with ~~IPSAS 9, Revenue from Exchange Transactions~~ IPSAS 47.

This requirement does not apply to contracts accounted for in accordance with IPSAS 41, *Financial Instruments*.

...

**Effective Date**

...

- 126H. Paragraphs 34, 79, 115, AG58, and AG86 were amended by IPSAS 47, Revenue, issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.**

...

**Application Guidance**

...

**Accounting for Amalgamations**

...

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

...

AG58. Where, as a result of the amalgamation, the resulting entity becomes the tax authority, it shall derecognize any tax receivable relating to the combining operation's tax due that has been forgiven in accordance with ~~IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*~~ IPSAS 47, *Revenue*.

...

### **Accounting for Acquisitions**

...

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

...

AG86. If the acquirer is itself the tax authority, it shall derecognize any tax receivable relating to the acquired operation's tax due that has been forgiven in accordance with ~~IPSAS 23~~ IPSAS 47.

...

### **Illustrative Examples**

...

### **Accounting for Amalgamations**

...

### **Eliminating Transactions between the Combining Operations – Transfers**

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

...

IE163. On 30 June 20X9, Resulting Entity (RE) is formed by an amalgamation of two government agencies, Combining Operation A (COA) and Combining Operation B (COB). On 1 January 20X9, COA had ~~provided~~ entered into a binding arrangement with COB to provide COB with a grant transfer of CU700 to be used in the provision of an agreed number of training courses (i.e., the compliance obligation).

IE164. ~~The grant transfer was subject a condition that the grant would~~ must be returned proportionately to the number of training courses not delivered. ~~At the~~ Immediately prior to the amalgamation ~~date~~, COB had delivered half of the agreed number of courses, and recognized a liability of CU350 in respect of ~~its performance~~ the unsatisfied portion of its compliance obligation, in accordance with ~~IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*~~ IPSAS 47, *Revenue*. Based on past experience, COA considered that COB was more likely than not to deliver the training courses. It was therefore not probable that there would be a flow of resources to COA, and COA did not recognize an asset in respect of the ~~grant transfer~~, but accounted for the full CU700 as an expense.

...

**Forgiveness of Amounts of Tax Due in an Amalgamation**

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

...

IE176. MF accounts for tax receivable in accordance with ~~IPSAS 23~~IPSAS 47, and would recognize an adjustment for the tax forgiven.

...

**Disclosure Requirements Relating to Amalgamations**

*Illustrating the Consequences of Applying the Disclosure Requirements in Paragraphs 53–57 of IPSAS 40*

IE192. ...

		COA (CU)	COB (CU)
54(h)(i)	<b>Revenue</b>		
	Property taxes	45,213	70,369
	Revenue from <del>exchange transactions</del> <u>compliance obligations in binding arrangements</u>	2,681	25,377
	...	...	...

...

**Forgiveness of Amounts of Tax Due in an Acquisition**

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

...

IE250. MF accounts for tax receivable in accordance with ~~IPSAS 23~~IPSAS 47, and would recognize an adjustment for the tax forgiven.

...

*Settlement of a Pre-Existing Relationship – Transfers*

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

IE263. On 1 January 20X7, AE acquires TE. Previously, on 1 October 20X6, AE ~~provided~~entered into a binding arrangement with TE to provide TE with a grant transfer of CU800 to be used in the provision of an agreed number of training courses to the employees of TE (i.e., the compliance obligation).

IE264. The grant transfer was subject to a ~~condition~~compliance obligation that the grant transfer would be returned proportionately to the number of training courses not delivered. ~~At the~~Immediately prior to the acquisition date, TE had delivered a quarter of the agreed number of courses, and recognized a liability of CU600 in respect of ~~its performance~~the unsatisfied portion of its compliance

obligation, in accordance with ~~IPSAS 23~~ IPSAS 47. Based on past experience, AE considered that TE was more likely than not to deliver the training courses. It was therefore not probable that there would be a flow of resources to AE, and AE did not recognize an asset in respect of the ~~grant transfer~~, but accounted for the full CU800 as an expense.

...

### **Amendments to IPSAS 41, *Financial Instruments***

Paragraphs 2, 3, 37, 45, 60, 87 and its related heading, AG2, AG5, AG6, AG33, AG34, AG43, AG44, AG114 and its related heading, AG124, AG125, AG129, AG132, AG133, and AG158 are amended, and paragraph 156G is added. New text is underlined and deleted text is struck through.

...

#### **Scope**

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

...

(j) **The initial recognition and initial measurement of rights and obligations arising from ~~non-exchange~~ revenue transactions to which ~~IPSAS 23, Revenue from Non-Exchange Transactions (Taxes and Transfers)~~ IPSAS 47, Revenue, applies; ~~except as described in (see paragraph AG6)~~.**

...

**3. The impairment requirements of this Standard shall be applied to those rights arising from ~~IPSAS 9, Revenue from Exchange Transactions~~ IPSAS 47, Revenue, and ~~IPSAS 23~~ transactions ~~which give rise to financial instruments~~ for the purposes of recognizing impairment gains or losses.**

...

#### **Recognition and Derecognition**

...

#### **Derecognition of Financial Liabilities**

...

**37. The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, shall be recognized in surplus or deficit. Where an obligation is waived by the lender or assumed by a third party as part of a non-exchange transaction, an entity applies ~~IPSAS 23~~ IPSAS 47.**

...

**Classification**

...

**Classification of Financial Liabilities**

45. An entity shall classify all financial liabilities as subsequently measured at amortized cost, except for:

...

(c) Financial guarantee contracts. After initial recognition, an issuer of such a contract shall (unless paragraph 45(a) or (b) applies) subsequently measure it at the higher of:

(i) ...; and

(ii) The amount initially recognized (see paragraph 57) less, when appropriate, the cumulative amount of ~~amortization~~ revenue recognized in accordance with the principles of ~~IPSAS 9~~IPSAS 47.

(d) Commitments to provide a loan at a below-market interest rate. An issuer of such a commitment shall (unless paragraph 45(a) applies) subsequently measure it at the higher of:

(i) ...; and

(ii) The amount initially recognized (see paragraph 57) less, when appropriate, the cumulative amount of ~~amortization~~ revenue recognized in accordance with the principles of ~~IPSAS 9~~IPSAS 47.

...

...

**Measurement**

**Initial Measurement**

...

60. Despite the requirement in paragraph 57, at initial recognition, an entity may measure short-term receivables at their transaction consideration (as defined in IPSAS 47) if the short-term receivables do not contain a significant financing component (in accordance with IPSAS 47, or when the entity applies the practical expedient in paragraph 126 of IPSAS 47) and payables at the original invoice amount if the effect of discounting is immaterial. An entity may measure short-term payables at the transaction consideration if the effect of discounting is immaterial.

...

**Impairment**

...

*Simplified Approach for Receivables and Binding Arrangement Assets*

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

- (a) **Receivables or binding arrangement assets that result from exchange transactions that are within the scope of IPSAS 9~~IPSAS 47~~ and non-exchange transactions within the scope of IPSAS 23 and that:**
- (i) **Do not contain a significant financing component in accordance with IPSAS 47 (or when the entity applies the practical expedient in accordance with paragraph 126 of IPSAS 47);**
  - (ii) **Contain a significant financing component in accordance with IPSAS 47, if the entity chooses as its accounting policy to measure the loss allowance at an amount equal to lifetime expected credit losses. That accounting policy shall be applied to all receivables or binding arrangement assets but may be applied separately to receivables and binding arrangement assets.**
- (b) ...

...

**Effective Date**

...

**156G. Paragraphs 2, 3, 37, 45, 60, 87 and its related heading, AG2, AG5, AG6, AG33, AG34, AG43, AG44, AG114 and its related heading, AG124, AG125, AG129, AG132, AG133, and AG158 were amended by IPSAS 47, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.**

...

**Application Guidance**

...

**Scope**

...

AG2. This Standard does not change the requirements relating to employee benefit plans that comply with the relevant international or national accounting standard on accounting and reporting by retirement benefit plans and royalty agreements based on the volume of sales or service revenues that are accounted for under ~~IPSAS 9, Revenue from Exchange Transactions~~IPSAS 47, Revenue.

...

AG5. Financial guarantee contracts may have various legal forms, such as a guarantee, some types of letter of credit, a credit default contract or an insurance contract. Their accounting treatment does not depend on their legal form. The following are examples of the appropriate treatment (see paragraph 2(e)):

- (a) **Although a financial guarantee contract meets the definition of an insurance contract in ~~IFRS 4~~ the scope of the relevant international or national accounting standard dealing with insurance contracts if the risk transferred is significant, the issuer applies this Standard. Nevertheless, an entity may elect, under certain circumstances, to treat financial guarantee**

contracts as insurance contracts of financial instruments using IPSAS 28 if the issuer has previously adopted an accounting policy that treated financial guarantee contracts as insurance contracts and has used accounting applicable to insurance contracts, the issuer may elect to apply either this Standard or the relevant international or national accounting standard on insurance contracts to such financial guarantee contracts. If this Standard applies, paragraph 57 requires the issuer to recognize a financial guarantee contract initially at fair value. If the financial guarantee contract was issued to an unrelated party in a stand-alone arm's length transaction, its fair value at inception is likely to equal the premium received, unless there is evidence to the contrary. Subsequently, unless the financial guarantee contract was designated at inception as at fair value through surplus or deficit or unless paragraphs 26–34 and AG32–AG38 apply (when a transfer of a financial asset does not qualify for derecognition or the continuing involvement approach applies), the issuer measures it at the higher of:

- (i) ...; and
- (ii) The amount initially recognized less, when appropriate, the cumulative ~~amortization amount of revenue~~ recognized in accordance with the principles of ~~IPSAS 9~~IPSAS 47 (see paragraph 45(c)).

...

- (c) If a financial guarantee contract was issued in connection with the ~~sale provision~~ of goods, the issuer applies ~~IPSAS 9~~IPSAS 47 in determining when it recognizes the revenue from the guarantee and from the ~~sale provision~~ of goods.

AG6. ~~Rights and obligations (assets and liabilities) may arise from non-exchange revenue transactions, for example, an entity may receive cash from a multi-lateral agency to perform certain activities. Where the performance of those activities is subject to conditions, an asset and a liability is recognized simultaneously. Where the asset is a financial asset, it is recognized in accordance with IPSAS 23, and initially measured in accordance with IPSAS 23 and this Standard. A liability that is initially recognized as a result of conditions imposed on the use of an asset is outside the scope of this Standard and is dealt with in IPSAS 23. A right from a revenue transaction that meets the definition of an asset is initially recognized and measured in accordance with IPSAS 47. Similarly, an obligation from a revenue transaction that meets the definition of a liability is initially recognized and measured in accordance with IPSAS 47. After initial recognition, if circumstances indicate that recognition of a liability in accordance with ~~IPSAS 23~~IPSAS 47 is no longer appropriate, an entity considers whether a financial liability should be recognized in accordance with this Standard. Other liabilities that may arise from non-exchange revenue transactions are recognized and measured in accordance with this Standard if they meet the definition of a financial liability in IPSAS 28.~~

...

## Recognition and Derecognition

...

### *Sale of Future Flows Arising from a Sovereign Right*

AG33. In the public sector, securitization schemes may involve a sale of future flows arising from a sovereign right, such as a right to taxation, that have not previously been recognized as assets. An entity recognizes the revenue arising from such transactions in accordance with ~~the relevant~~



~~revenue standard (see IPSAS 9 and IPSAS 23)~~ IPSAS 47. Such transactions may give rise to financial liabilities as defined in IPSAS 28. Examples of such financial liabilities may include, but are not limited to, borrowings, financial guarantees, liabilities arising from a servicing or administrative contract, or payables relating to cash collected on behalf of the purchasing entity. Financial liabilities shall be recognized when the entity becomes party to the contractual provisions of the instrument in accordance with paragraph 10 and classified in accordance with paragraphs 45 and 46. The financial liabilities shall be initially recognized in accordance with paragraph 57, and subsequently measured in accordance with paragraphs 62 and 63.

#### *Continuing Involvement in Transferred Assets*

AG34. The following are examples of how an entity measures a transferred asset and the associated liability under paragraph 27.

##### *All Assets*

- (a) If a guarantee provided by an entity through a contract to pay for default losses on a transferred asset prevents the transferred asset from being derecognized to the extent of the continuing involvement, the transferred asset at the date of the transfer is measured at the lower of (i) the carrying amount of the asset and (ii) the maximum amount of the consideration received in the transfer that the entity could be required to repay ('the guarantee amount'). The associated liability is initially measured at the guarantee amount plus the fair value of the guarantee (which is normally the consideration received for the guarantee). Subsequently, the initial fair value of the guarantee is recognized in surplus or deficit ~~on a time proportion basis when (or as) the compliance obligation is satisfied (see IPSAS 9~~ in accordance with the principles of IPSAS 47) and the carrying value of the asset is reduced by any loss allowance.

...

...

#### *Derecognition of Financial Liabilities*

...

AG43. If a third party assumes an obligation of an entity, and the entity provides either no or only nominal consideration to that third party in return, an entity applies the derecognition requirements of this Standard as well as paragraphs ~~84 to 87~~ AG155–AG158 of ~~IPSAS 23~~ IPSAS 47.

AG44. Lenders will sometimes waive their right to collect debt owed by a public sector entity, for example, a national government may cancel a loan owed by a local government. This waiver of debt would constitute a legal release of the debt owing by the borrower to the lender. Where an entity's obligations have been waived as part of a non-exchange transaction it applies the derecognition requirements of this Standard as well as paragraphs ~~84–87~~ AG155–AG158 of ~~IPSAS 23~~ IPSAS 47.

...

## **Measurement**

### ~~Non-Exchange~~ Revenue Transactions

AG114. The initial recognition and measurement of assets and liabilities resulting from ~~non-exchange~~ revenue transactions is dealt with in ~~IPSAS 23~~ IPSAS 47. Assets resulting from ~~non-exchange~~

revenue transactions can arise out of both contractual and non-contractual arrangements (see IPSAS 28 paragraphs AG20 and AG21). Where these assets arise out of contractual arrangements and otherwise meet the definition of a financial instrument, they are:

- (a) Initially recognized in accordance with ~~IPSAS 23~~ IPSAS 47;
- (b) Initially measured:
  - (i) At ~~fair value~~ the transaction consideration using the principles in ~~IPSAS 23~~ IPSAS 47; and
  - (ii) Taking account of transaction costs that are directly attributable to the acquisition of the financial asset in accordance with paragraph 57 of this Standard, where the asset is subsequently measured other than at fair value through surplus or deficit.

...

**Initial Measurement**

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

...

AG124. An entity firstly assesses whether the substance of the concessionary loan is in fact a loan, a non-exchange transaction, a contribution from owners or a combination thereof, by applying the principles in IPSAS 28 and paragraphs ~~42–58~~ AG152–AG153 of ~~IPSAS 23~~ IPSAS 47. If an entity has determined that the transaction, or part of the transaction, is a loan, it assesses whether the transaction price represents the fair value of the loan on initial recognition. An entity determines the fair value of the loan by using the principles in AG144–AG155. Where an entity cannot determine fair value by reference to an active market, it uses a valuation technique. Fair value using a valuation technique could be determined by discounting all future cash receipts using a market related rate of interest for a similar loan (see AG115).

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

- (a) Where the loan is received by an entity, the difference is accounted for in accordance with ~~IPSAS 23~~ IPSAS 47.

...

Illustrative Examples are provided in paragraph ~~IG54~~ of ~~IPSAS 23~~ IE296–IE299 of IPSAS 47 as well as paragraphs IE153 ~~to~~ IE161 accompanying this Standard.

...

*Equity Instruments Arising from Non-Exchange Transactions*

...

AG129. At initial recognition of such transactions, an entity shall analyze the substance of the arrangement and assess whether the intention at the outset is the provision or receipt of resources by way of a non-exchange transaction. To the extent that the transaction, or component of the transaction, is a non-exchange transaction, any assets or revenues arising from the transaction are accounted for in accordance with ~~IPSAS 23~~ IPSAS 47. The entity providing the resources shall recognize the amount as an expense in surplus or deficit at initial recognition.

...

*Valuing Financial Guarantees Issued through a Non-Exchange Transaction*

...

AG132. In paragraph 9, “financial guarantee contract” is defined as “a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.” Under the requirements of this Standard, financial guarantee contracts, like other financial assets and financial liabilities, are required to be initially recognized at fair value. Paragraphs 66–68 of this Standard provide commentary and guidance on determining fair value and this is complemented by Application Guidance in paragraphs AG144–AG155. Subsequent measurement for financial guarantee contracts is at the higher of the amount of the loss allowance determined in accordance with paragraphs 73–93 and the amount initially recognized less, when appropriate, the cumulative amortization amount of revenue recognized in accordance with IPSAS 9, Revenue from Exchange Transactions~~IPSAS 47~~.

AG133. In the public sector, guarantees are frequently provided by way of non-exchange transactions, i.e., at no or nominal consideration. This type of guarantee is provided generally to further the entity’s economic and social objectives. Such purposes include supporting infrastructure projects, supporting corporate entities at times of economic distress, guaranteeing the bond issues of entities in other tiers of governments and the loans of employees to finance motor vehicles that are to be used for performance of their duties as employees. Where there is consideration for a financial guarantee, an entity should determine whether that consideration arises from an exchange transaction and whether the consideration represents a fair value. If the consideration does represent a fair value, entities should recognize the financial guarantee at the amount of the consideration. Subsequent measurement should be at the higher of the amount of the loss allowance determined in accordance with paragraphs 73–93 and the amount initially recognized, less, when appropriate, the cumulative amortization amount of revenue recognized in accordance with ~~IPSAS 9~~IPSAS 47. Where the entity concludes that the consideration is not a fair value, an entity determines the carrying value at initial recognition in the same way as if no consideration had been paid.

...

**Amortized Cost Measurement**

Effective Interest Method

...

AG158. Fees that are not an integral part of the effective interest rate of a financial instrument and are accounted for in accordance with ~~IPSAS 9~~IPSAS 47 include:

...

...

## Basis for Conclusions

...

### Scope

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

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

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

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

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

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

### Initial Measurement

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

BC11. At that time, ~~The~~ the IPSASB concluded that it would be inappropriate for financial assets arising from non-exchange transactions to be measured differently from those arising from exchange

transactions. Consequently, the IPSASB agreed that assets acquired in a non-exchange transaction should be measured initially at fair value using the requirements in IPSAS 23, but that this Standard should also be considered where transaction costs are incurred to acquire the asset.

**Equity Instruments Arising from Non-Exchange Transactions**

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

...

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

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

...

**Illustrative Examples**

...

**Concessionary Loans (Paragraphs AG118–~~AG126~~AG127)**

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

...

IE154. The local authority has received a concessionary loan of CU5 million, which will be repaid at 5 percent below the current market interest rate. The difference between the proceeds of the loan and the present value of the contractual payments in terms of the loan agreement, discounted using the market-related rate of interest, is recognized in accordance with ~~IPSAS 23~~ IPSAS 47, Revenue.

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

1.	On initial recognition, the entity recognizes the following:		
Dr	Bank	5,000,000	
	Cr	Loan (refer to Table 2 below)	4,215,450
	Cr	Liability or <del>non-exchange</del> revenue	784,550

*Recognition of the receipt of the loan at fair value*

~~IPSAS 23~~ IPSAS 47 is considered in recognizing either a liability or revenue for the off-market portion of the loan. Paragraph ~~4E54~~302 of that Standard provides journal entries for the recognition and measurement of the off-market portion of the loan deemed to be ~~non-exchange~~ revenue.

...

...

## Implementation Guidance

...

### Section G Concessionary Loans and Non-Exchange Equity Transactions

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

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

An entity firstly assesses whether the substance of the concessionary loan is in fact a loan, a ~~grant transfer~~, a contribution from owners or a combination thereof, by applying the principles in IPSAS 28 and paragraphs ~~42–58~~AG152–AG153 of ~~IPSAS 23~~ IPSAS 47, Revenue. If an entity has determined that the transaction, or part of the transaction, is a loan, it assesses whether the transaction ~~price consideration~~ represents the fair value of the loan on initial recognition. An entity determines the fair value of the loan by using the principles in AG144–AG155.

...

### Amendments to IPSAS 43, Leases

Paragraphs 18, 98, 99, 102, and 120 are amended, and paragraph 103D is added. New text is underlined, and deleted text is struck through.

...

#### Identifying a Lease (see paragraphs AG10–AG34)

...

##### Lessor

18. For a contract that contains a lease component and one or more additional lease or non-lease components, a lessor shall allocate the consideration in the contract applying ~~IFRS 15, Revenue from Contracts with Customers~~IPSAS 47, Revenue.

...

### Sale and Leaseback Transactions

...

#### Assessing Whether the Transfer of the Asset is a Sale

98. An entity shall apply the requirements for determining when a ~~performance compliance~~ obligation is satisfied in ~~IFRS 15~~IPSAS 47, Revenue to determine whether the transfer of an asset is accounted for as a sale of that asset.

*Transfer of the Asset is a Sale*

99. If the transfer of an asset by the seller-lessee satisfies the requirements of ~~IFRS 15~~IPSAS 47, Revenue to be accounted for as a sale of the asset:

...

*Transfer of the Asset is not a Sale*

102. If the transfer of an asset by the seller-lessee does not satisfy the requirements of ~~IFRS 15~~IPSAS 47, Revenue to be accounted for as a sale of the asset:

...

*Sale and Leaseback Transactions Before the Date of Initial Application*

120. An entity shall not reassess sale and leaseback transactions entered into before the date of initial application to determine whether the transfer of the underlying asset satisfies the requirements in ~~IFRS 15~~IPSAS 47, Revenue to be accounted for as a sale.

...

**Effective Date**

...

**103D. Paragraphs 18, 98, 99, 102, and 120 were amended by IPSAS 47, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.**

...

**Basis for Conclusions**

...

*Cross-Reference to IFRS 15 Revenue from Contracts with Customers*

...

BC99. ~~When developing this Standard, the~~ ~~The~~ IPSASB decided to refer to IFRS 15 instead of the relevant national or international accounting standard dealing with revenue from contracts with customers, where appropriate, because it is consistent with the:

- (a) Control-based approach to lessee accounting in IPSAS 43; and
- (b) IFRS 16 reference to IFRS 15 in the corresponding requirements.

BC100. In reaching this decision, the IPSASB noted that these references will be updated when ~~a new IPSAS on Revenue~~ the new IPSAS 47, Revenue is issued.

...

*Effective Date*

...

BC102. In deciding the effective date, the IPSASB considered that:

...

- (c) It provides sufficient time for the IPSASB to finalize ~~a new IPSAS on Revenue~~ the new IPSAS 47 and other IPSAS under development in the IPSASB's Work Program, which may have consequential amendments to IPSAS 43;

...

BC103. The IPSASB decided to permit the earlier application of IPSAS 43, instead of encouraging it, because, ideally, the Standard should be applied together with ~~the new IPSAS on Revenue~~ the new IPSAS 47 aligned with IFRS 15. ~~However, the principles in IFRS 15 are currently under consideration by the IPSASB.~~

BC104. ~~The IPSASB noted during its development of this Standard that, f~~For those public sector entities that elect to apply IPSAS 43 early, there might be greater complexity in analyzing revenue transactions under different principles: some lease transactions would be accounted for according to the principles in IFRS 15, while the revenue from other non-lease transactions will still be accounted for according to the principles in IPSAS 9, *Revenue from Exchange Transactions*, until the IPSASB publishes a new IPSAS on Revenue. However, cross-referencing to IFRS 15, where appropriate for revenue recognition, provides a temporary solution that allows public sector entities to prepare for the future changes that might be required when the IPSASB completes its Revenue project and issues the new IPSAS 47.

...

## Illustrative Examples

...

### Sale and Leaseback Transactions (See paragraphs 97–102)

...

#### *Example 24 – Sale and Leaseback Transaction*

*An entity (Seller-lessee) sells a building to another entity (Buyer-lessor) for cash of CU2,000,000. Immediately before the transaction, the building is carried at a cost of CU1,000,000. At the same time, Seller-lessee enters into a contract with Buyer-lessor for the right to use the building for 18 years, with annual payments of CU120,000 payable at the end of each year. The terms and conditions of the transaction are such that the transfer of the building by Seller-lessee satisfies the requirements for determining when a ~~performance compliance~~ obligation is satisfied in IFRS 15 Revenue from Contracts with Customers ~~IPSAS 47, Revenue~~. Accordingly, Seller-lessee and Buyer-lessor account for the transaction as a sale and leaseback. This example ignores any initial direct costs.*

...



**Amendments to IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations***

...

**Implementation Guidance**

...

**Presenting discontinued operations in the statement of financial performance (paragraph 42)**

...

*Example 11*

...	20X2	20X1
<b>Continuing operations</b>		
<b>Revenue</b>		
Taxes	X	X
<del>Fees, fines, penalties, and licenses</del> <u>Other compulsory contributions and levies</u>	X	X
<del>Revenue from exchange transactions</del>	<del>X</del>	<del>X</del>
<del>Transfers from other government entities</del> <u>without a binding arrangement</u>	X	X
<u>Revenue from compliance obligations in a binding arrangement</u>	<u>X</u>	<u>X</u>
Other revenue	X	X
<b>Total Revenue</b>	<u>X</u>	<u>X</u>

...

**Amendments to IPSAS 45, *Property, Plant, and Equipment***

Paragraphs 64, 67 and 68 are amended, and paragraph 87A is added. New text is underlined and deleted text is struck through.

...

**Derecognition**

...

64. The disposal of an item of property, plant, and equipment may occur in a variety of ways (e.g., by sale, by entering into a finance lease or by donation). ~~In determining t~~ The date of disposal of an item, an entity applies the criteria in IPSAS 9, *Revenue from Exchange Transactions* for recognizing revenue from the sale of goods of property, plant, and equipment is the date the recipient obtains control of that item in accordance with the requirements, and any enforceable obligations or compliance obligations are satisfied in IPSAS 47, *Revenue*. ~~and~~ IPSAS 43 applies to disposal by a sale and leaseback.

...

67. ~~The amount of consideration receivable on disposal to be included in the surplus or deficit arising from the derecognition of property, plant, and equipment is recognized initially at its fair value. If payment for the item is deferred, the consideration received is recognized initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognized as interest revenue in accordance with IPSAS 9, reflecting the effective yield on the receivable determined in accordance with the requirements for determining the transaction consideration in paragraphs 109–132 of IPSAS 47. Subsequent changes to the estimated amount of consideration included in surplus or deficit shall be accounted for in accordance with the requirements for changes in the transaction consideration in IPSAS 47.~~
68. However, an entity that, in the course of its activities, routinely ~~sells~~ provides items of property, plant, and equipment that it has held for rental to others shall transfer such assets to inventories at their carrying amount when they cease to be rented and become held for sale. The ~~proceeds~~ amount of consideration from the ~~sale~~ disposal of such assets shall be recognized as revenue in accordance with ~~IPSAS 9~~ IPSAS 47. IPSAS 44 does not apply when assets that are held for sale in the ordinary course of its operations are transferred to inventories.

...

**Effective Date**

...

- 87A. Paragraphs 64, 67, and 68 were amended by IPSAS 47, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.**

...

## Basis for Conclusions

*This Basis for Conclusions accompanies, but is not part of, IPSAS 47.*

### Introduction

- BC1. IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* was issued in December 2006 and was developed to provide guidance on how to account for revenue that arose from non-exchange transactions, which account for a large proportion of public sector revenue. The issuance of IPSAS 23 completed the suite of revenue standards, together with IPSAS 9, *Revenue from Exchange Transactions*, and IPSAS 11, *Constructions Contracts* which were both issued in July 2001. IPSAS 9 and IPSAS 11 were based on IAS 18, *Revenue* and IAS 11, *Constructions Contracts*, respectively, which were both issued by the International Accounting Standards Board (IASB).
- BC2. Since IPSAS 23 became applicable, the IPSASB became aware of constituents' concerns regarding the application of the Standard, in particular:
- (a) Difficulty in making the distinction between exchange and non-exchange transactions;
  - (b) Difficulty in making the distinction between a condition and a restriction;
  - (c) Lack of guidance on multi-year funding arrangements;
  - (d) Lack of guidance on taxation received in advance of the period in which it is intended to be used;
  - (e) Lack of guidance on accounting for capital grants; and
  - (f) Lack of guidance on accounting for services in-kind.
- BC3. In May 2014, the IASB published the final version of IFRS 15, *Revenue from Contracts with Customers*, which provides a comprehensive framework for recognizing revenue from contracts with customers. IFRS 15 replaces IAS 11, IAS 18, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers* and SIC-31, *Revenue—Barter Transactions Involving Advertising Services*.
- BC4. In 2015, the IPSASB commenced work on a project to update IPSAS that dealt with accounting for revenue as part of the IPSASB's alignment program which aims to align IPSAS with IFRS® Standards. In August 2017, the IPSASB issued Consultation Paper (CP), *Accounting for Revenue and Non-Exchange Expenses*. In addition to potential alignment with IFRS 15, the CP also gave the IPSASB an opportunity to re-evaluate and address some of the application issues with the guidance for non-exchange revenue transactions in IPSAS 23. In particular, the IPSASB considered the question of whether accounting approaches based on whether a revenue transaction is with or without performance obligations are more appropriate than distinguishing between exchange and non-exchange transactions. Based on this new thinking, the CP classified public sector revenue transactions into the following categories:

- (a) Transactions with no performance obligations or stipulations. Under the current framework in IPSAS 23<sup>8</sup>, revenue transactions with stipulations involved the transfer of assets to a resource recipient with the expectation and/or understanding that they will be used in a particular way and, therefore, that the resource recipient entity will act or perform in a particular way;
  - (b) Transactions with stipulations, as described in IPSAS 23, that do not meet all the requirements of IFRS 15; and
  - (c) Transactions that meet all the requirements of IFRS 15 that involve the transfer of promised goods or services to customers and arise from a contract with a customer which establishes performance obligations.
- BC5. The majority of CP respondents agreed that there are different types of revenues in the public sector, and supported a classification approach based on whether the revenue transaction has performance obligations. In addition, respondents noted, and the IPSASB agreed, that the concepts of stipulations, which could be in the form of restrictions or conditions, in the exchange/non-exchange approach in IPSAS 23 was difficult to apply in practice.

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

- BC6. Based on responses to the CP and subsequent discussions, the IPSASB decided to move away from the exchange/non-exchange distinction and develop accounting approaches based on whether the transaction is with or without performance obligations.
- BC7. The accounting approaches were presented in two revenue Exposure Drafts (EDs), ED 70, *Revenue with Performance Obligations* and ED 71, *Revenue without Performance Obligations*. The issuance of two separate EDs enabled the IPSASB to explicitly demonstrate IFRS alignment and maintain the existing allocation of guidance for different revenue transaction types:
- (a) ED 70 presented guidance for exchange-type transactions, akin to those in the private sector, and is based on the requirements of IFRS 15, modified as appropriate for public sector entities and to reflect the requirements of other IPSAS. ED 70 would replace IPSAS 9 and IPSAS 11, which were principally based on IAS 18 and IAS 11 respectively; and
  - (b) ED 71 presented guidance for non-exchange-type transactions, which are the majority of transactions in the public sector. ED 71 would replace IPSAS 23.
- BC8. In developing the proposed Standards, the IPSASB:
- (a) Considered the guidance on revenue in the *Government Finance Statistics Manual 2014 (GFSM 2014)* with the aim of avoiding unnecessary differences;

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<sup>8</sup> IPSAS 23 included the concept of stipulations, which are terms in laws or regulations, or a binding arrangement, that are imposed on the use of a transferred asset. Stipulations may be in the form of conditions (stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be (1) consumed by the recipient as specified, or (2) returned to the transferor), or restrictions (stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified).

- (b) Considered guidance developed by national standard setters and bodies with oversight responsibilities for public sector entities in developing additional examples that illustrated the public sector environment;
- (c) Considered the aspects of IPSAS 9 and IPSAS 11 that had been developed specifically to address public sector issues or circumstances that are more prevalent in the public sector than in other sectors. The IPSASB focused on addressing these issues in the Standard;
- (d) Made changes to aspects of IPSAS 23 to address the concerns noted by constituents<sup>9</sup>;
- (e) Applied its *Process for Reviewing and Modifying IASB Documents*. Modifications to IFRS 15 were made in circumstances where public sector issues were identified that warranted a departure. As part of its development process, the IPSASB debated a number of issues and whether departure was justified; and
- (f) Agreed to retain the existing text of IFRS 15 wherever consistent with existing IPSAS and made the following modifications:
  - (i) Changes to the definitions and terminology in IFRS 15 to ensure consistency with The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (the Conceptual Framework), consistency with definitions and terminology in existing IPSAS, and to reflect the public sector;
  - (ii) Addition of application guidance on public sector-specific issues or issues which may be more prevalent in the public sector;
  - (iii) “Amendments to Other Standards” in IFRS 15 were replaced with “Amendments to Other IPSAS” to reflect IPSAS literature. Where applicable, references to other specific IFRS Standards were also amended to reflect references to the corresponding IPSAS;
  - (iv) Deletion of illustrative examples which had limited or no applicability to the public sector; and
  - (v) Modification of IFRS 15 examples to reflect the public sector context, as well as the addition of public sector-specific examples to assist with the application of ED 70.

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

#### *Feedback from Constituents on ED 70 and ED 71*

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

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<sup>9</sup> As a result, Basis for Conclusions paragraphs from IPSAS 23 that relate to retained IPSAS 23 text have been incorporated.

- BC11. The IPSASB also noted that constituents continued to support that there are different types of revenues in the public sector, and different transactions may warrant separate accounting principles. The IPSASB considered feedback from the CP and ED processes together and acknowledged that, while the exchange/non-exchange distinction is considered difficult to apply in practice for the purposes of classifying and accounting for revenue, the distinction still exists as an underlying economic concept. Put differently, while the IPSASB decided to move away from using exchange/non-exchange as defined terms to classify revenue, it remains an appropriate concept to describe the economic substance of transactions in the public sector.
- BC12. Some ED respondents noted that it was difficult to determine the applicable ED for their revenue transactions, and sought clarity on the interrelation between ED 70 and ED 71, and the application of the proposed standards in practice. Some of this confusion was attributed to the distinction between performance obligations and present obligations, which are in the scope of ED 70 or ED 71, respectively.

#### *Discussion with the IPSASB Consultative Advisory Group (CAG)*

- BC13. The IPSASB consulted the CAG at its December 2020 and June 2021 meetings on significant issues highlighted by respondents. CAG members provided input and advice that helped the IPSASB consider and address issues.

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

- BC14. In light of the responses to ED 70 and ED 71, the IPSASB decided to revisit its decisions on the proposed structure of revenue guidance and how it can better clarify the proposed accounting principles and related disclosure requirements for revenue transactions in the public sector. Key changes include:
- (a) Retaining binding arrangement as a fundamental concept for revenue accounting, which dictates the applicable accounting model (paragraphs BC15–BC17);
  - (b) Presenting accounting guidance for revenue transactions in a single IPSAS, to more clearly communicate the prevalence of revenue types in the public sector and the fundamental concepts for revenue accounting (paragraphs BC18–BC19); and
  - (c) Using a single concept, compliance obligation, for an entity's legally binding obligation arising from a binding arrangement (paragraphs BC20–BC30).

#### *The Concept of a Binding Arrangement*

- BC15. The majority of respondents to ED 70 and ED 71 supported the use and concept of binding arrangements in the public sector. Considering constituent comments, the IPSASB also noted that while revenue without performance obligations and revenue with performance obligations differ in economic substance, the latter is expected to be a very small subset of public sector transactions and the existence of a binding arrangement is of greater importance in revenue accounting. Thus, the IPSASB decided to retain the concept of a binding arrangement as a fundamental concept for revenue accounting.
- BC16. The IPSASB also confirmed that enforceability is an integral component of a binding arrangement, and the specific details within binding arrangements would clearly specify each party's rights and obligations (i.e., what each party is held accountable to satisfy, and how they will be held

accountable). The enforceability of binding arrangements necessitates differences in accounting principles to capture the unique nature and risks of transactions with binding arrangements compared to transactions without binding arrangements. The IPSASB also clarified that enforceability can arise from various mechanisms, as long as the mechanism(s) provide(s) the entity with the ability to enforce the terms of the arrangement and hold the parties accountable for the satisfaction of their obligations, by imposing consequences on parties that do not satisfy their obligations.

BC17. The focus on assessing the ability to enforce a binding arrangement is integral for the overall goal of better public financial management. From the broader public financial management perspective, the purpose and intention of enforceable transactions, such as binding arrangements, is to allow the parties in the arrangement to achieve specific objectives. The ability to enforce these arrangements ensures that an entity is held accountable and is able to hold other engaged parties accountable, thereby facilitating strong public financial management. Appropriate reporting and disclosure of information related to these arrangements enables public sector entities to be transparent to their constituents.

#### One Revenue IPSAS

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

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

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

#### Compliance Obligation

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

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

- (a) Reflected on the similarities and differences between “present obligations” as proposed in ED 71 and “performance obligations” as proposed in ED 70;

- (b) Considered whether the differences warranted different accounting principles for revenue with present obligations compared with revenue with performance obligations; and
- (c) Clarified the proposed guidance to better explain the concepts in a principled manner.

#### *Similarities and Differences*

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

- (a) Arise from transactions with binding arrangements, and thus are legally binding obligations (i.e., enforceable through legal or equivalent means);
- (b) Are described with sufficient specificity in the binding arrangement in order to enable each party in the binding arrangement to hold the other party or parties accountable to satisfy their respective obligations in a specified manner, in compliance with the terms and conditions of that binding arrangement; and
- (c) Are units of account to determine distinct components in a binding arrangement, which are used as mechanisms to recognize and measure revenue as an entity satisfies its obligations in that binding arrangement.

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

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

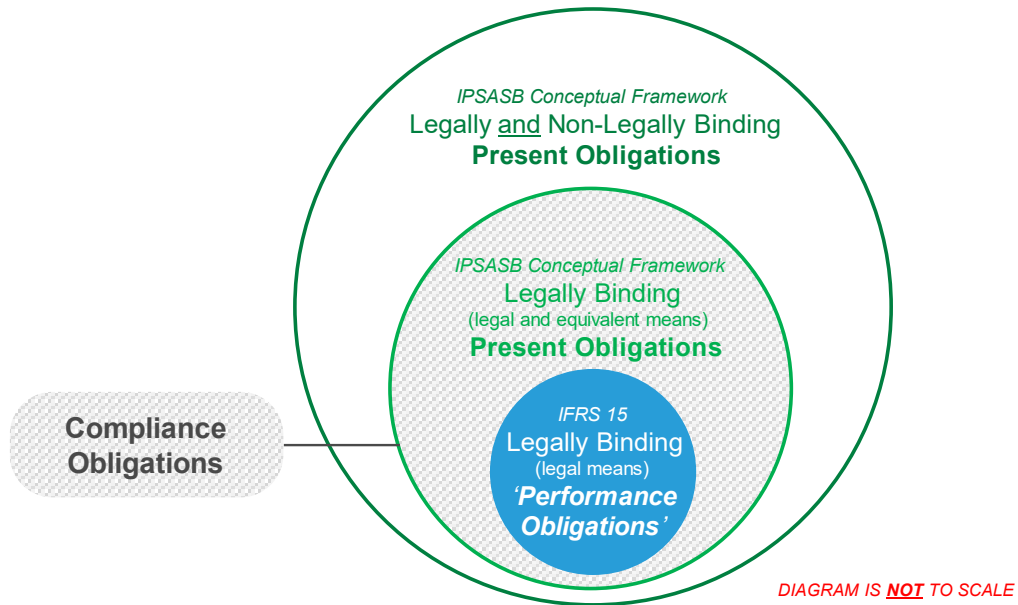
#### *Impact on Accounting Principles*

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



*Presenting Revised Guidance*

- BC26. The IPSASB’s conclusion that the performance obligations in ED 70 are a subset of present obligations in ED 71 that comprise a minority of public sector revenues, and that key accounting principles are consistent for both types of obligations, were contributing factors to its decision to combine revenue guidance into a single IPSAS.
- BC27. When considering how to clarify accounting guidance, the IPSASB noted that the concept of a “present obligation” in the revenue context is narrower than in the Conceptual Framework. A present obligation is a unit of account in revenue accounting, and is a legally binding obligation in a binding arrangement to use resources in compliance with the terms of the binding arrangement. Present obligations in the Conceptual Framework are legally or non-legally binding obligations, and are used more generally to describe an entity’s obligations. A term other than “present obligation” would more clearly describe and define the concept for revenue accounting purposes.
- BC28. Since performance obligations in ED 70 are a subset of present obligations, and both represent the notion of an enforceable promise or requirement arising from a transaction with a binding arrangement, the IPSASB decided to adopt the new term “compliance obligation” to describe all obligations arising from revenue transactions with binding arrangements. This notion of compliance is in relation to compliance with the terms and conditions in the entity’s binding arrangement. This term and concept would encompass performance obligations (as presented in ED 70 and in alignment with IFRS 15, to capture revenues from transactions that transfer distinct goods or services to an external party) and present obligations (as presented in ED 71, and consistent with legally binding present obligations in the Conceptual Framework, to also capture revenues from public sector transactions that do not transfer distinct goods or services to an external party). The following diagram illustrates the relationship between “compliance obligation” and the previously used terms:



- BC29. The IPSASB provided further guidance to highlight any additional considerations for the entity in applying the accounting principles to compliance obligations which require a transfer of specific

distinct goods or services to an external party. Such compliance obligations to transfer goods or services to an external party generally entail a clear discharge of an entity's obligation in the binding arrangement. These additional considerations are intended to help an entity account for the deferral and recognition of revenue to better reflect the nature of such obligations.

- BC30. The IPSASB's decision to have a single concept for obligations arising from revenue transactions with binding arrangements, along with the decision to present revenue guidance in a single IPSAS, also prompted the removal of redundant guidance proposed in the EDs related to scope considerations and measurement of transactions with components under the two proposed revenue standards.

### **Scope (paragraph 3)**

#### *Modification of IFRS 15 for Applicability to the Public Sector*

- BC31. The IPSASB modified the requirements of IFRS 15 to address public sector-specific transactions. This included using the concept of a binding arrangement, which is broader than a contract, in IPSAS 47 to allow for jurisdictions where government and public sector entities cannot enter into legal contracts but do enter into binding arrangements which are in substance the same as contracts.
- BC32. The IPSASB modified enforceability to include mechanisms that are outside the legal system that are equivalent to legal means. This change was made because some binding arrangements in the public sector may arise and become enforceable through exercise of executive authority, legislative authority, cabinet or ministerial directives, and these binding arrangements would not be considered "contracts". The IPSASB also noted that legal or equivalent means is consistent with "legal obligation" as described in Chapter 5 of the Conceptual Framework, and is not a "non-legally binding obligation".
- BC33. Public sector transactions may involve three parties: the resource provider, which provides the consideration; the entity, which receives the consideration and is responsible for using or transferring goods or services; and the third-party beneficiary, which can be an entity, individual or household, receiving those goods or services. While the IASB's educational materials refer to such three-party arrangements, they are not explicitly highlighted in IFRS 15. The third-party beneficiary concept was made more explicit in IPSAS 47, as three-party transactions are expected to be much more prevalent in the public sector.

#### *Modification of IFRS 15 Illustrative Examples*

- BC34. Illustrative Examples are non-authoritative guidance which illustrate accounting principles using general fact patterns prevalent globally amongst public sector entities. The IPSASB adapted the Illustrative Examples from IFRS 15 using the following approach for ED 70 and ED 71:
- (a) Where the underlying concepts illustrated by an example is applicable to the public sector, the example was modified to incorporate realistic fact patterns which could apply to public sector entities such as governments and intergovernmental organizations;
  - (b) Where the underlying concepts in an example only had limited or no applicability to the public sector, the example was removed. This applied to examples involving price concessions granted by suppliers to distributors to preserve the supply chain relationship, additional goods

or services in the telecommunications sector, “slotting fees” paid by a supplier to a retailer, warranties, franchise rights, and costs incurred in a competitive bidding scenario; and

- (c) Developed new public sector-specific examples to illustrate the additional application guidance on scope, three-party arrangements, enforceability, and the additional disclosure requirements.
- BC35. After addressing comments from ED respondents, the IPSASB reviewed the proposed Illustrative Examples and:
- (a) Retained examples that use general case facts to illustrate principles which remain relevant in the Standard’s accounting models and application of complex principles to transactions that are both relevant and prevalent in the public sector. The retained examples were revised as necessary to better reflect the accounting principles in IPSAS 47;
  - (b) Removed examples that did not meet the retention criteria in BC35(a); and
  - (c) Added examples, using general fact patterns, to illustrate the application of accounting principles for capital transfers.
- BC36. The IPSASB acknowledged that while the Illustrative Examples are not authoritative, an entity applying IPSAS 47 may find examples dealing with commercial transactions to be helpful if it is a party to such transactions. While commercial transactions may be relevant (i.e., may occur) in the public sector, the IPSASB expects such situations to be less prevalent (i.e., uncommon and thus with limited applicability) and decided to remove examples of relevant but not prevalent transactions to the public sector. The IPSASB noted that if a public sector entity is a party to commercial transactions, it may refer to IFRS 15 for additional Illustrative Examples of how an entity might apply the requirements of the Standard.

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

- BC37. In the discussion of non-monetary exchanges in paragraph 3(h) of IPSAS 47, the IPSASB replaced the example of non-monetary exchanges of oil between entities in the same line of business to facilitate sales to potential customers used in IFRS 15 with the exchange of electricity, because it is more relevant to the public sector.

#### *Highlighting the Relationship Between IPSAS 47, Revenue, and IPSAS 48, Transfer Expenses*

- BC38. The IPSASB considered clarifying the scope and interaction between IPSAS 47 and IPSAS 48, *Transfer Expenses*, by defining the term “Transfer Revenue” in order to mirror the definition of “Transfer Expense” in IPSAS 48. Specifically, the IPSASB considered defining “Transfer Revenue” as a transaction, other than taxes, in which an entity receives a good, service, or other asset from another entity without directly providing any good, service, or other asset in return.
- BC39. While the IPSASB acknowledged that the definition was accurate and that it would be conceptually sound to highlight the mirroring relationship between transfer revenue and transfer expenses, the IPSASB ultimately decided not to introduce this term as a formal definition for the following reasons:
- (a) A number of members were concerned that introducing a new definition relating to revenue may confuse constituents; and

- (b) Transfer revenue would have been a subset of revenue in IPSAS 47. Separately defining this term when their recognition and measurement would have been the same as other types of revenue seemed to add an unnecessary level of complexity and duplication of guidance.

### *Onerous Contracts*

BC40. The IPSASB considered if IPSAS 47 should include explicit guidance for binding arrangements that become onerous and noted that IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, which was developed based on IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, applies to onerous contracts. While this guidance refers to “contracts”, the IPSASB noted that IPSAS 19 would still be applicable for binding arrangements with compliance obligations that transfer goods or services to another party. Furthermore, binding arrangements with compliance obligations to use resources for goods or services internally would not meet the definition of an onerous contract because there are no exchange of assets or services. Therefore, the IPSASB concluded that the scope exclusion in paragraph 3 of IPSAS 47 and paragraph 1(c) of IPSAS 19 are sufficient, and incorporated a specific reference to IPSAS 19 in paragraph 79.

### *Compulsory Contributions and Levies to Social Security and Other Schemes*

- BC41. There is a variety of different arrangements for funding social security schemes across jurisdictions. Constituents commented that IPSAS 23 did not address the accounting for these funding arrangements. The IPSASB considered the issue in developing IPSAS 42, *Social Benefits*.
- BC42. The IPSASB concluded that such contributions are revenue transactions without binding arrangements, and should be accounted for in accordance with this Standard. The one exception to this is where an entity elects to account for a social benefit scheme using the insurance approach in IPSAS 42. The insurance approach takes into account both cash inflows and cash outflows, and hence contributions to a social benefit scheme accounted for under the insurance approach are not accounted for as revenue under this Standard.
- BC43. In developing IPSAS 42, the IPSASB also noted that some government programs that do not meet the definition of a social benefit in that Standard (for example, healthcare benefits in some jurisdictions) may also involve compulsory contributions or levies. The IPSASB concluded that the same principles of revenue recognition applied to these transactions as applied to contributions for social benefits and to taxation. The IPSASB agreed to extend the requirement for recognizing taxation revenue to cover other compulsory contributions and levies, whether arising from social benefits or other government programs. The amended requirements were incorporated into this Standard.

## **Definitions (paragraphs 4–8)**

### General Alignment with Public Sector Terminology

- BC44. In adapting IFRS 15 for use in the public sector, the IPSASB modified the following terms in IPSAS 47 to better align with terminology used in the public sector:
- (a) All the references to “sell” or “sold” were replaced with the terms “provide” and “provided”, respectively. In addition to general alignment with public sector terminology, this change also accommodates the fact that in three-party revenue arrangements, goods or services are provided, rather than sold, by an entity to a third-party beneficiary;

- (b) “Stand-alone selling price” was replaced with “stand-alone value”;
- (c) “Customary business practices” was replaced with an entity’s “customary practices”;
- (d) “Industry” was replaced with “sector”; and
- (e) Editorial changes were made to the definition of “transaction consideration”.

Other changes in terminology and new definitions were added for public sector-specific reasons. These changes and additions are explained in paragraphs BC45–BC62.

#### Binding Arrangements

- BC45. The IPSASB replaced all references to “contracts” in IFRS 15 with references to the term “binding arrangements”. This change acknowledges that in some jurisdictions, entities may not have the power to enter into legal contracts but nevertheless may have the authority to enter into binding arrangements. The IPSASB agreed that binding arrangements, for the purpose of IPSAS 47, should encompass rights that arise from legislative or executive authority, cabinet or ministerial directives. For clarity, the IPSASB also decided to explicitly specify in the definition that a binding arrangement confers both enforceable rights and enforceable obligations on the parties to the arrangement. To assist with the expanded concept of binding arrangements, Application Guidance was added to IPSAS 47 in paragraphs AG10–AG31. As the concept of a contract may still be applicable in the public sector, the IPSASB specified in the binding arrangement definition that a contract is a type of binding arrangement. The definition of “contract” is in IPSAS 43, *Leases*, which was approved prior to IPSAS 47.
- BC46. Considering constituent comments from ED respondents on the concept and definition of a binding arrangement, the IPSASB:
- (a) Acknowledged that multi-party arrangements, where more than two parties in the arrangement each have their own enforceable rights and enforceable obligations, are common in the public sector. The IPSASB revised the definition of a binding arrangement to better reflect that at least two parties must each have their own respective enforceable rights and enforceable obligations, thereby conferring at least two-way enforceability; and
  - (b) Reconfirmed its decision that a binding arrangement includes both rights and obligations, and each party’s enforceable right and enforceable obligation are interdependent and inseparable.
- BC47. The IPSASB concluded that the use and definition of the term “binding arrangement” in IPSAS 47 is conceptually consistent with existing IPSAS and the difference in wording is intentional for the purposes of IPSAS 47. The definition was retained, with minor wording revisions to clarify the concept and application in IPSAS 47.
- BC48. Since a binding arrangement is, by definition, enforceable, and includes both rights and obligations for the parties, the IPSASB concluded that all binding arrangements will include at least one compliance obligation. In other words, a binding arrangement always includes at least one compliance obligation because the enforceability of binding arrangements provides each party with the ability to enforce obligations agreed upon in that binding arrangement.

### Unenforceable Transactions

- BC49. The IPSASB discussed how to account for transactions that do not arise from a binding arrangement but have an implied requirement for how those resources are to be used (for example, limitations on the use of property taxes). The IPSASB concluded that an implied requirement needed to be enforceable by the resource provider. For example, taxpayers do not normally have enforceable rights, and the implied requirements may give rise to enforceable obligations of the resource recipient.
- BC50. The IPSASB also noted that transactions which are not binding arrangements are not automatically unenforceable. For example, certain fines and taxes are not binding arrangements because they lack two-way enforceability, but these transactions are still enforceable by the authority imposing the fines or taxes.

### Appropriations

- BC51. The IPSASB noted that, in some jurisdictions, a revenue transaction might be made subject to authorization of an appropriation. The IPSASB considered whether such a limitation should affect the recognition of revenue. The IPSASB concluded that the impact of such a limitation would depend on whether the limitation had substance. The IPSASB agreed that where the limitation has substance, the entity has no enforceable claim and should not recognize an asset prior to the appropriation being authorized. The IPSASB also agreed to include guidance on determining whether the limitation has substance.

### Compliance Obligation

- BC52. As outlined in BC26–BC28, the IPSASB decided to adopt the new term “compliance obligation” to describe all obligations arising from revenue transactions with binding arrangements. The definition of “compliance obligation” reflects that an entity’s obligation in a binding arrangement requires the entity to either use resources internally for a distinct good or service or transfer a distinct good or service to an external party (purchaser or third-party beneficiary). This definition is intended to encapsulate the concept as presented in IFRS 15 (and proposed in ED 70 as “performance obligations”), but revised to better capture public sector transactions arising from binding arrangements where an entity does not transfer distinct goods or services to an external party (proposed in ED 71 as “present obligations”).

### Binding Arrangement Asset and Binding Arrangement Liability

- BC53. As a consequence of replacing all references to “contract” with references to “binding arrangement”, the IPSASB also replaced the terms “contract asset” and “contract liability” with “binding arrangement asset” and “binding arrangement liability”, respectively.

### Resource Provider

- BC54. To more clearly describe the other party in a revenue transaction, the IPSASB introduced the term “resource provider” as part of its decision to present guidance for all public sector revenue transactions in a single standard. This party provides a resource, which encompasses various goods, services, and assets, including in the form of transfers, to the entity applying IPSAS 47. A resource provider may or may not be the party receiving goods or services from the reporting entity.

BC55. This Standard refers to the party providing resources in a revenue transaction as the “resource provider”, while IPSAS 48 refers to the party providing resources in a transfer expense transaction as the “transfer provider”. The IPSASB considered whether the same term should be used in both Standards and decided that because the scope of IPSAS 47 is broader and encompasses revenue from transfers and other transactions, a more generic term (resource provider) should be used for revenue.

#### Purchaser and Third-Party Beneficiary

BC56. The IPSASB replaced the term “customer” with “purchaser”, because the use of the term “purchaser” is widespread in IPSAS literature and is a broader term more suited to transactions involving the transfer of goods or services to either the purchaser or agreed third-party beneficiary. The IPSASB revised the definition of a “purchaser” to clarify that it is a resource provider that receives goods or services from the entity. As the term “customer” may still be applicable in certain circumstances in the public sector, the IPSASB also retained the definition of a customer but clarified that a customer is a type of purchaser.

BC57. The IPSASB added the term “third-party beneficiary” following the term “purchaser”, where appropriate, to describe the transfer of goods or services in three-party arrangements, which are common in the public sector. The term “third-party beneficiary” was defined so that its meaning can be consistently applied to IPSAS 47 as well as IPSAS 48.

#### Revenue and Customer

BC58. The IASB’s definition of revenue refers to income arising in the course of an entity’s ordinary activities, and income encompasses both revenues and gains. The IASB’s definition of “customer” also refers to obtaining goods or services that are an output of the entity’s ordinary activities. To be consistent with IPSAS 1, the IPSASB decided not to adopt the IASB’s definition of revenue. As a result, IPSAS 47 uses the definition of “revenue” in IPSAS 1 and does not refer to “income arising in the course of an entity’s ordinary activities”.

BC59. As the IASB’s definition of “revenue”, which refers to “ordinary activities”, was not adopted, the IPSASB replaced the references to “ordinary activities” in the definition of “customer” with references to “activities” to ensure consistency with the Conceptual Framework. The current IPSAS literature does not make a distinction between ordinary activities and activities outside the ordinary course of operations, primarily because of the multi-functional nature of many public sector entities.

BC60. The IPSASB decided to replace the term “commercial substance” with “economic substance” which encompasses commercial substance. The public sector entities which apply IPSAS generally do not have commercial objectives. Therefore, the term “commercial substance” was considered to be inappropriate. As a result of this change, the IPSASB added application guidance on economic substance in paragraphs AG32–AG34.

#### Combining Binding Arrangements

BC61. When considering the criteria for when an entity shall combine two or more binding arrangements, the IPSASB considered replacing the term “commercial objective”, with “economic objective”, because the term “commercial objective” refers to the objective to make a profit, whereas the primary objective of most public sector entities is to deliver services to the public. However, the IPSASB decided to simply replace the term “commercial objective” with “objective” because the

term “economic objective” could have a different connotation for the public sector than the objective of delivering services to the public.

#### Economic Benefits and Service Potential from Distinct Goods or Services

BC62. According to the Conceptual Framework, a resource provides benefits in the form of service potential or the capability to generate economic benefits. The IPSASB acknowledged that the explanation of a resource should include both the terms “service potential” and “economic benefits”. This approach acknowledges that the primary objective of most public sector entities is to deliver services, but also that public sector entities may carry out activities with the sole objective of generating net cash inflows. Therefore, the IPSASB replaced the term “benefits” with “economic benefits or service potential” in IPSAS 47.

#### Retained Terminology and Definitions

BC63. The IPSASB considered whether any modification was required to the following terms and definitions but ultimately decided to retain them without modification, as there was no public sector-specific reason to modify them:

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

#### **Identifying the Revenue Transaction (paragraphs 9–16)**

BC64. In response to constituent comments in response to the EDs, outlined in paragraphs BC14–BC17, the IPSASB restructured the guidance in IPSAS 47 to require an entity to consider up front whether the transaction is without or with a binding arrangement. The enforceability of a binding arrangement necessitates different accounting principles in order to capture the nature and risks of such transactions (in comparison with transactions without binding arrangements). The IPSASB also added Implementation Guidance to support the accounting principles presented in the authoritative text, as this is an important and complex area of the revenue guidance.

#### **Revenue from Transactions without Binding Arrangements (paragraphs 17–55)**

BC65. The definition of a binding arrangement specifically requires each party in the arrangement to have both an enforceable right and enforceable obligation. If one of these components is not present in the arrangement, then it is not a binding arrangement. This means that various transactions are to be accounted for as revenue from transactions without binding arrangements, where the entity has:

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

BC66. The IPSASB has included more explicit guidance to prompt an entity to consider whether any of its rights or obligations in the transaction may meet the definition of an asset or liability, respectively,



in accordance with the Conceptual Framework. This additional guidance is consistent with existing accounting principles, and is included to better balance the accounting model for revenue without binding arrangements and overall ensures that the two accounting models are comprehensive and stand-alone for users of this Standard.

- BC67. This Standard also does not establish different recognition requirements in respect of revenue received or receivable as monetary assets and revenue received or receivable as non-monetary assets. The IPSASB is of the view that, while non-monetary assets raise additional measurement concerns, they do not, of themselves, justify a different recognition point.

### *Entity Bank Accounts*

- BC68. This Standard assumes the requirement that all money deposited in a bank account of an entity satisfies the definition of an asset and meets the criteria for recognition of an asset of the entity. The IPSASB established this principle in paragraphs 1.2.6 and 1.2.7 of the Cash Basis IPSAS, *Financial Reporting under the Cash Basis of Accounting*. The Standard also requires the recognition of a liability in respect of any amount the entity has collected and deposited in its own bank account while acting as an agent of another entity.

### *Measurement of Assets and Liabilities*

- BC69. This Standard requires assets acquired in revenue transactions to be initially measured at their transaction consideration as at the acquisition date. The IPSASB was of the view that this is appropriate to reflect the substance of the transaction and its consequences for the entity. The cost of acquisition is usually a measure of the fair value of the asset acquired. However, the consideration provided for the acquisition of an asset may not be equal to the fair value of the asset acquired. Transaction consideration most faithfully represents the actual value the entity accrues as a result of the transaction. Initial measurement of non-monetary assets acquired at their transaction consideration, which is the current value for non-monetary assets, is consistent with the approach taken in IPSAS 16, *Investment Property* for assets acquired at no cost or for a nominal cost. The IPSASB made consequential amendments to IPSAS 12, *Inventories*, and IPSAS 16 to fully align those IPSAS with the requirements of this Standard.
- BC70. As part of the development of IPSAS 46, *Measurement*, the IPSASB decided that, in the case of non-monetary assets in the scope of IPSAS 45, *Property, Plant, and Equipment*, held for its operational capacity, deemed cost should be clarified to include current operational value. The IPSASB agreed to require the use of current operational value on initial measurement where the transaction price does not faithfully reflect the substance of the transaction for property, plant, and equipment held for their operational capacity. While fair value continues to faithfully represent the value to the public sector entity of property, plant, and equipment held for its financial capacity, current operational value faithfully represents the value of property, plant, and equipment held for its operational capacity.
- BC71. This Standard requires that where an entity recognizes a liability in respect of an inflow of resources, that liability will initially be measured as the best estimate of the amount required to settle the obligation at the reporting date. This measurement basis is consistent with IPSAS 19. The IPSASB was also cognizant of the amendments proposed for IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* (to be retitled *Non-financial Liabilities*), on which IPSAS 19 is based, and will monitor, and in due course consider, its response to any developments in IAS 37.

*Taxable Event*

BC72. This Standard defines a taxable event as the past event that the government, legislature, or other authority has determined to be subject to taxation. The Standard notes that this is the earliest possible time to recognize assets and revenue arising from a taxation transaction, and is the point at which the past event that gives rise to control of the asset occurs. The IPSASB considered an alternative view that an entity only gains control of resources arising from taxation when those resources are received. While recognizing that there can be difficulties in reliably measuring certain taxation streams, the IPSASB rejected such an approach as inappropriate for the accrual basis of financial reporting.

*Advance Receipts of Taxes*

BC73. This Standard requires an entity that receives resources in advance of the taxable event, or of an arrangement becoming enforceable, to recognize an asset and a liability of an equivalent amount. This is consistent with the principles of accrual accounting to recognize revenue in the period in which the underlying event that gives rise to the revenue occurs. In the event that the taxable event does not occur, or the arrangement does not become enforceable, the entity may need to return part or all of the resources. One common view is that, where resources are received in advance of the taxable event, an entity should only recognize a liability where it considers it probable that there will be a subsequent transfer of resources. The IPSASB supported the view that revenue should not be recognized until the taxable event occurs, and extends the principle to transfers, so that where resources are received prior to an arrangement becoming binding, the entity recognizes an asset and a liability for the advance receipt.

*Expenses Paid Through the Tax System and Tax Expenditures*

BC74. This Standard requires that expenses paid through the tax system be distinguished from tax expenditures, and that the former should be recognized separately from revenue in the general purpose financial statements. This is because, as defined in this Standard, expenses paid through the tax system satisfy the definition of expenses and, according to the principles established in IPSAS 1, offsetting of expenses against revenue is generally not permitted. As defined in this Standard, tax expenditures are one of the many factors used to determine the amount of tax revenue received or receivable and are not recognized separately from revenue. The IPSASB concluded that this treatment was consistent with the principles established in this Standard.

BC75. The treatment prescribed in this Standard for expenses paid through the tax system is different to that currently prescribed by the Organization for Economic Co-operation and Development (OECD) for member country statistical returns. The OECD currently requires tax revenue to be shown net of expenses paid through the tax system (or non-wastable tax credits) to the extent that an individual taxpayer's liability for tax is reduced to zero, payments to a taxpayer are shown as expenses.<sup>10</sup> The IPSASB noted that the current OECD treatment does not conform to the conceptual principles underpinning the IPSASs and the IPSAS 1 requirement not to offset items of revenue and expense.

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<sup>10</sup> OECD, Revenue Statistics (Paris: OECD, 2000): p. 267, §20-21.

### *The Tax Gap*

- BC76. For some taxes, government entities will be aware that the amount it is entitled to collect under the tax law is higher than the amount that will be collected, but will not be able to reliably measure the amount of this difference. The amount collected is lower due to the underground economy (or black market), fraud, evasion, non-compliance with the tax law, and error. The difference between what is legally due under the law and what the government will be able to collect is referred to as the tax gap. Amounts previously included in tax revenue that are determined as not collectible do not constitute part of the tax gap.
- BC77. The IPSASB concluded that the tax gap does not meet the definition of an asset, as it is not expected that resources will flow to the government in respect of these amounts. Consequently, assets, liabilities, revenue, or expenses will not be recognized in respect to the tax gap.

### **Revenue from Transactions with Binding Arrangements (paragraphs 56–161)**

#### *Accounting for the Binding Arrangement*

- BC78. The IPSASB noted that the title and structure of Step 1 of the five-step model proposed in ED 70, previously titled “Identifying the Binding Arrangement”, caused confusion for some constituents. The criteria in paragraph 56 are not intended to identify whether an arrangement is a binding arrangement; an entity should identify a binding arrangement by assessing whether an arrangement meets the definition of a binding arrangement. Rather, an entity is to consider the criteria in paragraph 56 when determining if revenue from a binding arrangement should be accounted for using the five-step accounting model in IPSAS 47. The IPSASB decided to reorder the authoritative guidance on binding arrangements and clarify when the five-step model should be considered in accounting for revenue transactions arising from binding arrangements.

#### Probability of Collection of Consideration to which an Entity is Entitled (Paragraph 56(e))

- BC79. Paragraph 56(e) is part of the criteria that must be met before an entity can apply the five-step accounting model in IPSAS 47. Paragraph 56(e) requires the collection of consideration to which an entity is entitled to be probable.
- BC80. One of the underlying assumptions in IFRS 15 is that collectability of consideration from customers is likely in the private sector because:
- (a) Entities generally only enter into contracts in which it is probable that the entity will collect the amount to which it is entitled; and
  - (b) Unless there are significant penalties for exiting a contract, most entities would not continue to be in a contract with a customer in which there was significant credit risk associated with that customer without adequate economic protection to ensure that it would collect the consideration.
- BC81. The IPSASB acknowledged that the probability criterion for certain binding arrangements with resource providers is an issue for the public sector in some jurisdictions. Some public sector entities are required to enter into binding arrangements to provide certain goods or services (such as water and electricity) to all citizens in accordance with their legislative mandate, regardless of the resource provider’s ability or intention to pay. As a result, public sector entities may enter into some binding arrangements where collectability of the consideration is not probable.

- BC82. When the collection of consideration is not probable, (which can occur when an entity is compelled to deliver a good or service), application of paragraph 56(e) without modification could result in revenue not being recognized until the consideration has been collected and the conditions in paragraph 58 of IPSAS 47 are met.
- BC83. The IPSASB decided to retain paragraph 56(e) because:
- (a) Transactions where the collection of consideration is not probable do not meet the definitions of revenue in paragraph 4 of IPSAS 47, paragraph 7 of IPSAS 1, and paragraph 5.29 of the Conceptual Framework; and
  - (b) The probability criterion aligns with IFRS 15 requirements and prevents entities from recognizing revenue and large impairment losses at the same time.
- BC84. The IPSASB acknowledged that arrangements into which an entity is compelled to enter, where the collectability of the consideration is in question, could be prevalent and material in certain jurisdictions. The IPSASB noted that there is information value in disclosing in the notes to the financial statements the amounts invoiced for such binding arrangements where collection of consideration is not probable or only considered probable after accepting a price concession as described in paragraph AG37 (see paragraph BC110).
- BC85. To assist with the application of paragraph 56(e), the IPSASB added paragraph AG37, which states that when an entity is providing goods or services and accepts a lower amount of consideration, the acceptance of the lower amount of consideration is generally considered an implicit price concession. This guidance is based on the concepts illustrated in Illustrative Examples 2 and 3 of IFRS 15, and the IPSASB decided that it would be appropriate to elevate the concept from these examples due to the potential prevalence of transactions with collections risk in the public sector. Once an entity has concluded that it has provided a price concession, the binding arrangement with the lowered transaction consideration may meet the collectability criterion in paragraph 56(e) and the entity would apply the five-step accounting model to the binding arrangement. The IPSASB also enhanced paragraph AG37 to address comments from ED respondents on how an entity should consider implicit price concessions in the assessment of collectability, and use its best estimate of risks associated with the resource provider at the inception of the binding arrangement.

#### Recognition of Consideration Received as Revenue when the Criteria in Paragraph 56 are not Met (Amendment of Paragraph 58)

- BC86. In IFRS 15, if a transaction does not meet all of the criteria for revenue recognition using the five-step accounting model and the entity receives consideration from a customer, the consideration is recognized as revenue when either:
- (a) The entity has no remaining obligations to transfer goods or services to the customer and all, or substantially all, of the consideration promised by the customer has been received by the entity and is non-refundable; or
  - (b) The contract has been terminated and the consideration received from the customer is non-refundable.
- BC87. In the public sector, because an entity may be compelled to continue to provide goods or services to parties who cannot pay for these goods or services, the IPSASB was concerned that the application of paragraph 15 of IFRS 15 may lead to situations where revenue is never recognized,

even if an entity has collected a portion of the promised consideration and the amounts collected are non-refundable. To address this concern, the IPSASB clarified in paragraph 58(a) of IPSAS 47 that an entity shall recognize the consideration received as revenue when the entity has fully satisfied the compliance obligation related to the consideration received, and the consideration received is non-refundable.

#### Overall Impact from the Application of Paragraphs 56(e), 58 and AG37

BC88. The IPSASB noted that the application of paragraphs 56(e), 58 and AG37 would lead to the following possible outcomes, and considered the accounting and disclosure implications of the outcomes when the requirements of this Standard are applied:

- (a) Criterion 56(e) is met and there are no collectability issues – In this scenario, the binding arrangement will be accounted for using the five-step accounting model and no specific disclosures regarding compelled transactions are required. As required by paragraph 57, if facts and circumstances have changed significantly since the initial assessment, the entity is required to reassess if the binding arrangement continues to meet all the criteria in paragraph 56.
- (b) Criterion 56(e) is met, but only after the transaction consideration has been reduced for the implicit price concession as noted in paragraph AG37 – In this scenario, the binding arrangement will be accounted for using the five-step accounting model but at the reduced transaction consideration. Specific disclosures regarding compelled transactions will be required by paragraph 171 (see paragraph BC110 below). Similar to the scenario in paragraph BC88(a), if facts and circumstances have changed significantly since the initial assessment, the entity is required by paragraph 57 to reassess if the binding arrangement continues to meet all the criteria in paragraph 56.
- (c) Criterion 56(e) is not met, and the entity has collected a portion of the consideration – This scenario can arise when there is not enough information to formulate an expectation of the amounts to be collected or when there is no discernable pattern of collection based on past history. In this scenario, paragraph 58 requires the entity to continue to reassess whether the binding arrangement meets all the criteria in paragraph 56. Any consideration received is subject to the revenue recognition criteria in paragraphs 58 and 86. Specific disclosures regarding compelled transactions will be required by paragraph 171.
- (d) Criterion 56(e) is not met, and no consideration has been collected – In this scenario, paragraph 58 requires the entity to continue to reassess whether the binding arrangement meets all the criteria in paragraph 56. Specific disclosures regarding compelled transactions will be required by paragraph 171.

Based on the above, the IPSASB was satisfied that paragraphs 58, 171 and AG37 address the concerns discussed in paragraphs BC84, BC87 and BC110.

#### *Breach of the Terms and Conditions of a Binding Arrangement*

BC89. The IPSASB considered the accounting consequences arising from the breach of the terms and conditions of a binding arrangement. The IPSASB concluded that the guidance in IPSAS 3, *Accounting Policies, Changes in Accounting Estimates, and Errors*, should be considered to determine whether the breach resulted in an error as defined in IPSAS 3. Where the circumstances

of the breach are such that the guidance in IPSAS 3 is not applicable, guidance included in this Standard should be applied.

### *Identifying Compliance Obligations in a Binding Arrangement*

BC90. Further to its discussions outlined in paragraphs BC20–BC29, the IPSASB confirmed that a binding arrangement has at least one compliance obligation, and each compliance obligation is a unit of account to determine a distinct component within the binding arrangement and is a mechanism for the recognition and measurement of revenue. Since an entity's binding arrangement may have multiple compliance obligations, the IPSASB decided to revise existing guidance to help entities identify and account for each of its obligations in a binding arrangement separately, in accordance with the nature of each distinct obligation, and added Implementation Guidance to support the principles presented in the authoritative text. The IPSASB also confirmed that principles in this Standard are consistent with the Unit of Account guidance proposed in Chapter 5, *Elements in Financial Statements* of the *Conceptual Framework*.

### *Existence and Recognition of a Liability*

BC91. Some respondents to ED 71 provided comments related to the existence of a liability in a binding arrangement: for example, what gives rise to a liability in a binding arrangement, whether and when a liability is recognized, and if that liability only arises when there is a return (i.e., repayment) obligation, as previously presented in IPSAS 23. The IPSASB considered these comments in conjunction with the guidance proposed in Chapter 5, *Elements in Financial Statements* of the *Conceptual Framework*.

BC92. Through its discussions, the IPSASB confirmed that the enforceability of a binding arrangement is a key element which may give rise to a liability (specifically, deferred revenue) for the entity, to the extent that the terms of the arrangement are not yet satisfied. An entity recognizes a liability (deferred revenue) in its transaction with a binding arrangement when it has received resources prior to satisfying its compliance obligation(s), and the resource provider can enforce the terms of the binding arrangement, specifically, to enforce its right and require the entity to transfer resources to another party if it does not satisfy its compliance obligation(s). If the criterion in paragraph 82(b) is not met, it may indicate that the arrangement is not a binding arrangement and the entity should reconsider its analysis.

BC93. The IPSASB also confirmed that, after initial recognition, the liability (deferred revenue) is reduced over time as (or fully extinguished at a point in time when) the entity satisfies the compliance obligation(s) associated with resources previously received and earns revenue.

### *Recognition of Revenue Transactions with Binding Arrangements*

BC94. The IPSASB confirmed that for revenue transactions with binding arrangements, there is no initial recognition when no party has started to satisfy its obligations under the binding arrangement, unless the binding arrangement is onerous, as the combined right and obligation constitute a single asset or liability in the statement of financial position. The accounting begins when the binding arrangement is at least partially satisfied (i.e., at least one party begins to satisfy one or more of its obligations).

BC95. In ED 71, the IPSASB proposed that the present obligations in enforceable transactions would either be a specified activity, or a requirement to incur eligible expenditure. Neither a specified

activity nor eligible expenditure requires the entity to transfer a good or service to either the transfer provider or a third-party beneficiary. The entity would recognize an asset and a liability when it had control of, or right to, the resource transferred and the revenue would be recognized (and the liability decreased) when (or as) the present obligation was satisfied.

- BC96. Some respondents to ED 71 did not agree that specified activities and eligible expenditures were present obligations and gave rise to liabilities as defined in the Conceptual Framework. Upon reflection, the IPSASB acknowledged that the intention was not that the specified activities or eligible expenditures in and of themselves give rise to a present [compliance] obligation, but that they are an entity's actions or spending to satisfy a specific promise it agreed to by willingly entering into a binding arrangement. Specified activities and eligible expenditures are examples of ways in which an entity may satisfy its obligations in a binding arrangement in accordance with the requirements in that binding arrangement, thereby informing the recognition of earned revenue. An entity should apply the guidance in paragraphs 98–104 of the accounting model for binding arrangements to determine which method is appropriate for measuring its progress towards complete satisfaction of its compliance obligation. The IPSASB also added Implementation Guidance to support the principles presented in the authoritative text.

#### *Determining the Transaction Consideration*

- BC97. In responding to constituent's concerns relating to the fair value measurement of receivables where the amount collectible is uncertain, the IPSASB incorporated a constraint requiring measurement of revenue and the associated receivable only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur.
- BC98. Constituents noted that there are a number of revenue transactions within the scope of IPSAS 47 that are difficult to measure at fair value because of the uncertainty in timing and amount of cash flows. In general, this uncertainty is associated with long dated transactions where the amounts will be determined at a later date. For example, the time taken after a death (the tax point) to identify all assets liable to an inheritance tax can be considerable where the deceased's estate is complex. As a result, the amount of inheritance tax to which the tax authority is entitled is uncertain at the reporting date, even though there is certainty in collection.
- BC99. The IPSASB agreed these transactions presented measurement challenges. Incorporating a constraint limiting measurement to when it is highly probable that a significant reversal in the amount of revenue recognized will not occur satisfied the IPSASB's objectives by limiting the onerous task of estimating uncertain future cash flows until they become certain, which addressed concerns raised by constituents.

#### *Allocating the Transaction Consideration to Compliance Obligations*

- BC100. IFRS 15 states that an entity should allocate the transaction price (consideration) to all performance obligations in proportion to the stand-alone selling prices of the goods or services. The best evidence of a stand-alone selling price is the observable price of a good or service when the entity provides that good or service separately in similar circumstances and to similar customers. If a stand-alone selling price is not directly observable, an entity shall estimate the stand-alone selling price using either the:

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

BC101. The IPSASB retained the methods of determining a stand-alone value in IPSAS 47, as they were appropriate for the transactions that would be covered in the Standard and added Implementation Guidance to provide additional guidance on application in the public sector. However, the IPSASB replaced the term “expected cost plus a margin approach”, with the term “expected cost approach”, because certain goods or services are purchased or produced by public sector entities for no charge or for a nominal charge (“cost recovery” or “non-commercial basis”). The IPSASB noted that the expected cost approach is likely more relevant in the public sector for non-exchange-type transactions, whereas the adjusted market assessment approach is likely more relevant for exchange-type transactions.

BC102. These methods are used to estimate the stand-alone value in order to allocate the transaction consideration to each compliance obligation.

#### *Considering Changes in an Entity’s Revenue Arrangement*

BC103. Although an entity has the ability to enforce its binding arrangement, a change in internal or external factors, such as the entity’s choice to partially or fully exercise its ability to enforce, may have accounting implications. These factors may vary based on the relationship with the other party or parties in the binding arrangement, jurisdictional considerations, specific circumstances subsequent to initially entering into the binding arrangement, or other considerations.

BC104. The IPSASB highlighted the importance of appropriately assessing the implications of changes in internal and external factors from a public financial management perspective. Appropriately reporting and disclosing information related to these arrangements enables public sector entities to be transparent to its constituents. Changes that do not impact the economic substance of the arrangement (i.e., whether the entity has a binding arrangement) would inform the subsequent remeasurement of any receivables or binding arrangement assets. This assessment requires professional judgment and consideration of all elements of the transaction in order to determine whether and how factors impact subsequent measurement. The IPSASB also added Implementation Guidance to support the principles presented in the authoritative text.

#### *Subsequent Measurement of Non-Contractual Receivables*

BC105. Receivables arising from contractual agreements would be within the scope of the financial instrument standards. However, it is possible for receivables to arise from other revenue arrangements (specifically, revenue from binding arrangements that are not contracts, or arrangements that are not binding arrangements), which would fall outside the scope of IPSAS 41, *Financial Instruments*. To address the lack of guidance for subsequent measurement of these



receivables, the IPSASB proposed guidance in ED 70 and ED 71 that an entity should initially measure such receivables at the transaction consideration, as required by paragraphs 57–60 and AG115–AG117 of IPSAS 41.

- BC106. While the majority of respondents to ED 70 and ED 71 agreed with the proposed measurement of receivables, some respondents noted that the application of IPSAS 41 to subsequently measure non-contractual receivables was unclear and potentially difficult in practice. The IPSASB acknowledged that while a non-contractual receivable would not strictly meet the definition of a financial asset, the substance and risks are consistent with those of contractual receivables, and these receivables should be accounted for with a consistent set of principles. The IPSASB reaffirmed that consistency in accounting for transactions with the same substance is necessary from a stronger public financial management perspective, and noted that constituents did not challenge the IPSASB's conclusion that there are no public sector-specific reasons which warrant a different accounting treatment for subsequent measurement of non-contractual receivables compared to contractual receivables. The IPSASB also reaffirmed that, as previously expressed by CP respondents, these receivables are generally expected to be classified and measured at amortized cost, as the entity's management model is likely to hold financial assets to collect cash flows (consideration owed in the revenue arrangement) and not to sell financial assets, and the cash flows are solely payments of the principal and any interest outstanding.
- BC107. A few constituents also requested a simplified approach or practical expedient for non-contractual receivables, to address potential difficulties in applying IPSAS 41 in practice. The IPSASB acknowledged that the availability of certain information may pose some difficulties in applying amortized cost which may not be sufficiently eased by the use of the simplified approach for receivables in paragraphs 87-89 of IPSAS 41. However, non-contractual receivables, by nature of the revenue arrangements from which they arise, are typically held to collect expected cash flows related to the revenue transaction (rather than to sell and trade), and have shorter maturity periods (i.e., when consideration becomes due from the resource provider), similar to short-term receivables, and the required estimates would not span a long uncertain time period. Consideration of the time value of money and expected credit losses are necessary to appropriately reflect the economic substance of both contractual and non-contractual receivables. The IPSASB concluded that another simplified approach or practical expedient would not be appropriate, as an inconsistent application of accounting principles for transactions of the same substance and risks would not reflect the economic substance of these transactions.
- BC108. Based on its analysis, the IPSASB added Implementation Guidance to support the principles presented in the authoritative text, and address constituent comments and clarify how IPSAS 41 principles can be applied by analogy to subsequently measure non-contractual receivables.

## **Presentation (paragraphs 162–193)**

### *Approach to Disclosure Requirements*

- BC109. The IPSASB noted that the objective of the disclosure requirements is to provide information which enables users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows. As all of the concepts from IFRS 15 on recognition and measurement of revenue were retained in ED 70, the IPSASB decided that there was no public sector-specific reason to remove any of the disclosure requirements from IFRS 15, and were also incorporated

into ED 71 for consistent disclosure of revenues from binding arrangements with present obligations. The IPSASB acknowledged that the retention of all disclosure requirements from IFRS 15 will result in significantly more requirements than required in the existing IPSAS 23.

- BC110. In response to the concerns noted in paragraph BC84 regarding the potential loss of information on transactions where an entity is compelled to enter into a transaction by legislation or other governmental policy decisions, and where the collection of consideration is not probable or only assessed as probable after accepting a price concession as noted in paragraph AG37, the IPSASB decided to require disclosure of the information (in IPSAS 47 as paragraph 171). The IPSASB noted that these additional disclosures will provide users of the financial statements with details on why an entity was compelled to enter into such transactions, as well as the level of goods or services that were provided by the entity in such transactions for which revenue was not recognized.
- BC111. As part of the exposure drafts, the IPSASB requested constituent responses on whether they agreed with the inclusion of disclosure requirements aligned with IFRS 15, and a public sector-specific disclosure requirement for transactions which an entity is compelled to enter into by legislation or other governmental policy decisions.
- BC112. The majority of respondents to ED 70 and ED 71 generally agreed with the proposed disclosures and the assertion that there was no public sector-specific reason to deviate from IFRS 15 alignment for transactions with the same substance. At the same time, the IPSASB acknowledged feedback from respondents about the volume of disclosures in the two EDs, and decided to take a principle-based approach in reassessing disclosure requirements, focusing on the nature of the transactions and their risks. With this approach in mind, the IPSASB noted that its decisions since the issuance of ED 70 and ED 71, in particular to present revenue guidance in a single standard with a revised order, partially address constituent comments as the overall volume of disclosures has been reduced and has resulted in a more succinct and clear set of disclosures.
- BC113. The IPSASB noted that the key purpose of disclosures, as presented in the IPSASB's Conceptual Framework, is to provide financial information that supports accountability and is useful for decision-making purposes. In the context of revenue, an entity's disclosures should provide information that is useful in understanding the nature, amount, timing, and uncertainty of the entity's revenue for material revenue transactions, and disclosure requirements should prompt entities to disclose (or consider disclosing) such information about its revenue transactions. This means that, similar to other IPSAS, not all disclosure requirements in IPSAS 47 may be applicable for an entity in its preparation of financial statement note disclosures. In practice, it is likely that fewer than the full range of possible disclosures may be made by an entity.
- BC114. Furthermore, under a principle-based approach, disclosures should align with the accounting principles set by the IPSASB within the respective accounting models.
- (a) Transactions arising without binding arrangements are expected to comprise a majority of public sector revenues. IPSAS 23 disclosures (all brought into ED 71) remain relevant, useful, and appropriate for public sector revenues arising without binding arrangements; and
  - (b) Transactions arising with binding arrangements are accounted for under the same model because the enforceability of binding arrangements drives the accounting principles to capture the substance and risks of revenue with binding arrangements. To maintain a principle-based approach, all transactions accounted for under the binding arrangement model should be

subject to the same set of disclosure requirements. The proposed disclosures, based on IFRS 15 and adapted for the public sector, are consistent with the concepts and principles in the binding arrangement accounting model that may be applied to public sector revenue transactions with binding arrangements. Thus, they remain relevant, useful, and appropriate for public sector revenue arising with binding arrangements.

BC115. Based on its analysis, the IPSASB decided to retain the disclosures previously proposed in ED 70 and ED 71, as they meet the disclosure objective and remain appropriate and consistent with the principles for the respective accounting models. An entity may apply all disclosure requirements if they are relevant for any specific transaction, but need not apply any requirements that are not relevant. This is consistent with the application of the accounting models themselves, where an entity may apply the principles and guidance in each accounting model for any revenue transaction, but need not apply those that are not relevant for a specific transaction. A public sector entity will need to consider and determine which disclosure requirements apply to their revenue transactions.

BC116. The IPSASB acknowledged that a few respondents requested specific additional disclosures and highlighted that IPSAS disclosure requirements do not prohibit entities from disclosing any information not formally required in any IPSAS. An entity can choose to provide additional disclosures at its own discretion, for example, if it deems the information would meet the overall objective of disclosure requirements and would provide relevant, useful, and appropriate information for decision-making purposes.

BC117. The IPSASB noted that some entities which provide goods, services, or other assets to third-party beneficiaries would like to disclose information in their financial statements regarding their programs. As a result, the IPSASB decided to revise paragraph AG207, which provides suggestions for the categories used to disaggregate revenue disclosures, to include a category for revenue earned from the provision of goods or services to third-party beneficiaries.

## **Application Guidance (paragraphs AG1–AG207)**

### *Scope Exclusions*

BC118. This Standard identifies examples of some types of documentation that may evidence contributions from owners in the public sector (paragraph AG7). Many public sector entities receive inflows of resources from entities that control them, own them, or are members of them. In certain circumstances, the inflow of resources will be designated as a contribution from owners. Notwithstanding the documentation that evidences the form of the inflow of resources or its designation by a controlling entity, this Standard reflects the view that for an inflow of resources to be classified as a contribution from owners, the substance of the transaction must be consistent with that classification.

### *Enforceability*

#### Assessment of Enforceability

BC119. Some respondents to ED 70 and ED 71 noted that the accounting guidance mentioned several mechanisms or factors of enforceability, but were unclear on whether certain factors are considered more demonstrative than others. The IPSASB considered these comments and debated whether the presence or absence of specific factors, such as past history of enforceability, demonstrates

the enforceability of a binding arrangement. The IPSASB concluded that the impact of specific factors on the assessment of enforceability will be specific to each jurisdiction and the respective binding arrangement. In other words, the principle related to enforceability of a binding arrangement remains appropriate but application of this principle in practice may vary depending on the relevant mechanisms for the entity.

BC120. The IPSASB also confirmed that the assessment of enforceability is based on the ability to enforce. This assessment is to be completed when the entity first enters into the arrangement and when a significant change in external or internal factors indicates that there may be a change in the enforceability of that binding arrangement (i.e., a change in the substance of the arrangement).

BC121. Based on these discussions, the IPSASB decided to revise guidance to emphasize that an entity should assess all relevant factors at the transaction date to determine whether the parties in the arrangement have the ability to enforce the rights and obligations in the arrangement. Judgment is required to determine which factors of enforceability are more demonstrative in the respective jurisdiction and binding arrangement. The IPSASB decided to provide additional authoritative guidance on the concept of enforceability in a binding arrangement.

#### Enforceability through Equivalent Means

BC122. The IPSASB noted that some binding arrangements in the public sector are enforceable not by legal means but by equivalent means (i.e., “like legal”) through other enforcement mechanisms. Equivalent means of enforceability are legally binding, as described in the Conceptual Framework, and are intended to capture ways in which entities that cannot enter into legal arrangements can still enforce similar to the force of law. The CP proposed the following as possible enforcement mechanisms by equivalent means:

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

BC123. The IPSASB agreed that cabinet and ministerial decisions, including executive authority, may be subsets of legislation and may in some circumstances be valid enforcement mechanisms. Paragraphs AG18–AG23 of this Standard discusses the equivalent enforcement mechanisms.

BC124. Constituents were generally supportive but questioned the validity of a reduction of future funding as an enforcement mechanism. The IPSASB decided that a reduction of future funding could only be used to enforce a binding arrangement if the resource provider had a compliance obligation to provide future funding in another binding arrangement. Without this binding arrangement and its compliance obligation, the threat of a reduction of future funding is not a valid enforcement mechanism, as there is no future funding that could be reduced.

BC125. The IPSASB also discussed sovereign rights and agreed that by themselves, sovereign rights do not establish a valid enforcement mechanism. However, if details on how sovereign rights would be used to enforce an agreement were included in the binding arrangement, then this could create a valid enforcement mechanism.

BC126. In addition, the IPSASB discussed whether economic coercion or political necessity could be a valid enforcement mechanism. The IPSASB noted that paragraph 5.17D of the Conceptual Framework states that “economic coercion, political necessity or other circumstances may give rise

to situations where, although the public sector entity is not legally obliged to incur a transfer of resources, the economic or political consequences of refusing to do so are such that the entity may have little or no realistic alternative to avoid a transfer of resources. Economic coercion, political necessity or other circumstances may lead to a liability arising from a non-legally binding obligation”.

BC127. However, the IPSASB was of the view that a liability arising from a non-legally binding obligation is not equivalent to a binding arrangement for the purposes of IPSAS 47 because a non-legally binding obligation as cited in the Conceptual Framework is binding only for the party to whom the obligation exists, whereas a binding arrangement as used in IPSAS 47 requires both parties to agree to both the enforceable rights and obligations within that agreement.

BC128. The IPSASB also discussed whether a statement made by a government to spend money or use assets in a particular way (e.g., a general policy statement or announcement following a natural disaster) would create a binding arrangement for a potential resource recipient. The IPSASB decided that such an announcement does not create enforceable rights and obligations on parties as there is no agreement with other parties, and therefore there is no binding arrangement. Such an announcement may be accounted for by the government under IPSAS 19.

### *Determination of Stand-Alone Value*

BC129. The determination of the stand-alone selling price in IFRS 15 is largely based on the price at which an entity would sell a promised good or service separately to a customer. The IPSASB noted that in the public sector, the determination of stand-alone value may be challenging in situations where an entity is providing goods or services to third-party beneficiaries for no consideration, and some may interpret the requirements for the determination of stand-alone value to only consider amounts received directly from the party receiving the goods or services. To address the issue, the IPSASB added guidance in paragraph AG110, which states that a stand-alone value in such situations shall be estimated based on the amount the resource provider would need to pay in market terms to acquire the economic benefits or service potential of the goods or services provided. Where market information is not available, the stand-alone value is based on an estimate using the expected cost approach.

### *Capital Transfers*

BC130. The CP noted that there was little guidance in IPSAS 23 on accounting for capital grants (now referred to as capital transfers). The CP gave a preliminary view from the IPSASB that accounting for capital transfers should be explicitly addressed within IPSAS, which respondents to the CP supported. This Standard includes guidance on accounting for capital transfers. The IPSASB noted that the accounting for capital transfers, which by definition arise from binding arrangements, would be the same as for any other revenue transaction from a binding arrangement: revenue from capital transfers would be recognized as the compliance obligations are satisfied.

BC131. When developing the approach above, the IPSASB decided not to adopt the IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance* accounting requirements for capital transfers. This approach provides accounting for “grants related to assets” which is defined as: “Government grants whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long-term assets. Subsidiary conditions may also be

attached restricting the type or location of the assets or the periods during which they are to be acquired or held”.

- BC132. IAS 20 requires government grants to be recognized in profit or loss on a systematic basis over the period in which the entity recognizes as expenses the related costs for which the grants are intended to compensate. Under IAS 20, grants relating to assets may be presented as either deferred income or as a reduction of the carrying amount of the related asset. The grant is only recognized in profit or loss as deferred income is amortized or as the related asset is depreciated.
- BC133. The IPSASB agreed that this approach did not provide useful or representationally faithful information for users. An entity earns revenue in a capital transfer by acquiring or constructing a non-financial asset as specified in the binding arrangement from which it arises. In other words, the nature of the revenue in the capital transfer is directly associated with the acquisition or construction, rather than the subsequent use and depreciation, of the non-financial asset. The IPSASB therefore decided to develop an accounting approach for capital transfers which recognized revenue as the non-financial asset (capital asset) is either acquired or constructed as specified in the binding arrangement.
- BC134. As the IPSASB revised revenue guidance in response to constituent comments on ED 70 and ED 71, the IPSASB assessed whether the accounting principles in the binding arrangement model remain appropriate for capital transfers. The IPSASB concluded that the accounting principles remain appropriate, and that revenue should be recognized as the compliance obligation to acquire or construct the non-financial asset is satisfied. The entity applying the guidance will also need to consider whether any requirement to operate the non-financial asset is an individual compliance obligation to be accounted for separately. The IPSASB revised and enhanced the Illustrative Examples to help illustrate the application of the accounting principles.
- BC135. The IPSASB considered that some capital transfers may include multiple compliance obligations, one being the acquisition or construction of a capital asset and another being the operation of the capital asset in a particular way for a specified period of time. In these circumstances, the IPSASB decided that the accounting for each compliance obligation should be considered separately in accordance with the nature of each obligation.

### *Services In-Kind*

- BC136. This Standard permits, but does not require, recognition of services in-kind. This Standard takes the view that many services in-kind do meet the definition of an asset and should, in principle, be recognized. In such cases there may, however, be difficulties in obtaining reliable measurements. In other cases, services in-kind do not meet the definition of an asset because the entity has insufficient control of the services provided. The IPSASB concluded that due to difficulties related to measurement and control, recognition of services in-kind should be permitted but not required.
- BC137. However, the IPSASB encourages entities to disclose qualitative information about services in-kind received, particularly if those services were integral to the operations of the entity.

### *Disclosures: Materiality and Aggregation*

- BC138. The IPSASB also discussed the need for entities to apply the concept of materiality when providing the disclosures required by IPSAS 47. Based on feedback from constituents on previously issued IPSAS and in response to ED 70 and ED 71, the IPSASB noted that it would be helpful to include

an explicit reference to the materiality and aggregation guidance from paragraphs 45–47 of IPSAS 1. This reference was added to paragraph AG204 of IPSAS 47.

### **Consideration of Re-Exposure**

BC139. The IPSASB considered whether there had been a substantial change to the EDs such that re-exposure may be necessary:

- (a) The IPSASB discussed the differences between IPSAS 47, and ED 70 and ED 71 issued in 2020. In particular, the IPSASB noted that key differences include the revised structure of guidance, based on whether there is a binding arrangement, and the use of the term “compliance obligation” for the unit of account for revenue accounting, as summarized in BC14–BC30. The IPSASB agreed the changes made since the exposure draft process addressed issues raised by constituents, and resulted in a clearer Standard that retains the principles set out in the EDs. Thus, the IPSASB was of the view that there were no substantial changes to the substance of the guidance or the principles in the original EDs.
- (b) The IPSASB noted that issuance of IPSAS 47 would address issues identified by constituents with the existing suite of revenue IPSAS. The IPSASB also agreed that, from a public interest perspective, the expected costs of re-exposure, including delayed implementation of the Standard that constituents are actively seeking, outweigh the potential benefits of re-exposure.

BC140. Based on its assessment, the IPSASB decided to approve IPSAS 47 without re-exposure, as there were no substantial changes, and to finalize and issue the Standard, as that was in the public interest.

## Implementation Guidance

*This guidance accompanies, but is not part of, IPSAS 47.*

### Section A: Definitions

#### A.1 Capital Transfers

##### **When is a transfer of a physical asset a “capital transfer”?**

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

A transfer of a physical asset is a “capital transfer” if the entity received this transfer within a binding arrangement and is required by the binding arrangement to use that physical asset to acquire or construct another non-financial asset that will be controlled by the entity. A transfer of a physical asset which only has a requirement to be used or operated in a specific manner would not meet the definition of a “capital transfer”; rather, such a transfer of a physical asset would constitute a “transfer” as defined in paragraph 4. An entity should clearly consider the specific terms within the binding arrangement.

### Section B: Identifying the Revenue Transaction

#### B.1 Identify Whether a Binding Arrangement Exists

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

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

It is important to correctly identify whether the revenue transaction arises from a binding arrangement. The entity is required to determine what type of arrangement it has entered into, by considering the terms of its revenue transaction and all relevant facts and circumstances, to apply the appropriate accounting principles to reflect the economic substance of the transaction (see paragraphs 11–16).

#### B.2 Enforceability

##### **What should an entity consider in assessing enforceability?**

Determining whether an arrangement, and each party’s rights and obligations in that arrangement, are enforceable may be complex and requires professional judgment. This assessment is integral to



identifying whether an entity has a binding arrangement (i.e., with both enforceable rights and enforceable obligations), only enforceable rights, or only enforceable obligations, through legal or equivalent means. In cases where an entity does not have a binding arrangement, it may still have an enforceable right, or an enforceable obligation, which should be accounted for appropriately. Enforceability may arise from various mechanisms, so long as the mechanism(s) provide(s) the entity with the ability to enforce the terms of the arrangement and hold the parties accountable for the satisfaction of their obligations in accordance with the terms of the arrangement.

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

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

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

### *B.3 Enforceability: Revenue Subject to Appropriations*

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

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

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

A binding arrangement may specify that the resources to be transferred are subject to the completion of an appropriation process as an explicit term or condition (either in writing, orally, or implied through customary practices). In such circumstances, the entity considers whether, in substance, the arrangement is enforceable because mechanisms of enforceability enable the entity to require the

resource provider to transfer resources, or, if the resource provider fails to do so, to impose consequences on the resource provider, prior to the completion of the appropriation process. The limitation (that the resources to be transferred are subject to the completion of the appropriation process) does not have substance when the entity can establish an enforceable right to those resources, before the appropriation process is completed. In such cases, the arrangement is enforceable and may be a binding arrangement.

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

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

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

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

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

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

At inception, an entity considers the terms and conditions of an arrangement to determine whether it meets the definition of a binding arrangement in paragraph 4. If it meets the definition, the entity accounts for revenue arising from the binding arrangement in accordance with paragraphs 56–147.

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

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

The implication on subsequent measurement of the respective asset or liability depends on whether the impact is not likely to be reversed and should be accounted for in accordance with IPSAS 41, *Financial Instruments*. For example, an entity that completely satisfied its compliance obligation and has an unconditional right to consideration would partially impair and derecognize its receivable asset if it intends to only enforce a portion of its right (and does not expect to reverse this decision), but would fully impair and derecognize the asset if it fully loses the ability to enforce its right due to legislative changes. The respective impairment loss would be recognized in accordance with IPSAS 41.

## Section C: Revenue from Transactions without Binding Arrangements

### C.1 Recognition of Revenue from Various Types of Taxes

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

An entity recognizes revenue from a transaction without binding arrangements when it receives or has the right to receive an inflow of resources that meets the definition of an asset (paragraphs 18–25), and there are no unsatisfied enforceable obligations associated with those resources (paragraph 29).

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

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

## C.2 Measurement of Revenue from Various Types of Taxes

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

In many circumstances, the taxation period will not coincide with the entity's reporting period. An entity may also receive estimated tax payments in installments on a periodic basis before the taxable amount is finalized, which may require additional taxes owed, or a refund to the taxpayer for any excess. An entity shall recognize the inflow of resources (or the right to an inflow of resources) as an asset, and recognize revenue earned in the current reporting period, to the extent that it can be reliably measured. The best estimate is consistent with the most likely amount (see paragraphs 45–50).

To reliably measure the asset and revenue, the entity should consider all relevant data from various sources to arrive at its best estimate. Paragraph 46 describes factors that an entity should take into account in its estimation models. Sources of relevant data and inputs for an entity's estimation model include, but are not limited to: historical data (e.g., collection history and other taxation statistics), observable and other phenomena (e.g., forecasts, economic and banking statistics, installments), and the use of experts.

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

## **Section D: Revenue from Transactions with Binding Arrangements**

### *D.1 Identifying Compliance Obligations in a Binding Arrangement*

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

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

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

An entity then considers each identified promise to determine if a promise is itself a compliance obligation, or whether it should be grouped with other promises to be a compliance obligation. In other words, a compliance obligation is a unit of account that represents a distinct promise or distinct

group of promises to which recognition criteria and measurement concepts are applied (paragraph 73). A good or service (or a bundle of goods or services) promised in a binding arrangement is distinct if both criteria are met:

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

Whether a good or service is *capable of being distinct* is generally based on the characteristics of the good or service (see paragraph 75 for additional guidance). However, determining whether the promise is *distinct within the context of the binding arrangement* will require judgment to ensure that the grouping of promises, and thus identification of individual compliance obligations, will meaningfully represent the nature of the entity's transaction with the resource provider and provide a useful depiction of the entity's performance (see paragraph 76 for additional guidance).

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

In cases where multiple parties are involved in the arrangement, the entity will also need to consider whether the nature of its promise in a compliance obligation indicates that the entity is a principal or agent (in accordance with paragraphs AG117–AG125).

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

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

Methods of measuring progress include output methods and input methods (see paragraphs AG86–AG95). After the entity identifies its compliance obligations in its binding arrangement, an entity shall consider the nature of the entity's promise and the specific terms of the binding arrangement to determine the appropriate method of measuring progress.

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

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

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

The entity should use professional judgment to determine what information, and thus method of measuring progress, most faithfully depicts the entity's performance towards complete satisfaction of

the compliance obligation. In making this assessment, the entity should also consider which method of measuring progress:

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

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

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

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

No. Capital transfers, which arise from transactions with binding arrangements, typically include substantial detail about the various stages in the project (e.g., conception and planning, design, procurement, construction, etc.). As such, these binding arrangements typically entail a large range of available information related to the inputs and outputs of the transaction. For example, the binding arrangement may include specific detailed activities related to the construction, such as clearing the site, building foundations and framing, and pouring concrete. However, the application of the accounting principles for capital transfers is consistent with the accounting for other revenue transactions with binding arrangements. The entity must first identify the individual compliance obligations in the binding arrangement, and carefully determine the appropriate measure of progress for each compliance obligation. The entity shall apply the accounting guidance in paragraphs 98–104 and paragraphs AG86–AG95 to consider all observable and available information. The use of professional judgment is crucial in determining what information, and thus method of measuring progress, most faithfully depicts the entity's progress to fully satisfy the compliance obligation. An entity should also consider revenue recognition independently from the timing of the receipt of resources from the resource provider.

### *D.4 Allocation Based on Stand-Alone Values*

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

To estimate stand-alone value, an entity shall first consider all reasonably available information (including, but not limited to, reasonably available data points, entity-specific factors, information

about the resource provider or class of resource provider, and the effects of market considerations where relevant).

Based on the reasonably available information, the entity shall determine which method for estimating the stand-alone value most faithfully represents the value of the goods or services promised in the binding arrangement. Paragraph 139 includes examples of suitable methods for estimating the stand-alone value and is not a prescriptive list.

The most suitable method will depend on the quality and type of information available to the entity. For example, the adjusted market assessment approach may be more suitable when the binding arrangement promises goods or services that are readily available in the market, as the price that other entities in the market would be willing to pay may provide a proxy for the value of those goods or services in the binding arrangement. However, the expected cost approach may be more suitable when the binding arrangement promises goods or services that are unique to the entity or the binding arrangement, or which are not readily available in the market. In such cases, the entity's expected costs of satisfying a compliance obligation may provide a more useful estimation of the value of the goods or services in the binding arrangement.

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

Paragraph 139 also notes that the entity may incorporate a margin in its estimation approach, if appropriate. This may occur if the public sector entity has engaged in a revenue transaction that is exchange-type in nature.

## **Section E: Multi-Year Arrangements**

### *E.1 Accounting for Multi-Year Arrangements*

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

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

While these arrangements are longer term, the application of accounting principles is consistent with the accounting for other revenue transactions. An entity shall consider whether the multi-year arrangement is a binding arrangement and apply the principles in the applicable accounting model to reflect the substance of the transaction. The entity shall consider whether an inflow, or a right to a future inflow, of resources gives rise to an asset in accordance with paragraphs 18–25, and carefully consider revenue recognition independently from the timing of funding when applying paragraph 29 (if without a binding arrangement) or paragraphs 87-104 (if with a binding arrangement). The entity may need to consider whether any expected inflow of resources in subsequent years meets the definition of an asset, and whether it is interdependent and inseparable from any associated unsatisfied obligations in accordance with paragraph AG57.

## Section F: Subsequent Measurement

### *F.1 Subsequent Measurement for Non-Contractual Receivables*

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

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

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

A non-contractual receivable does not strictly meet the definition of a financial asset because it does not arise from a contract. While non-contractual receivables and contractual receivables arise from different types of arrangements, they are consistent in substance and risk exposure, and non-contractual receivables should be subsequently measured by applying IPSAS 41 by analogy to ensure that transactions with the same substance are accounted for using consistent principles. When applying IPSAS 41 principles by analogy, the entity should use judgment to consider the substance of the receivable, and all relevant and readily available data, to form the basis of the revenue “contract by analogy” for which it has a receivable (e.g., legislation, payment terms, etc.). To determine whether its non-contractual receivable meets the criteria in paragraph 40 of IPSAS 41 to be subsequently measured at amortized cost, the entity should consider whether it holds the receivable to collect expected cash flows (in lieu of contractual cash flows) which represent its right to consideration in the transaction. If met, the entity should consider inputs into its impairment analysis under IPSAS 41 accordingly to ensure it appropriately reflects the economic substance of the receivable, including but not limited to the passage of time before the consideration is collectable (i.e., maturity period) and any receivable amounts the entity no longer expects to collect (i.e., expected credit losses). If the criteria in paragraph 40 of IPSAS 41 are not met, the entity would subsequently measure the non-contractual receivable at fair value in accordance with paragraph 31 of this Standard.



## Illustrative Examples

*These examples accompany, but are not part of, IPSAS 47.*

IE1. These examples portray hypothetical situations illustrating how an entity might apply the requirements in IPSAS 47, *Revenue*, to particular revenue transactions 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 presented in actual fact patterns, all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying IPSAS 47.

### Identify the Revenue Transaction

IE2. Examples 1–2 illustrate the requirements in paragraphs 9–16 of IPSAS 47 on the determination of whether an entity has entered into a revenue transaction with or without a binding arrangement.

#### *Example 1 – Transaction Arose from an Arrangement that is Not Binding*

##### *Case A – No Obligations, No Specified Time Period, and No Reporting to the Government*

IE3. A social development entity (the Entity) receives funding of CU5<sup>11</sup> million from a government body (the Government) to fund its employment programs. The agreement requires funding to be spent on programs with the goal of improving employment in the region. If the Entity incurs expenditures to improve employment in the region, it is able to enforce its right to receive funding from the Government. 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 Government will receive or verify information on how the funds were spent.

IE4. The Entity concludes that the funding agreement is not a binding arrangement in accordance with paragraph 4 of IPSAS 47. Although the Entity has an enforceable right to resources from the Government if it incurs eligible expenditures, it does not have an enforceable obligation because the Government does not have the ability to enforce how the Entity uses funds in a specific way (e.g., specific programs) or within a specific time period. The Government also has no realistic way to enforce the requirement to spend all of the funds. As a result, the entity shall apply the accounting principles in paragraphs 18–55 to account for this revenue from a transaction without a binding arrangement.

##### *Case B – Specified Time Period to Spend Funds*

IE5. The same facts as in Case A apply to Case B, except the agreement specifies that the funds are to be spent within a five-year period. In this scenario, the requirement to spend the CU5 million within five years does not change the Entity's conclusion that it has an enforceable right in the funding agreement, but does not have an enforceable obligation. This is because the Government is not able to confirm if and when the Entity spends the funds as stated in the agreement. As a result, this arrangement is not binding and the Entity shall apply the accounting principles in paragraphs 18–55 to account for this revenue.

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<sup>11</sup> In these examples, monetary amounts are denominated in 'currency units' (CU).

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

IE6. The same facts as in Case B apply to Case C, except the agreement also specifies how the Entity is to report its spending to the Government, and that any misused or unused funds are to be returned to the Government. The Entity continues to have full discretion over how to use the funds, as long as the funds are spent within five years on activities that reasonably relate to improving employment in the region. The Entity concludes that it has both an enforceable right and an enforceable obligation. This is because the Government is able to confirm and enforce its requirement for the Entity to spend the funds on improving employment in the region within the five-year period. The Entity shall apply the accounting principles in paragraphs 56–147 to account for this revenue from a transaction with a binding arrangement.

*Example 2 – Research Grant Arising from a Binding Arrangement*

IE7. A research lab (the Lab) enters into an arrangement and receives CU10 million from a local government (the Government) to conduct research into a potential cure for a widespread disease. This research project is expected to result in the development of intellectual property that consists of a drug formula and manufacturing knowhow. The agreement contains specific and measurable milestones that must be met by the Lab; if these milestones are not met, the Lab is required to return all, or a portion, of the funds to the Government. Once the research is complete, there is no requirement in the agreement for the Lab to transfer the findings or any resulting intellectual property to the Government. The Lab is also able to ensure that payment is received from the Government for research work planned or completed.

IE8. Based on these terms, the Lab has concluded that the agreement is a binding arrangement in accordance with paragraph 4 of IPSAS 47, as it has an enforceable obligation to conduct the research project in accordance with the specified milestones in order to retain the funds, and an enforceable right to consideration for conducting this research project. The Lab shall apply the accounting principles in paragraphs 56–147 to account for this revenue from a transaction with a binding arrangement.

*Enforceability*

IE9. Examples 3–7 illustrate the requirements in paragraphs AG14–AG25 of IPSAS 47 on enforceability, which complement the requirements in paragraphs 11–14.

*Example 3 – Enforceability by Legal Means*

IE10. Pursuant to a ministerial directive, a state government (the Government) signed a memorandum of understanding with the Department of Public Works (Public Works), for Public Works to receive funds to build a government office building. The memorandum is not binding in the court of law, does not impose a refund obligation for Public Works in the event that it fails to perform under the terms of the memorandum, nor does it refer to any other enforcement mechanisms. Although the memorandum is not legally binding, the Government and Public Works relied upon it during their contract negotiations. Public Works commenced providing construction services in accordance with the terms of the memorandum of understanding. In addition, Public Works has reported to the Government on its first month of work, and the Government has accepted the work performed to date.

- IE11. The parties have relied on the memorandum of understanding, as follows:
- (a) Public Works has performed construction services in accordance with the terms of the memorandum; and
  - (b) The work performed to date has been reported to and accepted by the Government.
- IE12. Thus, the memorandum is enforceable by law in the parties' jurisdiction based on the concept of promissory estoppel. That is, the Government has the right to use its court of law to ensure that Public Works satisfies the promises in the memorandum or seek redress should they not be satisfied. Similarly, Public Works has the right to use the court of law to enforce the receipt of funds from the Government for work performed to date. As a result, the memorandum is considered enforceable through legal means in accordance with paragraphs AG14–AG18 of IPSAS 47.

*Example 4 – Arrangement does not include an Enforceable Obligation*

- IE13. The national government (the Government) transfers 200 hectares of land in a major city to a university (the University) to establish a university campus. The arrangement specifies that the land is to be used for a campus, but does not specify that the land is to be returned if not used for a campus or incur another form of compensation.
- IE14. The University recognizes the land as an asset in the statement of financial position of the reporting period in which it obtains control of that land. The University considers paragraphs AG14–AG25 of IPSAS 47 and concludes that the arrangement does not include an enforceable obligation because there is no mechanism to ensure that the University uses the land for a campus, and thus is not a binding arrangement. The University recognizes revenue when it recognizes the land as an asset in accordance with IPSAS 45, *Property, Plant, and Equipment*.

*Example 5 – Enforceable Right to Revenue of Aid Agency*

*Case A – Right to Receive Resources is not Enforceable*

- IE15. Green-Aid Agency (Agency) is an intergovernmental organization which relies on annual funding from a group of governments to deliver on its initiatives. The Agency has a signed agreement with the government of a sovereign state (State) which specifies the percentage of the Agency's approved budget that the State will fund in 20X2. The agreement indicates that the funds received from the State can only be used to incur eligible expenditures, per the approved 20X2 budget. If funds are not used to incur eligible expenses (e.g., misused or unused), such funds must be repaid to the State at the end of its financial year on December 31, 20X2. The Agency's budget is approved in the preceding October.
- IE16. As a result of the terms and conditions in the signed arrangement, the State is able to enforce the appropriate use and any repayment of funds provided to the Agency. The Agency therefore has an enforceable obligation to use resources received from the State for the eligible expenditures approved in the budget year, which meets the definition of a liability.
- IE17. Based on past experience, the State is very unlikely to pay what it owes, either during the financial year or at any future time, and the Agency is not able to force the State to pay any amounts owed. Therefore, the Agency does not have an enforceable right to receive an inflow of resources from the State and the arrangement is not binding. The Agency will only recognize an asset when it receives and controls the inflow of resources from the State.

*Case B – Right to Receive Resources is Enforceable*

IE18. The same facts as Case A apply to Case B, except the Agency is able to prevent the State from participating in the Agency's voting processes if it does not transfer resources in accordance with the signed arrangement after the budget is approved. In this scenario, the Agency has the ability to enforce its right to receive resources (i.e., an enforceable right). As a result, each party in the arrangement has both an enforceable right and an enforceable obligation, and the arrangement is thus a binding arrangement.

*Example 6 – Obligation in a Revenue Arrangement is not in Substance Enforceable*

IE19. National Park Department of Country A (the Department) enters into an arrangement and receives a transfer of CU500,000 from the Bilateral Aid Agency of Country B (the Agency). The arrangement specifies that the transferred resources are required to be used to rehabilitate deforested areas of Country A's existing wilderness reserves, and returned to the Agency if the money is not used for the stated purpose. The terms of the agreement are enforceable in the courts of Country A, and in international courts of justice. This is the thirteenth year that the Department has received a transfer of this type from this Agency. In prior years, the transferred resources have not been used as specified; rather, they have been used to acquire additional land adjacent to national parks for expansion purposes. The Department has not conducted any rehabilitation of deforested areas in the past thirteen years. The Agency is aware of the previous breaches of the agreement terms.

IE20. The Department analyzes the transaction and concludes that, although the terms of the agreement are enforceable, such terms do not in substance hold the Department accountable to using the transfer as specified. This is because the Agency has not previously enforced the requirements of its transfers, and given no indication that it ever would. Thus, the arrangement includes the form but not the substance of an enforceable obligation (see paragraph AG25), and the arrangement would not be a binding arrangement. Therefore, the Department recognizes an increase in an asset (for the transfer received) and revenue.

*Example 7 – Revenue Subject to Completion of the Appropriations Process*

IE21. A national government (Government N) and local government (Government L) both have a financial year end of December 31. On March 15, 20X2, Government N enters into a two-year arrangement with Government L to transfer CU15 million (CU10 million in 20X2 and CU5 million in 20X3) to Government L, to be used to reduce air pollution in accordance with Government N's policy. The arrangement includes a term that it is subject to the completion of the appropriation process.

IE22. Parliament completes the appropriation process for CU10 million on March 31, 20X2, and transfers the resources on April 15, 20X2. The appropriation for CU5 million is not completed in March 20X2 but is considered at a later date as part of the appropriation process for 20X3. Once resources are transferred, Government L is required to use the resources to reduce air pollution or be required by law to repay, which constitutes an enforceable obligation.

*Case A – Requirement to Complete the Appropriation Process has Substance*

IE23. The reduction in air pollution is a local government responsibility, and there is no authorizing legislation that requires Government N to fund such initiatives. The arrangement is clear that the funding is subject to the completion of the appropriation process, which is not certain, and that the amount may be reduced. Government L applies paragraphs AG14–AG25 of IPSAS 47 to determine

whether its right is enforceable, given the term in the arrangement that the funding is subject to the completion of the appropriation process.

- IE24. Government L considers substance over form to determine the effect of this term. Government L concludes that it is not able to require Government N to transfer resources nor impose consequences of not doing so. Consequently, the term has substance, and Government L does not have an enforceable right to resources until the appropriation process is completed for each year's amount. The enforceable right to resources would meet the definition of an asset on March 31, 20X2 when the appropriation process is completed, and the arrangement now meets the definition of a binding arrangement. However, Government L would not recognize an asset or liability in its statement of financial position as at March 31, 20X2 because the binding arrangement is wholly unsatisfied.
- IE25. On April 15, 20X2, Government L recognizes an asset of CU10 million, and an equivalent liability, when it receives the resources. It does not recognize an asset for the CU5 million, as the appropriation process for the 20X3 amount has not been completed. Government L considers whether to disclose the CU5 million as a contingent asset in accordance with paragraph 24 in the 20X2 notes to its general purpose financial statements. Government L will assess the accounting implications of the authorization process in 20X3 for the remaining CU5 million.

*Case B – Requirement to Complete the Appropriation Process does not have Substance*

- IE26. Authorizing legislation requires Government N to invest in measures to reduce air pollution, and the arrangement is a firm commitment by Government N to meet its legislative obligations by investing in specific measures, set out in the arrangement, to be undertaken by Government L. Government L applies paragraphs AG14–AG25 of IPSAS 47 to determine whether its right is enforceable, given the term in the arrangement that the funding is subject to the completion of the appropriation process.
- IE27. Government L considers substance over form to determine the effect of this term. Government L concludes that it has an enforceable right prior to the completion of the appropriation process because the legislation to invest in measures to reduce air pollution provides enforceability through equivalent means. Consequently, the term does not have substance. Thus, Government L has an enforceable right to resources on March 15, 20X2, which would meet the definition of an asset and the arrangement meets the definition of a binding arrangement. However, Government L would not recognize an asset or liability in its statement of financial position as at March 15, 20X2 because the binding arrangement is wholly unsatisfied.
- IE28. On April 15, 20X2, Government L recognizes an asset of CU10 million, and an equivalent liability. It does not recognize an asset for the CU5 million. Government L will assess the accounting implications of the authorization process in 20X3 for the remaining CU5 million.

**Revenue from Transactions without Binding Arrangements**

*Example 8 – Advance Receipts of Income Tax*

- IE29. The Government levies income tax on all residents within its jurisdiction. The tax period and the reporting period are January 1 to December 31. Self-employed taxpayers are required to pay an estimate of their income tax for the year by December 24 of the year immediately preceding the commencement of the tax year. The tax law sets the estimate as the amount due for the most recently completed assessment, plus one tenth, unless the taxpayer provides an explanation prior

to December 24 of a lower amount (penalties apply if the taxpayer's assessment proves to be materially lower than the final amount owed). After the end of the tax period, self-employed taxpayers file their tax returns and receive refunds, or pay additional tax to the Government.

- IE30. The resources received from self-employed taxpayers by December 24 are advance receipts against taxes due for the following year because the taxable event is the earning of income during the taxation period, which has not commenced. The Government recognizes an increase in an asset (cash in bank) and an increase in a liability (advance receipts) in accordance with paragraph 44 of IPSAS 47.

## Revenue from Transactions with Binding Arrangements

### *Criteria to Apply the Binding Arrangement Model*

- IE31. Examples 9–12 illustrate the requirements in paragraphs 56–61 of IPSAS 47 on whether to use the binding arrangement model. In addition, the following requirements are illustrated in these examples:
- (a) The interaction of paragraph 146 of IPSAS 47 with paragraphs 109 and 115 of IPSAS 47 on estimating variable consideration (Examples 10–11); and
  - (b) Paragraph AG180 of IPSAS 47 on consideration in the form of sales-based or usage-based royalties on licenses of intellectual property (Example 12).

### *Example 9 – Collectability of the Consideration*

- IE32. A local government (the Government) has a portfolio of properties that are rented at below-market prices to qualifying residents (Residents). After a number of years, a Resident is able to purchase the unit as part of a rent-to-own housing program. The price of the unit will be based on the then current market value less the accumulated rent paid to date by the Resident. The program allows the Residents to pay the price over a period of 20 years, but the payments may cease once Residents have reached the age to begin collecting their superannuation, and the future payments will depend on the Resident's level of income at that time. At the inception of the binding arrangement to purchase the unit, a Resident is required to pay a non-refundable deposit of CU5,000 and enter into a long-term financing agreement with the Government for the remaining balance of the promised consideration.
- IE33. As part of this rent-to-own program, the Government enters into a binding arrangement with a Resident for the sale of a residential unit with a market price of CU400,000. Up to the time of the purchase, the Resident had cumulatively paid CU150,000 in rent to the Government, so the purchase price for the unit was CU250,000. The Resident pays the non-refundable deposit of CU5,000 at the inception of the binding arrangement and enters into a long-term financing agreement with the Government for the remaining CU245,000 of the promised consideration. However, the Resident is only expected to pay CU180,000 (including the CU5,000 deposit) until they begin to collect their superannuation, and at that time, their expected level of income will result in payments ceasing. The Resident obtains control of the unit at the inception of the binding arrangement and payment of the CU5,000 deposit.
- IE34. In assessing whether the binding arrangement meets the criteria in paragraph 56 of IPSAS 47, the Government concludes that the criterion in paragraph 56(e) of IPSAS 47 is not met for the full CU250,000 because it is not probable that it will collect the consideration to which it is entitled in

exchange for the transfer of the building. In reaching this conclusion, the Government observes that the Resident may only pay up to CU180,000 based on the terms of the program.

- IE35. Because the criteria in paragraph 56 of IPSAS 47 are not all met, the Government applies paragraphs 58 and 81–86 of IPSAS 47 to determine the accounting for the non-refundable deposit of CU5,000. The Government observes that the events described in paragraph 58(a) have occurred—that is, the Government has transferred control of the building to the Resident, and the Government has no obligation to transfer additional goods or services for the CU5,000 payment received, and the payment is non-refundable. Consequently, in accordance with paragraph 58, the Government recognizes the non-refundable CU5,000 payment as revenue upon receipt.

*Example 10 – Consideration is not the Stated Price—Implicit Price Concession*

- IE36. A government pharmaceutical agency (the Agency) provides 1,000 units of a prescription drug to a hospital for promised consideration of CU1 million. The price of the drugs is regulated, so the Agency has no discretion on pricing. The Agency expects that it will not be able to collect from the hospital the full amount of the promised consideration due to a medical crisis occurring in the region which is diverting the hospital's resources.
- IE37. When assessing whether the criterion in paragraph 56(e) of IPSAS 47 is met, the Agency also considers paragraphs 109 and 115(b) of IPSAS 47. Based on the assessment of the facts and circumstances, the Agency determines that it expects to provide a price concession and accept a lower amount of consideration from the hospital. Accordingly, the Agency concludes that the transaction consideration is not CU1 million and the promised consideration is variable. The Agency estimates the variable consideration and determines that it expects to be entitled to CU400,000.
- IE38. The Agency considers the hospital's ability and intention to pay the consideration and concludes that even though the region is experiencing economic difficulty, it is probable that it will collect CU400,000 from the hospital. Consequently, the Agency concludes that the criterion in paragraph 56(e) of IPSAS 47 is met based on an estimate of variable consideration of CU400,000. In addition, on the basis of an evaluation of the binding arrangement terms and other facts and circumstances, the Agency concludes that the other criteria in paragraph 56 of IPSAS 47 are also met. Consequently, the Agency accounts for the binding arrangement with the hospital, with a transaction consideration of CU400,000, in accordance with paragraphs 56–147 in IPSAS 47.

*Example 11 – Compelled Revenue Transaction—Implicit Price Concession*

- IE39. A government hospital (the Hospital) provides medical services to an uninsured patient in the emergency room. The Hospital is required by law to provide medical services to all emergency room patients, and patients are required to pay, and the arrival of a patient in the emergency room constitutes the initiation of a binding arrangement. Because of the patient's condition upon arrival at the Hospital, the Hospital was compelled under legislation to provide the services immediately and, therefore, before the Hospital can determine whether the patient is committed to satisfying its obligation to pay for services received in exchange for the medical services provided. Consequently, the binding arrangement does not meet all of the criteria in paragraph 56 of IPSAS 47 and, in accordance with paragraph 58 of IPSAS 47, the Hospital will continue to assess its conclusion based on updated facts and circumstances.
- IE40. After providing services, the Hospital obtains additional information about the patient including a review of the services provided, standard rates for such services, and the patient's ability and

intention to pay the Hospital for the services provided. During the review, the Hospital notes its standard rate for the services provided in the emergency room is CU10,000. The Hospital also reviews the patient's information and, consistent with its policies, designates the patient to a purchaser class based on the Hospital's assessment of the patient's ability and intention to pay.

- IE41. The Hospital considers paragraphs 109 and 115(b) of IPSAS 47. Although the standard rate for the services is CU10,000 (which may be the amount invoiced to the patient), the Hospital expects to accept a lower amount of consideration in exchange for the services. Accordingly, the Hospital concludes that the transaction consideration is not CU10,000 and, therefore, the promised consideration is variable. The Hospital reviews its historical cash collections from this purchaser class and other relevant information about the patient. The Hospital estimates the variable consideration and determines that it expects to collect CU1,000.
- IE42. In accordance with paragraph 56(e) of IPSAS 47, the Hospital evaluates the patient's ability and intention to pay (i.e., the credit risk of the patient). On the basis of its collection history from patients in this purchaser class, the Hospital concludes it is probable that the Hospital will collect CU1,000 (the estimate of variable consideration). In addition, on the basis of an assessment of the binding arrangement terms and other facts and circumstances, the Hospital concludes that the other criteria in paragraph 56 of IPSAS 47 are also met. Consequently, the Hospital accounts for the binding arrangement with the patient, at a transaction consideration of CU1,000, in accordance with the requirements in IPSAS 47.

*Example 12 – Reassessing the Criteria to Apply the Binding Arrangement Model*

- IE43. The Department of Natural Resources (the Department) issues a permit to mine minerals to a private sector mining company (the Company) in exchange for a royalty based on the amount of minerals extracted. At inception, the binding arrangement meets all the criteria in paragraph 56 of IPSAS 47 and the Department accounts for the binding arrangement with the Company in accordance with paragraphs 56–147 in IPSAS 47. The Department recognizes revenue when the Company's subsequent usage (i.e., extraction of minerals) occurs in accordance with paragraph AG180 of IPSAS 47.
- IE44. Throughout the first year of the binding arrangement, the Company provides quarterly extraction reports and pays within the agreed-upon period.
- IE45. During the second year of the binding arrangement, the Company continues to extract minerals from the property, but its financial condition declines. The Company's current access to credit and available cash on hand are limited. The Department continues to recognize revenue on the basis of the Company's extraction throughout the second year. The Company pays the first quarter's royalties but does not pay the full royalty payments for the usage of the permit in Quarters 2–4. The Department accounts for any impairment of the existing receivable in accordance with IPSAS 41, *Financial Instruments*.
- IE46. During the third year of the binding arrangement, the Company continues to use the permit issued by the Department. However, the Department learns that the Company has lost access to credit and its major customers, and thus the Company's ability to pay significantly deteriorates. The Department therefore concludes that it is unlikely that the Company will be able to make any further royalty payments for ongoing usage of the mining permit. As a result of this significant change in facts and circumstances, in accordance with paragraph 57 of IPSAS 47, the Department reassesses the criteria in paragraph 56 of IPSAS 47 and determines that they are not met because



it is no longer probable that the Department will collect the consideration to which it will be entitled. Accordingly, the Department does not recognize any further revenue associated with the Company's future usage of its permit. The Department accounts for any impairment of the existing receivable in accordance with IPSAS 41.

### *Modifications*

IE47. Examples 13–15 illustrate the requirements in paragraphs 63–66 of IPSAS 47 on binding arrangement modifications. In addition, the following requirements are illustrated in these examples:

- (a) Paragraphs 68–77 of IPSAS 47 on identifying compliance obligations (Example 15);
- (b) Paragraphs 119–121 of IPSAS 47 on constraining estimates of variable consideration (Examples 14 and 15); and
- (c) Paragraphs 144–147 of IPSAS 47 on changes in the transaction consideration (Example 14).

#### *Example 13 – Modification of a Binding Arrangement for Goods*

IE48. An intergovernmental organization (the Organization) promises to provide 1.2 million textbooks to a national government (the Government) for CU12 million (CU10 per textbook). The textbooks are transferred to the Government over a six-month period. The CU12 million is funded by the Organization's donors. The Organization transfers control of each textbook at a point in time. After the Organization has transferred control of 600,000 textbooks to the Government, the binding arrangement is modified to require the delivery of an additional 300,000 textbooks (a total of 1.5 million identical textbooks) to the Government. The additional 300,000 textbooks were not included in the initial binding arrangement.

#### *Case A—Additional Products for a Price that Reflects the Stand-Alone Value*

IE49. When the binding arrangement is modified, the price of the modification to a binding arrangement for the additional 300,000 textbooks is an additional CU2.85 million or CU9.5 per textbook. The pricing for the additional textbooks reflects the stand-alone value of the textbooks at the time of the modification to the binding arrangement and the additional textbooks are distinct (in accordance with paragraph 73 of IPSAS 47) from the original textbooks.

IE50. In accordance with paragraph 65 of IPSAS 47, the modification to a binding arrangement for the additional 300,000 textbooks is, in effect, a new and separate binding arrangement for future textbooks that does not affect the accounting for the existing binding arrangement. The Organization recognizes revenue of CU10 per textbook for the 1.2 million textbooks in the original binding arrangement and CU9.5 per textbook for the 300,000 textbooks in the new binding arrangement.

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

IE51. During the process of negotiating the purchase of an additional 300,000 textbooks, the parties initially agree on a price of CU8.0 per textbook. However, the Government and the donors discover that the initial 600,000 textbooks provided by the Organization contained minor misprints. The Organization promises a partial credit of CU1.5 per textbook to compensate the donors for the poor quality of those textbooks. The Department and the donors agree to incorporate the credit of CU900,000 (CU1.5 credit × 600,000 textbooks) into the amount that the Organization will require

for the additional 300,000 textbooks. Consequently, the modification to the binding arrangement specifies that the price of the additional 300,000 textbooks is CU1.5 million or CU5.0 per product. That price comprises the agreed-upon price for the additional 300,000 textbooks of CU2.4 million, or CU8.0 per textbook, less the credit of CU900,000.

- IE52. At the time of modification, the Organization recognizes the CU900,000 as a reduction of the transaction consideration and, therefore, as a reduction of revenue for the initial 600,000 textbooks transferred. In accounting for the sale of the additional 300,000 textbooks, the Organization determines that the negotiated price of CU8.0 per product does not reflect the stand-alone value of the additional textbooks. Consequently, the modification to a binding arrangement does not meet the conditions in paragraph 65 of IPSAS 47 to be accounted for as a separate binding arrangement. Because the remaining textbooks to be delivered are distinct from those already transferred, the Organization applies the requirements in paragraph 66(a) of IPSAS 47 and accounts for the modification as a termination of the original binding arrangement and the creation of a new binding arrangement.
- IE53. Consequently, the amount recognized as revenue for each of the remaining textbooks is a blended price of CU9.33  $\{[(CU10 \times 600,000 \text{ textbooks not yet transferred under the original binding arrangement}) + (CU8.0 \times 300,000 \text{ textbooks to be transferred under the modification to a binding arrangement})] \div 900,000 \text{ remaining textbooks}\}$ .

*Example 14 – Change in the Transaction Consideration after a Modification of a Binding Arrangement*

- IE54. On July 1, 20X0, the Department of Defense (the Department) promises to transfer two distinct used military products, a light-armored vehicle and spare parts, to a foreign government (Government F). The light-armored vehicle is transferred to Government F at the inception of the binding arrangement and spare parts are transferred on March 31, 20X1. The consideration promised by Government F 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 highly probable that a significant reversal in cumulative revenue recognized will not occur when the uncertainty is resolved.
- IE55. The transaction consideration of CU1.2 million is allocated equally to the compliance obligation for the light-armored vehicle and the compliance obligation for spare parts. This is because both products have the same stand-alone values and the variable consideration does not meet the criteria in paragraph 142 that requires allocation of the variable consideration to one but not both of the compliance obligations.
- IE56. When the light-armored vehicle was transferred to Government F at the inception of the binding arrangement, the Department recognizes revenue of CU600,000.
- IE57. 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 Government F 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 value of ammunition. The stand-alone value of ammunition is the same as the stand-alone values of the light-armored vehicle and spare parts.
- IE58. 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 had transferred to

Government F before the modification, and the promised consideration for the ammunition does not represent its stand-alone value. Consequently, in accordance with paragraph 66(a) of IPSAS 47, the consideration to be allocated to the remaining compliance obligations comprises the consideration that had been allocated to the compliance 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 compliance obligation for spare parts and the compliance obligation for ammunition (i.e., CU450,000 is allocated to each compliance obligation).

- IE59. After the modification but before the delivery of spare parts and ammunition, the Department revises its estimate of the amount of variable consideration to which it expects to be entitled 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 highly 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 66(a) of IPSAS 47, the increase in the transaction consideration of CU40,000 is attributable to variable consideration promised before the modification. Therefore, in accordance with paragraph 147 of IPSAS 47, the change in the transaction consideration is allocated to the compliance 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 revenue 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 Government F before the modification to a binding arrangement, the change in the transaction consideration that is attributable to spare parts is allocated to the remaining compliance obligations at the time of the modification to a binding arrangement. This is consistent with the accounting that would have been required by paragraph 66(a) of IPSAS 47 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.
- IE60. The Department then also allocates the CU20,000 increase in the transaction consideration for the modified binding arrangement equally to the compliance obligations for spare parts and ammunition. This is because the products have the same stand-alone values and the variable consideration does not meet the criteria in paragraph 142 that require allocation of the variable consideration to one but not both of the compliance obligations. Consequently, the amount of the transaction consideration allocated to the compliance obligations for spare parts and ammunition increases by CU10,000 to CU460,000 each.
- IE61. On March 31, 20X1, the spare parts are transferred to Government F and the Department recognizes revenue of CU460,000. On June 30, 20X1, the ammunition is transferred to the foreign government and the Department recognizes revenue of CU460,000.

*Example 15 – Modification Resulting in a Cumulative Catch-up Adjustment to Revenue*

- IE62. The Department of Public Works (Public Works) enters into a binding arrangement to construct a residential building for the Department of Housing (Housing) on land owned by Housing for promised consideration of CU10 million and a bonus of CU2 million if the building is completed within 24 months. Public Works accounts for the promised bundle of goods and services as a single

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compliance obligation satisfied over time in accordance with paragraph AG72(b) of IPSAS 47 because Housing controls the building during construction. At the inception of the binding arrangement, Public Works expects the following:

<b>CU</b>	
Transaction consideration	10,000,000
Expected costs	9,000,000
Expected surplus (10%)	1,000,000

IE63. At the inception of the binding arrangement, Public Works excludes the CU2 million bonus from the transaction consideration because it cannot conclude that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur. Completion of the building is highly susceptible to factors outside Public Works' influence, including weather and regulatory approvals. In addition, Public Works has limited experience with similar types of binding arrangements.

IE64. Public Works determines that the input measure, on the basis of costs incurred, provides an appropriate measure of progress towards complete satisfaction of the compliance obligation. By the end of the first year, Public Works has satisfied 60 percent of its compliance obligation on the basis of costs incurred to date (CU5.4 million) relative to total expected costs (CU9 million). Public Works reassesses the variable consideration and concludes that the amount is still constrained in accordance with paragraphs 119–121 of IPSAS 47. Consequently, the cumulative revenue and costs recognized for the first year are as follows:

<b>CU</b>	
Revenue	6,000,000
Costs	5.400,000
Surplus	600,000

IE65. 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 and expected costs increase by CU1.5 million and CU1.2 million, respectively. Total potential consideration after the modification is CU13.5 million (CU11.5 million fixed consideration + CU2 million completion bonus). In addition, the allowable time for achieving the CU2 million 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, Public Works concludes that it is highly probable that including the bonus in the transaction consideration will not result in a significant reversal in the amount of cumulative revenue recognized in accordance with paragraph 119 of IPSAS 47 and includes the CU2 million in the transaction consideration. In assessing the modification to a binding arrangement, Public Works evaluates paragraph 73(b) of IPSAS 47 and concludes (on the basis of the factors in paragraph 76 of IPSAS 47) 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 compliance obligation.

- IE66. Consequently, Public Works accounts for the modification to a binding arrangement as if it were part of the original binding arrangement (in accordance with paragraph 66(b) of IPSAS 47). Public Works updates its measure of progress and estimates that it has satisfied 52.9 percent of its compliance obligation (CU5.4 million actual costs incurred ÷ CU10.2 million total expected costs). Public Works recognizes additional revenue of CU1.14 million [(52.9 percent complete × CU13.5 million modified transaction consideration) – CU6 million revenue recognized to date] at the date of the modification as a cumulative catch-up adjustment in the statement of financial performance.

### *Identifying Compliance Obligations in a Binding Arrangement*

- IE67. Examples 16–19 illustrate the requirements in paragraphs 68–77 of IPSAS 47 on identifying compliance obligations.

#### *Example 16 – Determining Whether Goods or Services are Distinct*

##### *Case A – Distinct Goods or Services*

- IE68. A government shared IT services agency (the Agency) enters into a binding arrangement with a state government (the State Government) to transfer a software license, perform an installation service and provide unspecified software updates and technical support (online and telephone) for a two-year period. The Agency provides the license, installation service and technical support separately. The installation service includes changing the web screen for each type of user (for example, marketing, inventory management 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.
- IE69. The Agency assesses the goods and services promised to the State Government to determine which goods and services are distinct in accordance with paragraph 73 of IPSAS 47. The Agency observes that the software is delivered before the other goods and services, and remains functional without the updates and the technical support. The State Government 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 Agency concludes that the State Government 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 73(a) of IPSAS 47 is met.
- IE70. The Agency also considers the principle and the factors in paragraph 76 of IPSAS 47 and determines that the promise to transfer each good and service to the State Government is separately identifiable from each of the other promises (thus the criterion in paragraph 73(b) of IPSAS 47 is met). In reaching this determination, the Agency considers that, although it integrates the software into the State Government's system, the installation services do not significantly affect the State Government's 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 State Government's ability to use, and benefit or receive service potential from, the software license during the license period. The Agency 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 Agency 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 satisfy its promise to transfer the initial software license independently from its promise to subsequently provide the installation service, software updates or technical support.

- IE71. On the basis of this assessment, the Agency identifies four compliance obligations in the binding arrangement to transfer the following goods or services to another party:
- (a) The software license;
  - (b) An installation service;
  - (c) Software updates; and
  - (d) Technical support.
- IE72. The Agency applies paragraphs 87–97 of IPSAS 47 to determine whether each of the compliance obligations for the installation service, software updates and technical support is satisfied at a point in time or over time. The Agency also assesses the nature of the Agency’s promise to transfer the software license in accordance with paragraph AG173 of IPSAS 47.

*Case B – Significant Customization*

- IE73. The promised goods and services are the same as in Case A, except that the binding arrangement specifies that, as part of the installation service, 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 State Government. The customized installation service can be provided by other entities.
- IE74. The Agency assesses the goods and services promised to the State Government to determine which goods and services are distinct in accordance with paragraph 73 of IPSAS 47. The Agency first assesses whether the criterion in paragraph 73(a) has been met. For the same reasons as in Case A, the Agency determines that the software license, installation, software updates and technical support each meet that criterion. The Agency next assesses whether the criterion in paragraph 73(b) has been met by evaluating the principle and the factors in paragraph 76 of IPSAS 47. The Agency observes that the terms of the binding arrangement result in a promise to provide a significant service of integrating the licensed software into the existing software system by performing a customized installation service as specified in the binding arrangement. In other words, the Agency is using the license and the customized installation service as inputs to produce the combined output (i.e., a functional and integrated software system) specified in the binding arrangement (see paragraph 76(a) of IPSAS 47). The software is significantly modified and customized by the service (see paragraph 76(b) of IPSAS 47). Consequently, the Agency determines that the promise to transfer the license is not separately identifiable from the customized installation service and, therefore, the criterion in paragraph 73(b) of IPSAS 47 is not met. Thus, the software license and the customized installation service are not distinct.
- IE75. On the basis of the same analysis as in Case A, the Agency concludes that the software updates and technical support are distinct from the other promises in the binding arrangement.
- IE76. On the basis of this assessment, the Agency identifies three compliance obligations in the binding arrangement to transfer the following goods or services to another party:

- (a) Software customization (which comprises the license for the software and the customized installation service);
- (b) Software updates; and
- (c) Technical support.

IE77. The Agency applies paragraphs 87–97 of IPSAS 47 to determine whether each compliance obligation is satisfied at a point in time or over time.

*Case C – Promises are Separately Identifiable (Installation)*

IE78. A shared IT services agency (the Agency) enters into a binding arrangement with a state government office (State Government) to provide a piece of equipment and installation services. 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.

IE79. The Agency identifies two promised goods and services in the binding arrangement: (a) equipment and (b) installation. The Agency assesses the criteria in paragraph 73 of IPSAS 47 to determine whether each promised good or service is distinct. The Agency determines that the equipment and the installation each meet the criterion in paragraph 73(a) of IPSAS 47. The State Government 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 State Government also can generate economic benefits or service potential from the installation services together with other resources that the State Government will already have obtained from the Agency (i.e., the equipment).

IE80. The Agency further determines that its promises to transfer the equipment and to provide the installation services are each separately identifiable (in accordance with paragraph 73(b) of IPSAS 47). The Agency considers the principle and the factors in paragraph 76 of IPSAS 47 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 76 of IPSAS 47 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 satisfy 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 State Government 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 satisfy 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.

- IE81. On the basis of this assessment, the Agency identifies two compliance obligations in the binding arrangement to transfer the following goods or services to another party:
- (a) The equipment; and
  - (b) Installation services.
- IE82. The Agency applies paragraphs 87–97 of IPSAS 47 to determine whether each compliance obligation is satisfied at a point in time or over time.

*Case D – Promises are Separately Identifiable (Restrictions to a Binding Arrangement)*

- IE83. Assume the same facts as in Case C, except that the State Government is required to use the Agency's installation services in the binding arrangement.
- IE84. 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 use 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 73(a) of IPSAS 47) 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 73(b) of IPSAS 47). The Agency's analysis in this regard is consistent with that in Case C.

*Case E – Promises are Separately Identifiable (Consumables)*

- IE85. A shared IT services agency (the Agency) enters into a binding arrangement with a state government office (State Government) to provide a piece of off-the-shelf equipment (i.e., the equipment is operational without any significant customization or modification) and to provide specialized consumables 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.
- IE86. The Agency determines that the State Government 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 75 of IPSAS 47, because they are regularly provided separately by the Agency (i.e., through refill orders to purchasers that previously purchased the equipment). The State Government 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 State Government initially under the binding arrangement. Therefore, the equipment and the consumables are each capable of being distinct in accordance with paragraph 73(a) of IPSAS 47.
- IE87. The Agency determines that its promises to transfer the equipment and to provide consumables over a three-year period are each separately identifiable in accordance with paragraph 73(b) of IPSAS 47. In determining that the equipment and the consumables are not inputs to a combined item in this binding arrangement, the Agency considers that it 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 Agency concludes that the equipment and the consumables are not highly



interdependent or highly interrelated because they do not significantly affect each other. Although the State Government 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 satisfy each of its promises in the binding arrangement independently of the other. That is, the Agency would be able to satisfy its promise to transfer the equipment, even if the State Government did not purchase any consumables, and would be able to satisfy its promise to provide the consumables, even if the State Government acquired the equipment separately.

IE88. On the basis of this assessment, the Agency identifies two compliance obligations in the binding arrangement to transfer the following goods or services to another party:

- (a) The equipment; and
- (b) The consumables.

IE89. The Agency applies paragraphs 87–97 of IPSAS 47 to determine whether each compliance obligation is satisfied at a point in time or over time.

*Example 17 – Goods and Services are not Distinct*

*Case A – Significant Integration Service: Hospital Construction*

IE90. The Department of Public Works (Public Works) enters into a binding arrangement with the Department of Health to build a hospital. 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.

IE91. The promised goods and services are capable of being distinct in accordance with paragraph 73(a) of IPSAS 47. That is, the Department of Health 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 Department of Health could generate economic benefits or service potential from the individual goods and services by using, consuming, selling or holding those goods or services.

IE92. However, the promises to transfer the goods and services are not separately identifiable in accordance with paragraph 73(b) of IPSAS 47 (on the basis of the factors in paragraph 76 of IPSAS 47). 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.

IE93. Because the criterion in paragraph 73(b) of IPSAS 47 is not met, the goods and services are not distinct. Public Works accounts for all of the goods and services promised in the binding arrangement as a single compliance obligation.

*Case B – Significant Integration Service: Road Trains Production and Delivery*

IE94. The Department of Research Sciences (the Department) enters into a binding arrangement with a local government (the Government) that will result in the delivery of multiple highly complex,

specialized road trains. 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 Government 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.

- IE95. The Department assesses the promises in the binding arrangement and determines that each of the promised road trains is capable of being distinct in accordance with paragraph 73(a) of IPSAS 47 because the Government can generate economic benefits or service potential from each road train on its own. This is because each road train can function independently of the other road trains.
- IE96. The Department observes that the nature of its promise is to establish and provide a service of producing the full complement of road trains for which the Government has entered into a binding arrangement in accordance with the Government's specifications. The Department considers that it is responsible for the 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). Therefore, the road trains and the various promised goods and services inherent in producing those road trains are not separately identifiable in accordance with paragraph 73(b) and paragraph 76 of IPSAS 47. In this case, the manufacturing process provided by the Department is specific to its binding arrangement with the Government. 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 road trains 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.
- IE97. Because the criterion in paragraph 73(b) of IPSAS 47 is not met, the goods and services that will be provided by the Department are not distinct. The Department accounts for all of the goods and services promised in the binding arrangement as a single compliance obligation.

*Case C – Significant Integration Service: Emergency Response*

- IE98. An Emergency Aid Agency (the Agency) enters into an arrangement with an International Development Organization (the Organization) and receives CU1 million to provide emergency flood response services to the citizens in an affected region which did not have sufficient resources to respond to the crisis. The Agency has applied paragraphs 9–16 of IPSAS 47 and determined that the arrangement is a binding arrangement. Under the terms of the binding arrangement, the Agency is required to acquire blankets and shelter sheets, and to purchase various types of equipment such as water pumps, reservoirs, buckets, and brooms to provide cleanup services. The terms of the binding arrangement stated that the Agency may also need to engage in other activities or incur eligible expenditures that are not explicitly listed but are necessary to meet the overall objective of providing emergency flood response services to affected citizens. The Agency noted that, in the context of the binding arrangement, the transport and distribution of the purchased blankets and shelter sheets are not explicitly listed in the binding arrangement but would qualify as an eligible expenditure that is necessary and therefore is an implicit promised service.

- IE99. The promised goods and services are capable of being distinct in accordance with paragraph 73(a) of IPSAS 47 because the citizens in the affected region are able to generate economic benefits or service potential from the supplies and cleanup services either on their own or together with other resources readily available.
- IE100. However, the Agency determines that the promised goods and services to be transferred to the citizens are not separately identifiable in accordance with paragraph 73(b) of IPSAS 47 on the basis of the factors in paragraph 76 of IPSAS 47. This is because the nature of its promise in the binding arrangement is to meet the immediate emergency needs and provide prompt humanitarian assistance to citizens in the affected region. The Agency notes that in order to meet the terms of the binding arrangement, it is required to provide a significant service of integrating the goods or services (the inputs) to provide emergency flood response services (the combined output).
- IE101. Because the criterion in paragraph 73(b) of IPSAS 47 is not met, the goods and services are not distinct. Rather, the combined bundle of goods and services in the binding arrangement is distinct. The Agency accounts for all of the goods and services promised in the binding arrangement as a single compliance obligation.

*Example 18 – Transfer of Resources to Another Level of Government with Compliance Obligations*

- IE102. The national government (Government N) provides CU10 million to a provincial government (Government P) to be used to improve and maintain mass transit systems. Specifically, the money is required to be used as follows: 40 percent for existing railroad and tramway system modernization, 40 percent for a new railroad or tramway system, and 20 percent for the purchase of rolling stock. Under the terms of the binding arrangement, the money can only be used as specified and any misused or unused amounts must be repaid to Government N. Furthermore, Government P is required to include a note in its audited general purpose financial statements detailing how the transferred resources were spent. The binding arrangement requires the resources to be spent as specified in the current year or be returned to Government N.
- IE103. Government P recognizes the inflow of CU10 million as an asset, and an equivalent liability because it is required to transfer resources back to Government N if it does not satisfy the compliance obligations in the binding arrangement.
- IE104. Government P notes that various goods and services not explicitly stated in the binding arrangement are required to satisfy the binding arrangement. For example, certain goods and services would be required to modernize the existing railroad and tramway system, while other goods and services would be required to build a new railroad or tramway system. Thus, Government P conducts a thorough assessment to identify all goods and services inherently promised in the binding arrangement. It then determines that the promised goods and services are capable of being distinct in accordance with paragraph 73(a) of IPSAS 47 because Government N can generate economic benefits or service potential from each good and service on its own or together with other readily available resources.
- IE105. Considering the context of the binding arrangement, Government P observes that the nature of its promise in the binding arrangement is to use the resources in three individually specific ways rather than in a combined manner:
- (a) The goods and services to modernize the existing railroad and tramway system represent a single combined output: the modernization of the existing system. Government P provides a

significant service of integrating these goods and services into a single output that is separately identifiable from other goods or services in the binding arrangement. Similarly, the goods and services to build a new railroad or tramway system represent a single combined output, and the purchase of rolling stock represents a single output; and

- (b) Government P is not significantly integrating these three combined outputs, nor do the outputs significantly modify, customize, or depend on each other. Rather, Government P is responsible for generating three separately identifiable outputs in accordance with paragraphs 73(b) and 76 of IPSAS 47: the modernization work, the new system, and the rolling stock.

IE106. Because both criteria in paragraph 73 of IPSAS 47 are met, the binding arrangement contains three separate compliance obligations;

- (a) The compliance obligation to use CU4 million for modernizing the existing railroad and tramway system;
- (b) The compliance obligation to use CU4 million for a new railroad or tramway system; and
- (c) The compliance obligation to use CU2 million for purchasing rolling stock.

IE107. Government P reduces the liability as or when it satisfies the compliance obligations, and recognizes revenue in the statement of financial performance of the reporting period.

*Example 19 – Explicit and Implicit Promises in a Binding Arrangement*

IE108. A government entity (the Government), with the objective of providing broadband internet services to citizens in rural areas, provides modem equipment to a telecommunications company (the Telecom) (i.e., the Government’s purchaser) who will then resell it to members of the public (i.e., the Telecom’s customers) for below-market prices.

*Case A—Explicit Promise of Service*

IE109. In the binding arrangement with the Telecom, the Government promises to provide maintenance services for no additional consideration (i.e., ‘free’) to any end customer (i.e., members of the public) who purchased a modem from the Telecom. The Government outsources the performance of the maintenance services to the Telecom and pays the Telecom an agreed-upon amount for providing those services on the Government’s behalf. If the end customer does not use the maintenance services, the Government is not obligated to pay the Telecom.

IE110. The binding arrangement with the Telecom includes two promised goods or services: (a) the modem and (b) the maintenance services. The promise of maintenance services is a promise to transfer goods or services in the future and is part of the negotiated exchange between the Government and the Telecom. The Government assesses whether each good or service is distinct in accordance with paragraph 73 of IPSAS 47. The Government determines that both the product and the maintenance services meet the criterion in paragraph 73(a) of IPSAS 47. The Government provides the modem on a stand-alone basis, which indicates that the Telecom can generate economic benefits or service potential from the modem on its own. The Telecom can generate economic benefits or service potential from the maintenance services together with a resource the Telecom already has obtained from the Government (i.e., the modem).

IE111. The Government further determines that its promises to transfer the modem and to provide the maintenance services are separately identifiable (in accordance with paragraph 73(b) of IPSAS 47

on the basis of the principle and the factors in paragraph 76 of IPSAS 47). The modem and the maintenance services are not inputs to a combined item in the binding arrangement. The Government is not providing a significant integration service because the presence of the modem and the services together in this binding arrangement do not result in any additional or combined functionality. In addition, neither the modem nor the services modify or customize the other. Lastly, the modem and the maintenance services are not highly interdependent or highly interrelated because the Government would be able to satisfy each of the promises in the binding arrangement independently of its efforts to satisfy the other (i.e., the Government would be able to transfer the modem even if the Telecom (through the individual end customers) declined maintenance services, and would be able to provide maintenance services in relation to modems provided previously through other distributors). The Government also observes, in applying the principle in paragraph 76 of IPSAS 47, that the Government's promise to provide maintenance is not necessary for the product to continue to provide significant economic benefits or service potential to the Telecom. Consequently, the Government concludes that there are two compliance obligations (i.e., the modem and the maintenance services) in the binding arrangement.

*Case B—Implicit Promise of Service*

- IE112. Continuing with the fact pattern in Case A, the Government has historically provided maintenance services for no additional consideration (i.e., 'free') to end customers in rural areas who purchased the Government's modem from the Telecom. The Government is now rolling out a similar program to urban areas. During the negotiations on this new urban program, the Government does not explicitly promise maintenance services during negotiations with the Telecom and the final binding arrangement between the Government and the Telecom does not specify terms or conditions for those services.
- IE113. However, on the basis of its customary practice, the Government determines at the inception of the new binding arrangement that it has made an implicit promise to provide maintenance services as part of the negotiated exchange with the Telecom. That is, the Government's past practices of providing these services in rural areas create valid expectations of the Government's purchasers (i.e., the Telecom) in accordance with paragraph 71 of IPSAS 47. Consequently, the Government assesses whether the promise of maintenance services is a compliance obligation. For the same reasons as in Case A, the Government determines that the product and maintenance services are separate compliance obligations.

*Case C—Services are not a Promised Service*

- IE114. As a further variation from Cases A and B, in the binding arrangement with the Telecom, the Government does not promise to provide any maintenance services. In addition, the Government typically does not provide maintenance services and, therefore, the Government's customary practices, published policies and specific statements at the time of entering into the binding arrangement have not created an implicit promise to provide goods or services to its purchasers. The Government transfers control of the modem to the Telecom and, therefore, the binding arrangement is completed. However, before the sale to the Telecom's end customers, the Government makes an offer to provide maintenance services to any party that purchases a modem from the Telecom for no additional promised consideration.
- IE115. The promise of maintenance is not included in the binding arrangement between the Government and the Telecom at the inception of the binding arrangement. That is, in accordance with paragraph

71 of IPSAS 47, the Government does not explicitly or implicitly promise to provide maintenance services to the Telecom or the end customers. Consequently, the Government does not identify the promise to provide maintenance services as a compliance obligation. Instead, the obligation to provide maintenance services is accounted for in accordance with IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*.

IE116. Although the maintenance services are not a promised service in the current binding arrangement, in future binding arrangements with the Telecom or other telecommunications companies, the Government would assess whether it has created a business practice resulting in an implied promise to provide maintenance services.

### *Recognition of Revenue Transactions with a Binding Arrangement*

#### Satisfied Over Time or at a Point in Time

IE117. Examples 20–22 illustrate the requirements in paragraphs 92–93 and 95 of IPSAS 47 on the satisfaction of compliance obligations over time. In addition, the following requirements are illustrated in these examples:

- (a) Paragraphs 92(a) of IPSAS 47 for transactions with compliance obligations to use resources for goods or services internally on when an entity simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs (Example 20 Case A);
- (b) Paragraphs 95(a) of IPSAS 47 for transactions with compliance obligations to transfer goods or services to another party on when a purchaser or third-party beneficiary simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs (Example 20 Case B, and Example 21);
- (c) Paragraphs 95(c) and 96–97 of IPSAS 47 on an entity's performance that does not create an asset with an alternative use and an entity's enforceable right to receive consideration for performance completed to date (Examples 21–22); and
- (d) Paragraph 97 of IPSAS 47 on compliance obligations satisfied at a point in time (Example 22).

#### *Example 20 – Resource Provider Simultaneously Receives and Consumes the Economic Benefits or Service Potential*

##### *Case A – Satisfaction of Compliance Obligation to Use Resources for Goods or Services Internally*

IE118. A regional government (the Government) enters into a binding arrangement to provide CU1.2 million to the regional hospital network (the Hospital). The Government requires the Hospital to use the CU1.2 million in the operation of its medical imaging department.

IE119. The use of funds in the medical imaging department is a single compliance obligation in accordance with paragraph 68(b) of IPSAS 47. The compliance obligation is satisfied over time in accordance with paragraph 92(a) of IPSAS 47 because the Hospital simultaneously receives and consumes the economic benefits or service potential of the received resources as it is used. The Hospital recognizes revenue over time by measuring its progress towards complete satisfaction of that compliance obligation in accordance with paragraphs 98–104 of IPSAS 47.

*Case B – Satisfaction of Compliance Obligation to Transfer Goods or Services to Another Party*

- IE120. A public payroll service center (the Payroll Center) enters into a binding arrangement to provide monthly payroll processing services to a local government's Department of Education (the Department) for one year.
- IE121. The promised payroll processing services are accounted for as a single compliance obligation in accordance with paragraph 68(b) of IPSAS 47. The compliance obligation is satisfied over time in accordance with paragraph 95(a) of IPSAS 47 because the Department simultaneously receives and consumes 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 Department simultaneously receives and consumes the economic benefits or service potential of the Payroll Center's performance as the Payroll Center performs. The Payroll Center disregards any practical limitations on transferring the remaining compliance obligation, including setup activities that would need to be undertaken by another entity. The Payroll Center recognizes revenue over time by measuring its progress towards complete satisfaction of that compliance obligation in accordance with paragraphs 98–104 of IPSAS 47.

*Example 21 – Assessing Alternative Use and Right to Consideration*

- IE122. The Office of the Auditor General (the Auditor) enters into a binding arrangement with a government agency (the Agency) to provide financial statement audit services that result in the Auditor providing an audit opinion to the Agency. The audit opinion relates to the accounting records and other facts and circumstances that are specific to the Agency. If the Agency were to terminate the audit for reasons other than the Auditor's failure to perform as promised, the binding arrangement requires the Agency to compensate the Auditor for its costs incurred.
- IE123. The Auditor considers the criterion in paragraph 95(a) of IPSAS 47 to determine whether the Agency 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 compliance obligation and the Agency 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 Agency will generate economic benefits or service potential of the Auditor's performance only when the Agency receives the audit opinion. Consequently, the Auditor concludes that the criterion in paragraph 95(a) of IPSAS 47 is not met.
- IE124. However, the Auditor's compliance obligation meets the criterion in paragraph 95(c) of IPSAS 47 because the audit work completed to date would not have any alternative use, as it would be specific to the audit of the Agency. Thus, the Auditor has a compliance obligation satisfied over time because of both of the following factors:
- (a) In accordance with paragraphs 96 of IPSAS 47, the development of the audit opinion does not create an asset with an alternative use to the Auditor because the audit relates to facts and circumstances that are specific to the Agency. Therefore, the Auditor cannot use the audit opinion for any other purpose.

- (b) In accordance with paragraphs 97 of IPSAS 47, the Auditor has an enforceable right to receive consideration for its performance completed to date for its costs.

IE125. Consequently, the Auditor recognizes revenue over time by measuring the progress towards complete satisfaction of the compliance obligation in accordance with paragraphs 98–104 of IPSAS 47.

*Example 22 – Assessing Whether a Compliance Obligation is Satisfied at a Point in Time or Over Time*

IE126. The Department of Public Works (Public Works) is developing multi-unit residential complexes to be sold to the Department of Housing (Housing) as well as a variety of commercial entities. Housing enters into a binding arrangement with Public Works for specified units that are under construction. These units have a similar floor plan and are of a similar size, but other attributes of the units are different (for example, the location of the units within the complex).

*Case A – Entity does not have an Enforceable Right to Consideration for Performance Completed to Date*

IE127. Housing pays a deposit upon entering into the binding arrangement and the deposit is refundable only if Public Works fails to complete construction of the units in accordance with the binding arrangement. The remainder of the consideration is payable on completion of the binding arrangement when Housing obtains physical possession of the units. If Housing defaults on the binding arrangement before completion of the units, Public Works only has the right to retain the deposit.

IE128. At the inception of the binding arrangement, Public Works applies paragraph 95(c) of IPSAS 47 to determine whether its promise to construct and transfer the units to Housing is a compliance obligation satisfied over time. Public Works determines that it does not have an enforceable right to consideration for performance completed to date because, until construction of the units is complete, it only has a right to the deposit paid by Housing. Because Public Works does not have a right to consideration for work completed to date, its compliance obligation is not a compliance obligation satisfied over time in accordance with paragraph 95(c) of IPSAS 47. Instead, Public Works accounts for the sale of the units as compliance obligations satisfied at a point in time in accordance with paragraph 97 of IPSAS 47.

*Case B – Entity has an Enforceable Right to Consideration for Performance Completed to Date*

IE129. Housing pays a non-refundable deposit upon entering into the binding arrangement and will make progress payments during construction of the units. The binding arrangement has substantive terms that preclude Public Works from being able to direct the units to another purchaser. In addition, Housing does not have the right to terminate the binding arrangement unless Public Works fails to perform as promised. If Housing defaults on its obligations by failing to make the promised progress payments as and when they are due, Public Works would have a right to all of the consideration promised in the binding arrangement if it completes the construction of the units. The courts have previously upheld similar rights that entitle developers to require the purchaser to perform, subject to the entity meeting its compliance obligations under the binding arrangement.

IE130. At the inception of the binding arrangement, Public Works applies paragraph 95(c) of IPSAS 47 to determine whether its promise to construct and transfer the units to Housing is a compliance obligation satisfied over time. Public Works determines that the units it constructs do not have an alternative use to Public Works because the binding arrangement precludes Public Works from transferring the specified units to another purchaser. Public Works does not consider the possibility



of a termination of a binding arrangement in assessing whether it is able to direct the units to another purchaser.

- IE131. Public Works also has a right to consideration for performance completed to date in accordance with paragraphs 97(a) of IPSAS 47. This is because if Housing were to default on its obligations, Public Works would have an enforceable right to all of the consideration promised under the binding arrangement if it continues to perform as promised.
- IE132. Therefore, the terms of the binding arrangement and the practices in the legal jurisdiction indicate that there is a right to consideration for performance completed to date. Consequently, the criteria in paragraph 95(c) of IPSAS 47 are met and Public Works has a compliance obligation that it satisfies over time. To recognize revenue for that compliance obligation satisfied over time, Public Works measures its progress towards complete satisfaction of its compliance obligation in accordance with paragraphs 98–104 of IPSAS 47.
- IE133. In the construction of a multi-unit residential complex, Public Works may have many binding arrangements with individual purchasers for the construction of individual units within the complex. Public Works would account for each binding arrangement separately. However, depending on the nature of the construction, Public Works' performance in undertaking the initial construction work (i.e., the foundation and the basic structure), as well as the construction of common areas, may need to be reflected when measuring its progress towards complete satisfaction of its compliance obligations in each binding arrangement.

*Case C – Entity has an Enforceable Right to Consideration for Performance Completed to Date, but Binding Arrangement can be Cancelled*

- IE134. The same facts as in Case B apply to Case C, except that in the event of a default by Housing, either Public Works can require Housing to perform as required under the binding arrangement or Public Works can cancel the binding arrangement in exchange for the asset under construction and an entitlement to a penalty of a proportion of the agreed price in the binding arrangement.
- IE135. Notwithstanding that Public Works could cancel the binding arrangement (in which case Housing's obligation to Public Works would be limited to transferring control of the partially completed units to Public Works and paying the penalty prescribed), Public Works has a right to consideration for performance completed to date because it could also choose to enforce its rights to full payment under the binding arrangement. The fact that Public Works may choose to cancel the binding arrangement in the event Housing defaults on its obligations would not affect that assessment (see paragraph AG69 of IPSAS 47), provided that Public Work's rights to require Housing to continue to perform as required under the binding arrangement (i.e., pay the promised consideration) are enforceable.

Measuring Progress Towards Complete Satisfaction of a Compliance Obligation

- IE136. Examples 23–24 illustrate the requirements in paragraphs 98–104 of IPSAS 47 on measuring progress towards complete satisfaction of a compliance obligation satisfied over time. Example 24 also illustrates the requirements in paragraph AG95 of IPSAS 47 on uninstalled materials when costs incurred are not proportionate to the entity's progress in satisfying a compliance obligation.

*Example 23 – Measuring Progress when Making Goods or Services Available*

- IE137. A local government (the Government) owns and manages public swimming pools and enters into a binding arrangement with a member of the public for one year of access to any of its pools. The member of the public has unlimited use of the pools and promises to pay an access fee of CU100 per month.
- IE138. The Government determines that its promise to the member of the public is to provide a service of making the pools available for the member of the public to use as and when the member of the public wishes. This is because the extent to which the member of the public uses the pools does not affect the amount of the remaining goods and services to which the member of the public is entitled. The Government concludes that the member of the public simultaneously receives and consumes the economic benefits or service potential of the local government’s performance as it performs by making the pools available. Consequently, the Government’s compliance obligation is satisfied over time in accordance with paragraph 92(a) of IPSAS 47.
- IE139. The Government also determines that the member of the public consumes economic benefits or service potential from the Government making the pools available throughout the year. That is, the member of the public benefits from having the pools available, regardless of whether the member of the public uses it or not. Consequently, the Government concludes that the best measure of progress towards complete satisfaction of the compliance obligation over time is an output method, specifically a time-based measure, and it recognizes revenue on a straight-line basis throughout the year at CU100 per month.

*Example 24 – Measuring Progress for Uninstalled Materials*

- IE140. In November 20X2, the Department of Public Works (Public Works) enters into a binding arrangement with another department to refurbish a 3-storey building and install new elevators for a total consideration of CU5 million. Public Works concluded that the promised refurbishment service, including the installation of elevators, is a single compliance obligation satisfied over time. Total expected costs are CU4 million, including CU1.5 million for the elevators. Public Works determines that it acts as a principal in accordance with paragraphs AG117–AG125 of IPSAS 47, because it obtains control of the elevators before they are transferred to the other department.
- IE141. A summary of the transaction consideration and expected costs is as follows:

<b>CU</b>	
Transaction consideration	5,000,000
Expected costs:	
Elevators	1,500,000
Other costs	2,500,000
Total expected costs	4,000,000

- IE142. Public Works uses an input method based on costs incurred to measure its progress towards complete satisfaction of the compliance obligation. Public Works assesses whether the costs incurred to procure the elevators are proportionate to the Public Work’s progress in satisfying the compliance obligation, in accordance with paragraph AG95 of IPSAS 47. The other department obtains control of the elevators when they are delivered to the site in December 20X2, although the

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elevators will not be installed until June 20X3. The costs to procure the elevators (CU1.5 million) are significant relative to the total expected costs to completely satisfy the compliance obligation (CU4 million). Public Works is not involved in designing or manufacturing the elevators.

IE143. Public Works concludes that including the costs to procure the elevators in the measure of progress would overstate the extent of its performance. Consequently, in accordance with paragraph AG95 of IPSAS 47, Public Works adjusts its measure of progress to exclude the costs to procure the elevators from the measure of costs incurred and from the transaction consideration. Public Works recognizes revenue for the transfer of the elevators in an amount equal to the costs to procure the elevators (i.e., at a zero margin).

IE144. As of December 31, 20X2, Public Works observes that:

- (a) Other costs incurred (excluding elevators) are CU500,000; and
- (b) Performance is 20 percent complete (i.e., CU500,000 ÷ CU2,500,000).

IE145. Consequently, at December 31, 20X2, Public Works recognizes the following:

<b>CU</b>		
Revenue	2,200,000	(A)
Cost of goods sold	2,000,000	(B)
Profit	<u>200,000</u>	

(A) Revenue recognized is calculated as (20 per cent × CU3,500,000) + CU1,500,000. (CU3,500,000 is CU5,000,000 transaction consideration – CU1,500,000 costs of elevators.)

(B) Cost of goods sold is CU500,000 of costs incurred + CU1,500,000 costs of elevators.

### *Measurement of Revenue Transactions with a Binding Arrangement*

#### Variable Consideration

##### *Example 25 – Estimating Variable Consideration*

IE146. The Department of Public Works (Public Works) enters into a binding arrangement with the Department of Transportation (Transportation) to build a bridge. The promise to transfer the bridge is a compliance 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.

IE147. In addition, upon completion of the bridge, a third party will inspect 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.

IE148. Public Works determines that the consideration promised in the binding arrangement includes a variable amount, and estimates the amount of consideration it is entitled to in accordance with paragraphs 113–117 of IPSAS 47. In determining the transaction consideration, Public Works

prepares a separate estimate for each element of variable consideration to which Public Works will be entitled using the estimation methods described in paragraph 116 of IPSAS 47:

- (a) Public Works 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 Public Works expects to better predict the amount of consideration to which it will be entitled.
- (b) Public Works 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 Public Works expects to better predict the amount of consideration to which it will be entitled.

IE149. Public Works considers the requirements in paragraphs 119–121 of IPSAS 47 on constraining estimates of variable consideration to determine whether it should include some or all of its estimate of variable consideration in the transaction consideration.

#### The Existence of a Significant Financing Component in the Binding Arrangement

IE150. Examples 26–30 illustrate the requirements in paragraphs 123–128 of IPSAS 47 on the existence of a significant financing component in the binding arrangement. In addition, the following requirements are illustrated in Example 26:

- (a) Paragraphs 119–121 of IPSAS 47 on constraining estimates of variable consideration; and
- (b) Paragraphs AG96–AG103 of IPSAS 47 on sales with a right of return.

#### *Example 26 – Significant Financing Component and Right of Return*

IE151. A government entity (the Government) provides trains to a public sector subway operator (the Operator) for CU121 million that is payable 24 months after delivery. The Operator obtains control of the trains at the inception of the binding arrangement. The binding arrangement permits the Operator to return the trains within 90 days. The trains are new and the Government has no relevant historical evidence of returns or other available market evidence.

IE152. The cash price of the trains is CU100 million, which represents the amount that the Operator would pay upon delivery for the same trains provided under otherwise identical terms and conditions as at the inception of the binding arrangement. The Government's cost of the trains is CU80 million.

IE153. The Government does not recognize revenue when control of the product transfers to the Operator. This is because the existence of the right of return and the lack of relevant historical evidence means that the Government cannot conclude that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur in accordance with paragraphs 119–121 of IPSAS 47. Consequently, revenue is recognized after three months when the right of return lapses.

IE154. The binding arrangement includes a significant financing component, in accordance with paragraphs 123–125 of IPSAS 47. This is evident from the difference between the amount of promised consideration of CU121 million and the cash price of CU100 million at the date that the goods are transferred to the Operator.

IE155. The binding arrangement includes an implicit interest rate of 10 percent (i.e., the interest rate that over 24 months discounts the promised consideration of CU121 million to the cash price of

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CU100 million). The Government evaluates the rate and concludes that it is commensurate with the rate that would be reflected in a separate financing transaction between the Government and the Operator at the inception of the binding arrangement. The following journal entries illustrate how the Government accounts for this binding arrangement in accordance with paragraphs AG96–AG103 of IPSAS 47:

- (a) When the trains are transferred to the Operator, in accordance with paragraph AG97 of IPSAS 47:

Asset for right to recover trains to be returned	CU80 million <sup>12</sup>
Inventory	

- (b) During the three-month right of return period, no interest is recognized in accordance with paragraph 128 of IPSAS 47 because no binding arrangement asset or receivable has been recognized.

- (c) When the right of return lapses (the trains are not returned):

Receivable	CU100 million <sup>13</sup>
Revenue	
Cost of sales	CU80 million
Asset for trains to be returned	

IE156. Until the Government receives the cash payment from the Operator, interest revenue would be recognized in accordance with IPSAS 41. In determining the effective interest rate in accordance with IPSAS 41, the Government would consider the remaining terms of the binding arrangement.

*Example 27 – Withheld Payments on a Long-Term Binding Arrangement is not a Significant Financing Component*

IE157. The Department of Public Works (Public Works) enters into a binding arrangement for the construction of a building that includes scheduled milestone payments for the performance by Public Works throughout the binding arrangement term of three years. The compliance obligation will be satisfied over time and the milestone payments are scheduled to coincide with the Public Works' expected performance. The binding arrangement provides that a specified percentage of each milestone payment is to be withheld (i.e., retained) by the resource provider throughout the binding arrangement and paid to Public Works only when the building is complete.

IE158. Public Works concludes that the binding arrangement does not include a significant financing component. The milestone payments coincide with Public Works' performance and the binding arrangement requires amounts to be retained for reasons other than the provision of finance in accordance with paragraph 125(c) of IPSAS 47. The withholding of a specified percentage of each

<sup>12</sup> This example does not consider expected costs to recover the asset.

<sup>13</sup> The receivable recognized would be measured in accordance with IPSAS 41. This example assumes there is no material difference between the fair value of the receivable at the inception of the binding arrangement and the fair value of the receivable when it is recognized at the time the right of return lapses. In addition, this example does not consider the impairment accounting for the receivable.

milestone payment is intended to protect the resource provider from Public Works failing to adequately complete its compliance obligations under the binding arrangement.

*Example 28 – Determining the Discount Rate*

IE159. The Department of Communications and Information (the Department) enters into a binding arrangement with a foreign government to provide broadband internet equipment. Control of the equipment transfers to the foreign government when the binding arrangement is signed. The consideration stated in the binding arrangement is CU100 million plus a five percent rate of interest in the binding arrangement, payable in 60 monthly instalments of CU1.89 million.

*Case A – Discount Rate in the Binding Arrangement Reflects the Rate in a Separate Financing Transaction*

IE160. In evaluating the discount rate in the binding arrangement that contains a significant financing component, the Department considers paragraph 127 of IPSAS 47 and observes that the five percent rate of interest in the binding arrangement reflects the rate that would be used in a separate financing transaction between the Department and the foreign government at the inception of the binding arrangement (i.e., the rate of interest of five percent in the binding arrangement reflects the credit characteristics of the foreign government).

IE161. The market terms of the financing mean that the cash price of the equipment is CU100 million. This amount is recognized as revenue and as a loan receivable when control of the equipment transfers to the foreign government. The Department accounts for the receivable in accordance with IPSAS 41.

*Case B – Discount Rate in the Binding Arrangement does not Reflect the Rate in a Separate Financing Transaction*

IE162. In evaluating the discount rate in the binding arrangement that contains a significant financing component, the Department observes that the five percent rate of interest in the binding arrangement is significantly lower than the 12 percent interest rate that would be used in a separate financing transaction between the Department and the foreign government at the inception of the binding arrangement (i.e., the rate of interest in the binding arrangement of five percent does not reflect the credit characteristics of the foreign government). This suggests that the cash price is less than CU100 million.

IE163. In accordance with paragraph 127 of IPSAS 47, the Department determines the transaction consideration by adjusting the promised amount of consideration to reflect the payments in the binding arrangement using the 12 percent interest rate that reflects the credit characteristics of the foreign government. Consequently, the Department determines that the transaction consideration is CU84.83 million (60 monthly payments of CU1.89 million discounted at 12 percent). The Department recognizes revenue and a loan receivable for that amount. The Department accounts for the loan receivable in accordance with IPSAS 41.

*Example 29 – Advance Payment and Assessment of Discount Rate*

IE164. The national government will hold an international summit in two years and needs to invest in vehicles for the event. At the conclusion of the event, the national government plans to sell the surplus vehicles. To achieve this objective, the national government enters into a binding arrangement with a state government to provide the surplus vehicles in two years (i.e., the compliance obligation will be satisfied at a point in time). The binding arrangement includes two

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alternative payment options: payment of CU5 million in two years when the state government obtains control of the vehicles or payment of CU4 million when the binding arrangement is signed. The state government elects to pay CU4 million when the binding arrangement is signed.

IE165. The national government concludes that the binding arrangement contains a significant financing component because of the length of time between when the state government pays for the vehicle and when the national government transfers the vehicles to the state government, as well as the prevailing interest rates in the market.

IE166. The interest rate implicit in the transaction is 11.8 percent, which is the interest rate necessary to make the two alternative payment options economically equivalent. However, the national government determines that, in accordance with paragraph 127 of IPSAS 47, the rate that should be used in adjusting the promised consideration is six percent, which is the national government's incremental borrowing rate.

IE167. The following journal entries illustrate how the national government would account for the significant financing component:

- (a) Recognize a binding arrangement liability for the CU4 million payment received at inception of the binding arrangement:

Cash	CU4 million
Binding arrangement liability	CU4 million

- (b) During the two years from inception of the binding arrangement until the transfer of the vehicle, the national government adjusts the promised amount of consideration (in accordance with paragraph 128 of IPSAS 47) and builds up the binding arrangement liability by recognizing interest on CU4 million at six percent for two years:

Interest expense	CU494,000 <sup>14</sup>
Binding arrangement liability	CU494,000

- (c) Recognize revenue for the transfer of the vehicles:

Binding arrangement liability	CU4,494,000
Revenue	CU4,494,000

*Example 30 – Advance Payment*

IE168. A private sector telecommunications company (the Telecom) has set up cellular phone towers on government-owned properties. Under the arrangement, access to the towers can only be made by appropriately skilled telecommunications specialists. The Telecom enters into a binding arrangement with a government entity that provides specialist telecommunications services (the Government Entity) to provide maintenance and repair services for three years. The Telecom purchases this support service at the time of setting up the cellular phone towers. Consideration

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<sup>14</sup> CU494,000 = CU4 million binding arrangement liability × (6 per cent interest per year for two years).

for the service is CU300,000, and the Telecom must pay for it upfront (i.e., a monthly payment option is not available).

- IE169. To determine whether there is a significant financing component in the binding arrangement, the Government Entity considers the nature of the service being offered and the purpose of the payment terms. The Government Entity charges a single upfront amount, not with the primary purpose of obtaining financing from purchasers but, instead, to better manage its resources, taking into consideration the risks associated with providing the service. Specifically, if the Telecom could pay monthly, it may change to another provider of the specialist service, leaving the Government Entity with costs for which it cannot earn revenue.
- IE170. In assessing the requirements in paragraph 125(c) of IPSAS 47, the Government Entity determines that the payment terms were structured primarily for reasons other than the provision of finance to the Government Entity. The Government Entity charges a single upfront amount for the services because other payment terms (such as a monthly payment plan) would affect the nature of the risks assumed by the Government Entity to provide the service and may make it uneconomical to provide the service. As a result of its analysis, the Government Entity concludes that there is not a significant financing component.

#### Non-Cash Consideration

- IE171. Example 31 illustrates the requirements in paragraphs 129–132 of IPSAS 47 on non-cash consideration, as well as the requirements in paragraph 68 of IPSAS 47 on identifying compliance obligations.

#### *Example 31 – Entitlement to Non-Cash Consideration*

- IE172. A public broadcaster (the Broadcaster) enters into a binding arrangement with a private media company (the Media Company) to provide production services for one year. The binding arrangement is signed on January 1, 20X1 and work begins immediately. The Broadcaster concludes that the production services are a single compliance obligation in accordance with paragraph 68(b) of IPSAS 47. This is because the Broadcaster is providing a series of distinct production services that are substantially the same and have the same pattern of transfer (the production services transfer to the Media Company over time and use the same method to measure progress—that is, a time-based measure of progress).
- IE173. In exchange for the production services, the Media Company promises to provide the Broadcaster with the right to air one of the Media Company's popular sports programs once per week of production services.
- IE174. The Broadcaster measures its progress towards complete satisfaction of the compliance obligation as each week of production service is complete. To determine the transaction consideration (and the amount of revenue to be recognized), the Broadcaster first considers the fair value of the right to air the popular sports program. However, as the right to air the program is not typically sold by the Media Company or traded in the market, the Broadcaster concludes that it cannot reasonably estimate the fair value of the non-cash consideration. As a result, the Broadcaster measures the transaction consideration indirectly by reference to the stand-alone value of the production services promised to the Media Company.



## Allocation Based on Stand-Alone Values

IE175. Examples 32–34 illustrate the requirements in paragraphs 133–143 of IPSAS 47 on allocating the transaction consideration to compliance obligations. In addition, the following requirements are illustrated in these examples:

- (a) Paragraph 116 of IPSAS 47 on variable consideration (Example 34);
- (b) Paragraphs AG107–AG109 of IPSAS 47 on the allocation of a discount (Examples 32-33); and
- (c) Paragraph AG182 of IPSAS 47 on consideration in the form of sales-based or usage-based royalties on licenses of intellectual property (Example 34).

*Example 32 – Allocation Methodology*

IE176. A Department of Defense (the Department) enters into a binding arrangement with another country to provide a fighter jet, specialized spare parts, and a specialized engine in exchange for CU100 million. The Department will satisfy the compliance obligations for the jet, spare parts, and engine at different points in time. The Department can provide fighter jets separately and therefore the stand-alone value is directly observable. The stand-alone values of the specialized spare parts and specialized engine are not directly observable.

IE177. Because the stand-alone values for the specialized spare parts and specialized engine are not directly observable, the Department must estimate them. To estimate the stand-alone values, the Department uses the adjusted market assessment approach for the specialized spare parts and the expected cost approach for the specialized engines. In making those estimates, the Department maximizes the use of observable inputs (in accordance with paragraph 138 of IPSAS 47). The Department estimates the stand-alone values as follows:

Product	Stand-alone value	Method
CU (millions)		
Fighter jet	90	Directly observable (see paragraph 137 of IPSAS 47)
Spare parts	10	Adjusted market assessment approach (see paragraph 139(a) of IPSAS 47)
Specialized Engine	20	Expected cost approach (see paragraph 139(b) of IPSAS 47)
Total	120	

IE178. The other country receives a discount for purchasing the bundle of goods because the sum of the stand-alone values (CU120 million) exceeds the promised consideration (CU100 million). The Department considers whether it has observable evidence about the compliance obligation to which the entire discount belongs (in accordance with paragraph AG108 of IPSAS 47) and concludes that it does not. Consequently, in accordance with paragraphs 136 and AG107 of IPSAS 47, the discount is allocated proportionately across the fighter jet, spare parts and the specialized engine. The discount, and therefore the transaction consideration, is allocated as follows:

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Product	Allocated Transaction Consideration	
	CU (millions)	
Fighter jet	75	$(\text{CU}90 \div \text{CU}120 \times \text{CU}100)$
Spare parts	8	$(\text{CU}10 \div \text{CU}120 \times \text{CU}100)$
Engine	17	$(\text{CU}20 \div \text{CU}120 \times \text{CU}100)$
Total	100	

*Example 33 – Allocating a Discount*

IE179. A government procurement agency (the Agency) regularly provides common-use supplies, including Supplies A, B and C individually, to government entities. The Agency establishes the following stand-alone values:

Product	Stand-alone value
CU	
Supply A	40
Supply B	55
Supply C	45
Total	140

IE180. In addition, the Agency regularly provides Supplies B and C together for CU60.

*Case A – Allocating a Discount to One or More Compliance Obligations*

IE181. The Agency enters into a binding arrangement with a government entity to provide Supplies A, B and C in exchange for CU100. The Agency will satisfy the compliance obligations for each of the supplies at different points in time.

IE182. The binding arrangement includes a discount of CU40 on the overall transaction, which would be allocated proportionately to all three compliance obligations when allocating the transaction consideration using the relative stand-alone value method (in accordance with paragraph AG107 of IPSAS 47). However, because the Agency regularly provides Supplies B and C together for CU60 and Supply A for CU40, it has evidence that the entire discount should be allocated to the promises to transfer Supplies B and C in accordance with paragraph AG108 of IPSAS 47.

IE183. If the Agency transfers control of Supplies B and C at the same point in time, then the Agency could, as a practical matter, account for the transfer of those supplies as a single compliance obligation. That is, the Agency could allocate CU60 of the transaction consideration to the single compliance obligation and recognize revenue of CU60 when Supplies B and C simultaneously transfer to the government entity.

IE184. If the binding arrangement requires the Agency to transfer control of Supplies B and C at different points in time, then the allocated amount of CU60 is individually allocated to the promises to transfer Supply B (stand-alone value of CU55) and Supply C (stand-alone value of CU45) as follows:

Product	<b>Allocated transaction consideration</b>	
<b>CU</b>		
Supply B	33	(CU55 ÷ CU100 total stand-alone value × CU60)
Supply C	27	(CU45 ÷ CU100 total stand-alone value × CU60)
Total	60	

*Case B – Residual Approach is Appropriate*

IE185. The Agency enters into a binding arrangement with a government entity to provide Supplies A, B and C as described in Case A. The binding arrangement also includes a promise to transfer Supply D. Total consideration in the binding arrangement is CU130. The stand-alone value for Supply D is highly variable (see paragraph 139(c) of IPSAS 47) because the Agency provides Supply D to different purchasers for a broad range of amounts (CU15 – CU45). Consequently, the Agency decides to estimate the stand-alone value of Supply D using the residual approach.

IE186. Before estimating the stand-alone value of Supply D using the residual approach, the Agency determines whether any discount should be allocated to the other compliance obligations in the binding arrangement in accordance with paragraphs AG108–AG109 of IPSAS 47.

IE187. As in Case A, because the Agency regularly provides 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 promises to transfer Supplies B and C in accordance with paragraph AG108 of IPSAS 47. Using the residual approach, the Agency estimates the stand-alone value of Supply D to be CU30 as follows:

Product	Stand-alone value	Method
<b>CU</b>		
Supply A	40	Directly observable (see paragraph 137 of IPSAS 47)
Supplies B and C	60	Directly observable with discount (see paragraph AG108 of IPSAS 47)
Supply D	30	Residual approach (see paragraph 139(c) of IPSAS 47)
Total	130	

IE188. The Agency observes that the resulting CU30 allocated to Supply D is within the range of its observable prices (CU15–CU45). Therefore, the resulting allocation (see above table) is consistent

with the allocation objective in paragraph 133 of IPSAS 47 and the requirements in paragraph 138 of IPSAS 47.

*Case C – Residual Approach is Inappropriate*

IE189. The same facts as in Case B apply to Case C except the transaction consideration is CU105 instead of CU130. Consequently, the application of the residual approach would result in a stand-alone value of CU5 for Supply D (CU105 transaction consideration less CU100 allocated to Supplies A, B and C). The Agency concludes that CU5 would not faithfully depict the amount of consideration to which it expects to be entitled in exchange for satisfying its compliance obligation to transfer Supply D, because CU5 does not approximate the stand-alone value of Supply D, which ranges from CU15–CU45. Consequently, the Agency reviews its observable data, including procurement and cost recovery reports, to estimate the stand-alone value of Supply D using another suitable method. The Agency allocates the transaction consideration of CU105 to Supplies A, B, C and D using the relative stand-alone values of those products in accordance with paragraphs 133–140 of IPSAS 47.

*Example 34 – Allocation of Variable Consideration*

IE190. A government-owned university (the University) enters into a binding arrangement with a pharmaceutical manufacturing company (the Company) for two intellectual property licenses for two drug formulations (Formulation X and Y), developed by the University's research lab. The University determines that the formulations represent two compliance obligations each satisfied at a point in time. The stand-alone values of Formulation X and Y are CU800,000 and CU1,000,000, respectively.

*Case A – Variable Consideration Allocated Entirely to One Compliance Obligation*

IE191. The price stated in the binding arrangement for Formulation X is a fixed amount of CU800,000 and for Formulation Y, the consideration is three percent of the Company's future sales of the medication developed from Formulation Y. For purposes of allocation, the University estimates its sales-based royalties (i.e., the variable consideration) to be CU1,000,000, in accordance with paragraph 116 of IPSAS 47.

IE192. To allocate the transaction consideration, the University considers the criteria in paragraph 142 of IPSAS 47 and concludes that the variable consideration (i.e., the sales-based royalties) should be allocated entirely to Formulation Y. The University concludes that the criteria in paragraph 142 of IPSAS 47 are met for the following reasons:

- (a) The variable payment relates specifically to an outcome from the compliance obligation to transfer Formulation Y (i.e., the Company's subsequent sales of medication developed from Formulation Y).
- (b) Allocating the expected royalty amount of CU1,000,000 entirely to Formulation Y is consistent with the allocation objective in paragraph 133 of IPSAS 47. This is because the University's estimate of the amount of sales-based royalties (CU1,000,000) approximates the stand-alone value of Formulation Y and the fixed amount of CU800,000 approximates the stand-alone value of Formulation X. The University allocates CU800,000 to Formulation X in accordance with paragraph 143 of IPSAS 47. This is because, based on an assessment of the facts and circumstances relating to both licenses, allocating to Formulation Y some of the

fixed consideration in addition to all of the variable consideration would not meet the allocation objective in paragraph 133 of IPSAS 47.

- IE193. The University transfers Formulation Y at the inception of the binding arrangement and transfers Formulation X one month later. Upon the transfer of Formulation Y, the University does not recognize revenue because the consideration allocated to Formulation Y is in the form of a sales-based royalty. Therefore, in accordance with paragraph AG180 of IPSAS 47, the University recognizes revenue for the sales-based royalty when those subsequent sales occur.
- IE194. When Formulation X is transferred, the University recognizes as revenue the CU800,000 allocated to Formulation X.

*Case B – Variable Consideration Allocated on the Basis of Stand-Alone Values*

- IE195. The price stated in the binding arrangement for Formulation X is a fixed amount of CU300,000 and for Formulation Y the consideration is five percent of the Company's future sales of medication developed from Formulation Y. The University's estimate of the sales-based royalties (i.e., the variable consideration) is CU1,500,000 in accordance with paragraph 116 of IPSAS 47.
- IE196. To allocate the transaction consideration, the University applies the criteria in paragraph 142 of IPSAS 47 to determine whether to allocate the variable consideration (i.e., the sales-based royalties) entirely to Formulation Y. In applying the criteria, the University concludes that even though the variable payments relate specifically to an outcome from the compliance obligation to transfer Formulation Y (i.e., the Company's subsequent sales of medication developed from Formulation Y), allocating the variable consideration entirely to Formulation Y would be inconsistent with the principle for allocating the transaction consideration. Allocating CU300,000 to Formulation X and CU1,500,000 to Formulation Y does not reflect a reasonable allocation of the transaction consideration on the basis of the stand-alone values of Formulations X and Y of CU800,000 and CU1,000,000, respectively. Consequently, the University applies the general allocation requirements in paragraphs 136–140 of IPSAS 47.
- IE197. The University allocates the transaction consideration of CU300,000 to Formulations X and Y on the basis of relative stand-alone values of CU800,000 and CU1,000,000, respectively. The University also allocates the consideration related to the sales-based royalty on a relative stand-alone value basis. However, in accordance with paragraph AG180 of IPSAS 47, when an entity licenses intellectual property in which the consideration is in the form of a sales-based royalty, the entity cannot recognize revenue until the later of the following events: the subsequent sales occur or the compliance obligation is satisfied (or partially satisfied).
- IE198. Formulation Y is transferred to the Company at the inception of the binding arrangement and Formulation X is transferred three months later. When Formulation Y is transferred, the University recognizes as revenue the CU167,000 ( $CU1,000,000 \div CU1,800,000 \times CU300,000$ ) allocated to Formulation Y. When Formulation X is transferred, the University recognizes as revenue the CU133,000 ( $CU800,000 \div CU1,800,000 \times CU300,000$ ) allocated to Formulation X.
- IE199. In the first month, the royalty due from the Company's first month of sales is CU200,000. Consequently, in accordance with paragraph AG180 of IPSAS 47, the University recognizes as revenue the CU111,000 ( $CU1,000,000 \div CU1,800,000 \times CU200,000$ ) allocated to Formulation Y (which has been transferred to the purchaser and is therefore a satisfied compliance obligation). The University recognizes a binding arrangement liability for the CU89,000 ( $CU800,000 \div$

CU1,800,000 × CU200,000) allocated to Formulation X. This is because, although the subsequent sale by the Company has occurred, the compliance obligation to which the royalty has been allocated is not satisfied until Formulation X is transferred three months later.

#### Multi-Party Arrangements and the Determination of Stand-Alone Value

IE200. Example 35 illustrates the application of paragraph AG29 of IPSAS 47 on assessing binding arrangements which include the provision of goods or services to third-party beneficiaries and paragraph AG110 of IPSAS 47 on the determination of the stand-alone value of these goods or services.

#### *Example 35 – Provision of Vaccines to Third-Party Beneficiaries*

##### *Case A – Binding Arrangement Includes a Compliance Obligation to Transfer Goods or Services to Another Party*

IE201. A health clinic (the Clinic) receives CU100,000 from the government to provide free vaccinations in the local community. The government requires the Clinic to provide 150 doses of vaccine A, which is a vaccine that the Clinic has previously provided for a stand-alone value of CU500 per dose. In addition, the Clinic is also required to provide 350 doses of vaccine B, a new vaccine with limited information regarding observable prices.

IE202. The Clinic concludes that this binding arrangement includes two compliance obligations to transfer two distinct goods to another party, specifically 150 doses of vaccine A and 350 doses of vaccine B. This is because the government, which is acting as the purchaser, is paying the Clinic to provide vaccination services to local individuals, who are third-party beneficiaries. This is consistent with the requirements in paragraph AG29 of IPSAS 47.

IE203. In determining the stand-alone value for each dose of the vaccines, the Clinic estimates that each dose of vaccine A has a stand-alone value of CU500, based on the historical stand-alone value for that vaccine. For vaccine B, the Clinic applies paragraph AG110 of IPSAS 47 and estimates that the stand-alone value of each dose is CU100, based on the expected cost approach for the Clinic to acquire each vaccination, as well as the labor costs for the administration of vaccines.

IE204. Using the stand-alone value of CU500 per dose for vaccine A and CU100 per dose for vaccine B will result in the following allocation of the transaction consideration to the two vaccines:

Total Stand-Alone Value of All Compliance Obligations:

Vaccine A: CU500 stand-alone value × 150 doses = CU75,000

Vaccine B: CU100 stand-alone value (based on replacement cost + labor) × 350 doses = CU35,000

Total Stand-Alone Value: CU75,000 + CU35,000 = CU110,000

Allocation of Transaction Consideration of CU100,000 to the Two Vaccines:

Vaccine A:  $CU100,000 \times CU75,000 \div CU110,000 = CU68,182$  or CU454.55 per dose

Vaccine B:  $CU100,000 \times CU35,000 \div CU110,000 = CU31,818$  or CU90.91 per dose

IE205. Based on the above, the Clinic would recognize revenue using the above allocated transaction consideration and measure its progress in satisfying its compliance obligations based on the number of vaccines A or B administered.

*Case B – Binding Arrangement Includes a Compliance Obligation to Use Resources for Goods or Services Internally*

IE206. Similar to Case A, the Clinic receives CU100,000 from the government. However, in this case, the funding was provided to the Clinic for the purposes of running their vaccination program in the local community. The terms of the binding arrangement specify that the Clinic has discretion to spend the funds on expenditures that are directly related to the vaccination program and may include: an allocation of salaries paid to staff who work on vaccination-related activities such as the administration of the vaccines or the development of educational materials regarding vaccines; an allocation of rent for premises used to conduct these vaccination-related activities; and the acquisition cost of vaccinations themselves.

IE207. The Clinic considers the terms and conditions of the binding arrangement and concludes that while the arrangement includes third-party beneficiaries in accordance with AG29 of IPSAS 47, its compliance obligation is to use resources internally for goods or services to run its vaccination program. This is because the binding arrangement does not specify that the CU100,000 is restricted to fund the provision of vaccines to local individuals (i.e., third-party beneficiaries). Based on its assessment, the Clinic concludes that the compliance obligation is satisfied over time as eligible expenditures are incurred because this measure of progress best depicts the entity's performance to satisfy this compliance obligation. The Clinic recognizes revenue as eligible expenditures are incurred.

*Principal versus Agent Considerations*

IE208. Examples 36–38 illustrate the requirements in paragraphs AG117–AG125 of IPSAS 47 on principal versus agent considerations.

*Example 36 – Promise to Provide Goods or Services (Entity is a Principal)*

IE209. A shared maintenance services agency (the Agency) enters into a binding arrangement with the Department of Social Welfare (the Department) to provide office maintenance services on the Department's properties. The Agency and the Department define and agree on the scope of the maintenance services and negotiate the price. The Agency is responsible for ensuring that the services are performed in accordance with the terms and conditions in the binding arrangement. The Agency invoices the Department for the agreed-upon price on a monthly basis with 10-day payment terms.

IE210. The Agency regularly engages third-party service providers to provide maintenance services to its purchasers. When the Agency obtains a binding arrangement from a purchaser, the Agency enters into a binding arrangement with one of those service providers, directing the service provider to perform office maintenance services for the Department. The payment terms in the binding arrangements with the service providers are generally aligned with the payment terms in the Agency's binding arrangements with purchasers. However, the Agency is obligated to pay the service provider even if the Department fails to pay.

- IE211. To determine whether the Agency is a principal or an agent, the Agency identifies the specified good or service to be provided to the Department and assesses whether it controls that good or service before the good or service is transferred to the Department.
- IE212. The Agency observes that the specified services to be provided to the Department are the office maintenance services for which the Department entered into a binding arrangement, and that no other goods or services are promised to the Department. While the Agency obtains a right to office maintenance services from the service provider after entering into the binding arrangement with the Department, that right is not transferred to the Department. That is, the Agency retains the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, that right. For example, the Agency can decide whether to direct the service provider to provide the office maintenance services for the Department, or for another purchaser, or at its own facilities. The Department does not have a right to direct the service provider to perform services that the Agency has not agreed to provide. Therefore, the right to office maintenance services obtained by the Agency from the service provider is not the specified good or service in its binding arrangement with the Department.
- IE213. The Agency concludes that it controls the specified services before they are provided to the Department. The Agency obtains control of a right to office maintenance services after entering into the binding arrangement with the Department but before those services are provided to the Department. The terms of the Agency's binding arrangement with the service provider give the Agency the ability to direct the service provider to provide the specified services on the Agency's behalf (see paragraph AG120(b)). In addition, the Agency concludes that the following indicators in paragraph AG123 of IPSAS 47 provide further evidence that the Agency controls the office maintenance services before they are provided to the Department:
- (a) The Agency is primarily responsible for satisfying the promise to provide office maintenance services. Although the Agency has hired a service provider to perform the services promised to the Department, it is the Agency itself that is responsible for ensuring that the services are performed and are acceptable to the Department (i.e., the Agency is responsible for satisfying the promise in the binding arrangement, regardless of whether the Agency performs the services itself or engages a third-party service provider to perform the services).
  - (b) The Agency has discretion in setting the price for the services to the Department.
- IE214. The Agency observes that it does not commit itself to obtain the services from the service provider before obtaining the binding arrangement with the Department. Thus, the Agency has mitigated inventory risk with respect to the office maintenance services. Nonetheless, the Agency concludes that it controls the office maintenance services before they are provided to the Department on the basis of the evidence in paragraph IE213.
- IE215. Thus, the Agency is a principal in the transaction and recognizes revenue in the amount of consideration to which it is entitled from the Department in exchange for the office maintenance services.

*Example 37 – Promise to Provide Goods or Services (Entity is a Principal)*

- IE216. A local government negotiates with hospitals to purchase vaccines for individual citizens in the jurisdiction at reduced rates compared with the price of vaccines provided directly by the hospitals to the individual citizens. The local government agrees to buy a specific number of vaccines and



must pay for those vaccines regardless of whether it is able to use them. The reduced rate paid by the local government for each vaccine purchased is negotiated and agreed in advance.

- IE217. The local government determines the prices at which the vaccines will be provided to the individual citizens. The local government provides the vaccines and collects the consideration from citizens when the vaccines are purchased.
- IE218. The local government also assists the individual citizens in resolving complaints with the service provided by the hospitals. However, each hospital is responsible for satisfying obligations associated with the vaccines, including remedies to a citizen for dissatisfaction with the service.
- IE219. To determine whether the local government's compliance obligation is to provide the specified goods or services itself (i.e., the local government is a principal) or to arrange for those goods or services to be provided by another party (i.e., the local government is an agent), the local government identifies the specified good or service to be provided to the individual citizens and assesses whether it controls that good or service before the good or service is transferred to the citizens.
- IE220. The local government concludes that, with each vaccine that it commits itself to purchase from the hospitals, it obtains control of a right to the vaccine that the local government then transfers to an individual citizen, who in turn is one of the local government's purchasers (see paragraph AG120(a)). Consequently, the local government determines that the specified good or service to be provided to the individual citizen is that right to a unit of the vaccine that the local government controls. The local government observes that no other goods or services are promised in this arrangement to the individual citizens.
- IE221. The local government controls the right to each unit of vaccine before it transfers that specified right to one of its citizens because the local government has the ability to direct the use of that right by deciding whether to use the vaccine to fulfill a binding arrangement with a citizen and, if so, which binding arrangement it will fulfill. The local government also has the ability to obtain the remaining benefits or service potential from that right by either reselling the vaccine and obtaining all of the proceeds from the sale or, alternatively, providing the vaccine to another individual.
- IE222. The indicators in paragraphs AG123(b)–AG123(c) of IPSAS 47 also provide relevant evidence that the local government controls each specified right (to the vaccine) before it is transferred to the citizen. The local government has inventory risk with respect to the vaccine because the local government committed itself to obtaining the vaccine from the hospital before entering into a binding arrangement with a citizen to purchase the vaccine. This is because the local government is obligated to pay the hospital for that right regardless of whether it is able to obtain a purchaser to redirect the vaccine to or whether it can obtain a favorable price for the vaccine. The local government also establishes the price that the individual citizen will pay for the specified vaccine.
- IE223. Thus, the local government concludes that it is a principal in the transactions with the individual citizens. The local government recognizes revenue in the gross amount of consideration to which it is entitled in exchange for the vaccines transferred to the citizens.

*Example 38 – Arranging for the Provision of Goods or Services (Entity is an Agent)*

- IE224. The Department of Health (the Department) provides vouchers that entitle qualifying individuals (the patients) to subsidized vaccination services at specified clinics. The sales price of the voucher provides the patient with a significant discount (i.e., a subsidy) when compared with the normal

prices of the vaccination services (for example, a patient pays CU10 for a voucher that entitles the patient to a vaccine at a clinic that would otherwise cost CU20). The Department does not purchase or commit itself to purchasing vouchers in advance of the sale of a voucher to a patient; instead, it purchases vouchers only as they are requested by the patients. The Department provides the vouchers through its website and the vouchers are non-refundable.

- IE225. The Department and the clinics jointly determine the prices at which the vouchers will be provided to patients. Under the terms of its binding arrangements with the clinics, the Department is entitled to 30 percent of the voucher price when it provides the voucher.
- IE226. The Department also assists the patients in resolving complaints about the vaccination services and has a patient satisfaction program. However, the clinics are responsible for satisfying obligations associated with the voucher, including remedies to a patient for dissatisfaction with the vaccination.
- IE227. To determine whether the Department is a principal or an agent, the Department identifies the specified good or service to be provided to the patient and assesses whether it controls the specified good or service before that good or service is transferred to the patient.
- IE228. A patient obtains a voucher for the clinic that it selects. The Department does not engage the clinics to provide vaccinations to patients on the Department's behalf as described in the indicator in paragraph AG123(a) of IPSAS 47. Therefore, the Department observes that the specified service to be provided to the patient is the right to a vaccination (in the form of a voucher) at a specified clinic or clinics, which the patient purchases and then can use itself or transfer to another person. The Department also observes that no other goods or services (other than the vouchers) are promised to the patients.
- IE229. The Department concludes that it does not control the voucher (right to a vaccination) at any time. In reaching this conclusion, the Department principally considers the following:
- (a) The vouchers are created only at the time that they are transferred to the patients and, thus, do not exist before that transfer. Therefore, the Department does not at any time have the ability to direct the use of the vouchers, or obtain substantially all of the remaining economic benefits or service potential from the vouchers, before they are transferred to patients.
  - (b) The Department neither purchases, nor commits itself to purchase, vouchers before they are provided to patients. The Department also has no responsibility to accept any returned vouchers. Therefore, the Department does not have inventory risk with respect to the vouchers as described in the indicator in paragraph AG123(b) of IPSAS 47.
- IE230. Thus, the Department concludes that it is an agent with respect to the vouchers. The Department recognizes revenue in the net amount of consideration to which the Department will be entitled in exchange for arranging for the clinics to provide vouchers to patients for the clinics' vaccination services, which is the 30 percent fee it is entitled to upon the sale of each voucher.

***Non-Refundable Upfront Fees (and some Related Costs) for a Transfer of Goods or Services to Another Party***

- IE231. Example 39 illustrates the requirements in paragraphs AG135–AG138 of IPSAS 47 on non-refundable upfront fees for a transfer of goods or services to another party (i.e., the purchaser (resource provider) or third-party beneficiary).

*Example 39 – Non-refundable Upfront Fee*

- IE232. A public swimming pool (the Pool) enters into a binding arrangement with an individual to provide one year of access to the pools. The Pool's binding arrangements have standard terms that are the same for all individuals. The binding arrangement requires the individual to pay an upfront administration fee to set up the individual on the Pool's systems. The fee is a nominal amount and is non-refundable. The individual can renew the binding arrangement each year without paying an additional fee.
- IE233. The Pool's setup activities do not transfer a good or service to the individual and, therefore, do not give rise to a separate compliance obligation.
- IE234. The Pool concludes that the renewal option does not provide a material right to the individual that it would not receive without entering into that binding arrangement (see paragraph AG127 of IPSAS 47). The upfront fee is, in effect, an advance payment for the future transaction processing services. Consequently, the Pool determines the transaction consideration, which includes the non-refundable upfront fee, and recognizes revenue for the transaction processing services as those services are provided in accordance with paragraph AG136 of IPSAS 47.

*Other Assets from Revenue Transactions with Binding Arrangement Costs*

- IE235. Example 40 illustrates the requirements in paragraphs 152–155 of IPSAS 47 on costs to fulfill a binding arrangement and paragraphs 156–161 of IPSAS 47 on amortization and impairment of binding arrangement costs.

*Example 40 – Costs that Give Rise to an Asset*

- IE236. A shared services agency (the Agency) enters into a binding arrangement for a service to manage a local government's information technology data center for five years. The binding arrangement is renewable for subsequent one-year periods. The average term is seven years. Before providing the services, the Agency designs and builds a technology platform for the Agency's internal use that interfaces with the local government's systems. That platform is not transferred to the local government but will be used to deliver services to the local government.
- IE237. The initial costs incurred to set up the technology platform are as follows:

	<b>CU</b>
Design services	40,000
Hardware	120,000
Software	90,000
Migration and testing of data centre	<u>100,000</u>
Total costs	<u>350,000</u>

- IE238. The initial setup costs relate primarily to activities to fulfill the binding arrangement but do not transfer goods or services to the local government. The Agency accounts for the initial setup costs as follows:
- (a) Hardware costs—accounted for in accordance with IPSAS 45.
  - (b) Software costs—accounted for in accordance with IPSAS 31.

- (c) Costs of the design, migration and testing of the data center—assessed in accordance with paragraph 152 of IPSAS 47 to determine whether an asset can be recognized for the costs to fulfill the binding arrangement. Any resulting asset would be amortized on a systematic basis over the seven-year period (i.e., the five-year term of the binding arrangement and two anticipated one-year renewal periods) that the Agency expects to provide services related to the data center.

IE239. In addition to the initial costs to set up the technology platform, the Agency also assigns two employees who are primarily responsible for providing the service to the local government. Although the costs for these two employees are incurred as part of providing the service to the local government, the Agency concludes that the costs do not generate or enhance resources of the Agency (see paragraph 152(b) of IPSAS 47). Therefore, the costs do not meet the criteria in paragraph 152 of IPSAS 47 and cannot be recognized as an asset using IPSAS 47. In accordance with paragraph 155, the Agency recognizes the payroll expense for these two employees when incurred.

**Presentation**

*Display*

IE240. Examples 41–43 illustrate the requirements in paragraphs 162–166 of IPSAS 47 on the presentation of binding arrangement balances, and the consequences of applying paragraphs 119–121 on constraining estimates of variable consideration, paragraphs 123–128 on significant financing components, and AG96–AG103 on the sale of a right of return.

*Example 41 – Binding Arrangement Liability and Receivable*

*Case A – Cancellable Binding Arrangement*

IE241. On January 1, 20X9, a government procurement agency (the Agency) enters into a binding arrangement that is cancellable to transfer a product to another government entity on March 31, 20X9. The binding arrangement requires the government entity to pay consideration of CU1,000 in advance on January 31, 20X9. The government entity pays the consideration on March 1, 20X9. The Agency transfers the product on March 31, 20X9. The following journal entries illustrate how the Agency accounts for the binding arrangement:

- (a) The Agency receives cash of CU1,000 on March 1, 20X9 (cash is received in advance of performance):

Cash	CU1,000	
Binding Arrangement Liability		CU1,000

- (b) The Agency satisfies the compliance obligation on March 31, 20X9:

Binding Arrangement Liability	CU1,000	
Revenue		CU1,000

*Case B – Non-Cancellable Binding Arrangement*

IE242. The same facts as in Case A apply to Case B except that the binding arrangement is non-cancellable and the advance transfer on January 31, 20X9 is required regardless of whether the Agency has started to satisfy its compliance obligation. The following journal entries illustrate how the entity accounts for the binding arrangement:

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- (a) The amount of consideration is due on January 31, 20X9 (which is when the Agency recognizes a receivable because it has an unconditional and enforceable right to consideration):

Receivable	CU1,000	
Binding Arrangement Liability		CU1,000

- (a) The Agency receives the cash on March 1, 20X9:

Cash	CU1,000	
Receivable		CU1,000

- (b) The Agency satisfies the compliance obligation on March 31, 20X9:

Binding Arrangement Liability	CU1,000	
Revenue		CU1,000

IE243. If the Agency issued the invoice before January 31, 20X9 (the due date of the consideration), the Agency would not present the Receivable and the Binding Arrangement Liability on a gross basis in the statement of financial position because the Agency does not yet have a right to consideration that is unconditional.

*Example 42 – Binding Arrangement Asset Recognized for the Entity’s Performance*

IE244. On January 1, 20X8, a government shared services IT agency (the Agency) enters into a binding arrangement to transfer computer software and configuration services to a small government department (the Department) in exchange for CU1,000,000. 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 CU1,000,000 is due only after the Agency has transferred both the software and configuration services to the Department. Consequently, the Agency does not have a right to consideration that is unconditional (a receivable) until the software is transferred to the Department and configured.

IE245. The Agency identifies the promises to transfer the software and complete the configuration as separate compliance obligations and allocates CU400,000 to the compliance obligation to transfer the software and CU600,000 to the compliance obligation to complete the configuration on the basis of their relative stand-alone values. The Agency recognizes revenue for each respective compliance obligation when control of the product transfers to the Department.

IE246. The Agency satisfies the compliance obligation to transfer the software:

Binding Arrangement Asset	CU400,000	
Revenue		CU400,000

IE247. The Agency satisfies the compliance obligation to configure the software and to recognize the unconditional right to consideration:

Receivable	CU1,000,000	
Binding Arrangement Asset		CU400,000
Revenue		CU600,000

*Example 43 – Receivable Recognized for the Entity’s Performance*

IE248. A government hospital (the Hospital) enters into a binding arrangement with the Department of Correctional Services (Correctional Services) on January 1, 20X9 to perform medical examinations

## REVENUE

for inmates for CU150 per examination. If Correctional Services requires more than 10,000 examinations to be performed in a calendar year, the binding arrangement indicates that the price per examination is retrospectively reduced to CU125 per product.

IE249. Consideration is due when the examinations are performed. Therefore, the Hospital has an unconditional right to consideration (i.e., a receivable) for CU150 per examination until the retrospective price reduction applies (i.e., after 10,000 examinations are completed).

IE250. In determining the transaction consideration, the Hospital concludes at the inception of the binding arrangement that Correctional Services will meet the 10,000-examination threshold and therefore estimates that the transaction consideration is CU125 per product. Consequently, upon the completion of the first 100 examinations for Correctional Services, the Hospital recognizes the following:

Receivable	CU15,000 <sup>15</sup>	
Revenue		CU12,500 <sup>16</sup>
Refund Liability (Binding Arrangement Liability)		CU2,500

IE251. The refund liability (see paragraph 118 of IPSAS 47) represents a refund of CU25 per examination, which is expected to be provided to Correctional Services for the volume-based rebate (i.e., the difference between the CU150 price stated in the binding arrangement that the Hospital has an unconditional right to receive and the CU125 estimated transaction consideration).

### *Disclosure*

IE252. Examples 44–50 illustrate the requirements in paragraphs 167–193 of IPSAS 47 on disclosures. In addition, the following requirements are illustrated in these examples:

- (a) Paragraphs 175–176 of IPSAS 47 on services in-kind (Examples 44–45);
- (b) Paragraphs 179–180 of IPSAS 47 on the disaggregation of revenue disclosure (Example 47);
- (c) Paragraphs 185–187 of IPSAS 47 for the disclosure of transaction consideration allocated to the remaining compliance obligations (Examples 48–49);
- (d) Paragraph 120 of IPSAS 47 on constraining estimates of variable consideration (Example 48);
- (e) Paragraph AG90 of IPSAS 47 on methods for measuring progress towards complete satisfaction of a compliance obligation (Example 48); and
- (f) Paragraph 171 of IPSAS 47 for situations where an entity was compelled by legislation or other governmental policy decisions to enter into a binding arrangement with compliance obligations regardless of the purchaser's ability to pay for the goods or services (Example 50).

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<sup>15</sup> CU150 per examinations × 100 examinations

<sup>16</sup> CU125 transaction consideration per examinations × 100 examinations

*Example 44 – Disclosure of Services In-kind not Recognized*

- IE253. A public hospital's accounting policies are to recognize voluntary services received as assets and revenue when they meet the definition of an asset and satisfy the criteria for recognition as assets. The hospital enlists the services of volunteers as part of an organized program. The principal aim of the program is to expose volunteers to the hospital environment, and to promote nursing as a career. Volunteers must be at least sixteen years of age and are initially required to make a six-month commitment to work one four-hour morning or afternoon shift per week. The first shift for each volunteer consists of a hospital orientation training session. Many local high schools permit students to undertake this work as part of their education program. Volunteers work under the direction of a registered nurse and perform non-nursing duties such as visiting patients and reading to patients. The public hospital does not pay the volunteers, nor would it engage employees to perform volunteers' work if volunteers were not available.
- IE254. The hospital analyzes the agreements it has with the volunteers and concludes that, at least for a new volunteer's first six months, it has sufficient control over the services to be provided by the volunteer and that it receives service potential from the volunteers, satisfying the definition of an asset. However, it concludes that it cannot reliably measure the fair value of the services provided by the volunteers, because there are no equivalent paid positions either in the hospital or in other health or community care facilities in the region. The hospital does not recognize the services in-kind provided by the volunteers. In accordance with paragraphs 175–176 of IPSAS 47, the hospital discloses the number of hours of service provided by volunteers during the reporting period and a description of the services provided.

*Example 45 – Disclosures Made in the Financial Statements of Government A*

- IE255. For the year ended December 31, 20X2, Government A prepares and presents financial statements prepared in accordance with IPSAS for the first time. It makes the following disclosures in its financial statements:

<b>Statement of Financial Performance</b>		
	20X2	20X1
	(CU',000)	(CU',000)
<b>Revenue from Transactions without Binding Arrangements</b>		
<b>Taxation Revenue</b>		
Income Tax Revenue (notes 4 and 8)	XXX	XXX
Goods and Services Tax (note 5)	XXX	XXX
Estate Taxes (notes 6 and 9)	XX	XX
<b>Transfer Revenue</b>		
Transfers from Other Governments (note 7)	XXX	XXX

REVENUE

Gifts, Donations, Goods In-kind (note 13)	X	X
Services In-kind (notes 15 and 16)	X	X
<b>Statement of Financial Position</b>		
<b>Current Assets</b>		
Cash at Bank	XX	XX
Taxes Receivable		
Goods and Services Taxes Receivable (note 5)	XX	XX
Transfers Receivable		
Transfers Receivable from Other Governments (note 7)	X	X
<b>Noncurrent Assets</b>		
Land (note 11)	XXX	XXX
Plant and Equipment (notes 12 and 14)	XX	XX
<b>Current Liabilities</b>		
Liabilities Recognized Under Transfer Arrangements (note 10)	XX	XX
Advance Receipts		
Taxes	X	X
Transfers	X	X

**Notes to the Financial Statements**

*Accounting Policies*

**Recognition of Revenue from Transactions without Binding Arrangements**

- Assets and revenue arising from taxation transactions are recognized as revenue from transactions without binding arrangements in accordance with the requirements in paragraphs 18–55 of IPSAS 47. However, the Government takes advantage of the transitional provisions in IPSAS 33 in respect of income taxes and estate taxes.

Apart from income taxes and estate taxes, assets and revenue arising from taxation transactions are recognized in the period in which the taxable event occurs, provided that the assets satisfy the definition of an asset and meet the criteria for recognition as an asset. Income taxes and estate taxes are recognized in the period in which payment for taxation is received (see notes 4 and 6).



## REVENUE

2. Assets and revenue arising from transfer transactions are recognized in the period in which the rights in a transfer arrangement are enforceable, except for some services in-kind. The Government recognizes only those services in-kind that are received as part of an organized program and for which it can determine a fair value by reference to market rates. Other services in-kind are not recognized.
3. Where a transfer is subject to an enforceable obligation that, if unsatisfied, requires the return of the transferred resources, the Government recognizes a liability until the requirements are satisfied.

### *Basis of Measurement of Major Classes of Revenue Transactions*

#### **Taxes**

4. Income tax revenue is measured at the nominal value of cash and cash equivalents, received during the reporting period. The Government is currently developing a statistical model for measuring income tax revenue on an accrual basis. This model uses taxation statistics compiled since 19X2 as well as other statistical information, including average weekly earnings, gross domestic product, and the consumer and producer price indexes. The Government anticipates that the model will enable it to reliably measure income tax revenue on an accrual basis for the reporting period ended December 31, 20X4. The Government does not recognize any amount in respect of income taxes receivable.
5. Assets and revenue accruing from goods and services tax are initially measured at the transaction consideration of assets accruing to the Government during the reporting period, principally cash and cash equivalents, and goods and services tax receivable. The information is compiled from the goods and services tax returns submitted by taxpayers during the year and other amounts estimated to be due to the Government. Taxpayers have a high compliance rate and a low error rate, using the electronic return system established in 20X0. The high compliance and low error rates have enabled the Government to develop a reliable statistical model for measuring the revenue accruing from the tax.

Goods and services taxes receivable is the estimate of the amount due from taxes attributable to the reporting period that remain unpaid at December 31, 20X2, less a provision for bad debts.

6. An estate tax of 40 percent is levied on all deceased estates; however, the first CU400,000 of each estate is exempt from the tax. Assets and revenue from estate taxes are measured at the nominal value of the cash received during the reporting period, or the transaction consideration as at the acquisition date of other assets received during the period, as determined by reference to market valuations or by independent appraisal by a member of the valuation profession.

#### **Transfer Revenue**

7. Assets and revenue recognized as a consequence of a transfer are measured at the transaction consideration of the assets recognized as at the date of recognition. Monetary assets are measured at their nominal value unless the time value of money is material, in which case present value is used, calculated using a discount rate that reflects the risk inherent in holding the asset. Non-monetary assets are measured at their transaction consideration, which is determined by reference to observable market data or by independent appraisal by a member of the valuation profession. Receivables are recognized when the entity has an enforceable right in a transfer arrangement but cash or other assets have not been received.

*Taxes not Reliably Measurable in the Period in which the Taxable Event Occurs*

8. The Government is unable to directly measure the assets arising from income tax during the period in which all taxpayers earn income and is, therefore, taking advantage of the transitional provisions of IPSAS 33, to develop a model to indirectly measure taxation revenue in the period in which taxpayers earn income. The Government estimates that it will be able to reliably measure income tax on an accrual basis using the model for the reporting period ending December 31, 20X4.
9. In respect of estate taxes, due to current high levels of non-compliance with the law, the government is unable to measure the amount of assets and revenue accruing in the period in which persons owning taxable property die. The Government therefore recognizes estate taxes when it receives payment for the tax. The tax department is continuing work to develop a reliable method of measuring the assets receivable and revenue in the year in which the taxable event occurs.

*Liabilities Recognized in Respect of Transfers*

10. At December 31, 20X2, the Government recognized a liability of CUXX,000 related to a transfer to build a public hospital. As at December 31, the Government had received a cash payment; however, construction of the hospital had not commenced, although tenders for construction were called for on November 30, 20X2.

*Assets Subject to Enforceable Obligations*

11. Land with a fair value of CUXX,000 was received as part of a binding arrangement in 20X2. The binding arrangement included a compliance obligation which requires the entity to use the land for public health purposes and cannot be sold for 50 years.
12. Plant and equipment includes an amount of CUXX,000, which is the carrying amount of a painting donated in 19X2 to an art gallery controlled by the Government. The painting was received as part of an arrangement that included an enforceable obligation (but did not include an enforceable right). Under the agreement, the entity cannot sell the painting for a period of 40 years. The painting is measured at its fair value, determined by independent appraisal.

*Major Classes of Bequests, Gifts, Donations, and Goods In-Kind Received*

13. Transfers are received in the form of gifts, donations and goods in-kind – most notably medical and school supplies (inventory), medical and school equipment, and works of art (classified as equipment). Gifts and donations are received primarily from private benefactors. Hospitals, schools, and art galleries controlled by the Government recognize these assets when control passes to them, usually on receipt of the resources, either as cash or plant and equipment. The Government does not accept these transfers with either conditions or restrictions attached unless the value of the transfer exceeds CUXX,000.
14. During 20X2, as part of an external assistance agreement with Government C, computer equipment with a fair value of CUXX,000 was provided to the Government on the condition that it will be used by the education department or be returned to Government C.

*Services In-kind*

15. Hospitals controlled by the Government received medical services in-kind from medical practitioners as part of the medical profession's organized volunteer program. These services in-kind are recognized as revenue and expenses in the statement of financial performance at their fair value, as determined by reference to the medical profession's published schedule of fees.

16. Hospitals, schools, and art galleries controlled by the Government also received support from volunteers as part of organized programs for art gallery greeters and guides, teachers' aides, and hospital visitor guides. These volunteers provide valuable support to these entities in achieving their objectives; however, the services provided cannot be reliably measured, as there are no equivalent paid positions available in the local market and, in the absence of volunteers, the services would not be provided. The Government does not recognize these services in the statements of financial position or financial performance.

*Example 46 – Disclosure of a Transfer Subject to Appropriations*

IE256. The facts are the same as in Case A of [Example 7](#). The local government does not recognize an asset for the CU5 million to be transferred in 20X3 as at December 31, 20X2. Rather, the local government considers whether it should disclose a contingent asset, in accordance with paragraph 105 of IPSAS 19.

IE257. The local government concludes that the inflow of economic benefits is probable because the first payment of CU10 million was received in 20X2. Consequentially, the local government makes the following disclosure in its financial statements for the reporting period ended December 31, 20X2:

*On March 15, 20X2, the local government entered into a binding arrangement with the national government to receive CU15 million in total (CU10 million in 20X2 and CU5 million in 20X3). The binding arrangement requires the funds to be used to reduce air pollution. The binding arrangement made it clear that the transfer was subject to the completion of the appropriation process, and that approval was not certain and that funding could be reduced. The local government has not recognized an asset in respect of the CU5 million to be received in 20X3 because, as at December 31, 20X2, the appropriation process for this amount had not been completed and therefore the local government does not have an enforceable right to the funds.*

*Example 47 – Disaggregation of Revenue—Quantitative Disclosure*

IE258. A State Government reports the following segments: emergency services, public transit and energy, in accordance with IPSAS 18, *Segment Reporting*. When the State Government prepares its stakeholder presentations, it disaggregates revenue into primary geographical markets, major product lines and timing of revenue recognition (i.e., goods or services transferred at a point in time or services transferred over time).

IE259. The State Government determines that the categories used in the stakeholder presentations can be used to meet the objective of the disaggregation disclosure requirement in paragraph 179 of IPSAS 47, which is to disaggregate revenue from binding arrangements with purchasers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The following table illustrates the disaggregation disclosure by primary geographical market, major product or service line and timing of revenue recognition, including a reconciliation of how the disaggregated revenue ties in with the emergency services, public transit and energy segments, in accordance with paragraph 180 of IPSAS 47.

REVENUE

Segments	Emergency Services	Public Transit	Energy	Total
	CU (million)	CU (million)	CU (million)	CU (million)
<u>Primary geographical markets</u>				
Region A	990	2,250	4,000	7,240
Region B	300	1,010	1,000	2,310
Region C	700	–	1,250	1,950
	1,990	3,260	6,250	11,500
<u>Major goods/service lines</u>				
Healthcare services – clinic	600	–	–	600
Healthcare services – hospital	990	–	–	990
Medical supplies	400	–	–	400
Public transit – bus	–	500	–	500
Public transit – rail	–	2,760	–	2,760
Solar panels	–	–	1,000	1,000
Power plant	–	–	5,250	5,250
	1,990	3,260	6,250	11,500
<u>Timing of revenue recognition</u>				
Goods transferred at a point in time	1,000	3,260	–	4,260
Services transferred over time	990	–	6,250	7,240
	1,990	3,260	6,250	11,500

*Example 48 – Disclosure of the Transaction Consideration Allocated to the Remaining Compliance Obligations*

IE260. On June 30, 20X7, a centralized training agency (the Agency) enters into three binding arrangements (Binding Arrangements A, B and C) with a government department (the Department) to provide training services. Each binding arrangement has a two-year non-cancellable term. The Agency considers the requirements in paragraphs 185–187 of IPSAS 47 in determining the information in each binding arrangement to be included in the disclosure of the transaction consideration allocated to the remaining compliance obligations at December 31, 20X7.

*Binding Arrangement A*

IE261. Training services are to be provided over the next two years, typically at least once per month. For services provided, the Department pays an hourly rate of CU25.

IE262. Because the Agency bills a fixed amount for each hour of service provided, the Agency has a right to invoice the resource provider in the amount that corresponds directly with the value of the Agency's performance completed to date in accordance with paragraph AG90 of IPSAS 47.

REVENUE

Consequently, no disclosure is necessary if the Agency elects to apply the practical expedient in paragraph 186(b) of IPSAS 47.

*Binding Arrangement B*

IE263. Training and onboarding services are to be provided as and when needed with a maximum of four visits per month over the next two years. The Department pays a fixed price of CU400 per month for both services. The Agency measures its progress towards complete satisfaction of the compliance obligation using a time-based measure.

IE264. The Agency discloses the amount of the transaction consideration that has not yet been recognized as revenue in a table with quantitative time bands that illustrates when the Agency expects to recognize the amount as revenue. The information for Binding Arrangement B included in the overall disclosure is as follows:

	20X8	20X9	Total
	CU	CU	CU
Revenue expected to be recognized on this binding arrangement as of December 31, 20X7	4,800 <sup>17</sup>	2,400 <sup>18</sup>	7,200

*Binding Arrangement C*

IE265. Training services are to be provided as and when needed over the next two years. The Department pays a 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 the Department’s employees (i.e., a performance bonus). The Agency estimates that it will be entitled to CU750 of the variable consideration. On the basis of the Agency’s assessment of the factors in paragraph 120 of IPSAS 47, the Agency includes its estimate of CU750 of variable consideration in the transaction consideration because it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur. The Agency measures its progress towards complete satisfaction of the compliance obligation using a time-based measure.

IE266. The Agency discloses the amount of the transaction consideration that has not yet been recognized as revenue in a table with quantitative time bands that illustrates when the Agency expects to recognize the amount as revenue. 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:

<sup>17</sup> CU4,800 = CU400 × 12 months.

<sup>18</sup> CU2,400 = CU400 × 6 months

REVENUE

	20X8	20X9	Total
	CU	CU	CU
Revenue expected to be recognized on this binding arrangement as of December 31, 20X7	1,575 <sup>19</sup>	788 <sup>20</sup>	2,363

IE267. In addition, in accordance with paragraph 187 of IPSAS 47, 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 in paragraphs 119–121.

*Example 49 – Disclosure of the Transaction Consideration Allocated to the Remaining Compliance Obligation—Qualitative Disclosure*

IE268. On January 1, 20X2, the Department of Public Works (Public Works) enters into a binding arrangement with another department to refurbish a building for a fixed consideration of CU10 million. The refurbishment of the building is considered a single compliance obligation that Public Works satisfies over time. As of December 31, 20X2, Public Works has recognized CU3.2 million of revenue. 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.

IE269. At December 31, 20X2, Public Works discloses the amount of the transaction consideration that has not yet been recognized as revenue in its disclosure of the transaction consideration allocated to the remaining unsatisfied portion of the compliance obligation. Public Works also discloses an explanation of when it expects to recognize that amount as revenue. The explanation can be disclosed either on a quantitative basis using time bands that are most appropriate for the duration of the remaining compliance obligation or by providing a qualitative explanation. Because Public Works is uncertain about the timing of revenue recognition, Public Works discloses this information qualitatively as follows, in accordance with paragraph 185 of IPSAS 47:

*As of December 31, 20X2, the aggregate amount of the transaction consideration allocated to the remaining compliance obligation is CU6.8 million and the entity will recognize this revenue as the building is completed, which is expected to occur over the next 12–18 months.*

*Example 50 – Disclosures of Transactions that an Entity was Compelled to Enter by Legislation or Other Governmental Policy Decisions*

IE270. A government-owned utility operates a number of power plants and provides electricity to residential households. The energy sector in the jurisdiction is highly regulated, and under its Power and Energy Act, all utility companies which provide electricity to residential households are required to provide electricity regardless of the households' ability to pay. Typically, a household would apply to the utility to connect electricity to their location. As part of the connection process, the household

<sup>19</sup> Transaction consideration = CU3,150 (CU100 × 24 months + CU750 variable consideration) recognized evenly over 24 months at CU1,575 per year.

<sup>20</sup> CU1,575 ÷ 2 = CU788 (i.e., for 6 months of the year).

would enter into a power purchase agreement with the utility to document the payment terms and any economic consequences of non-payment, such as interest or penalties.

- IE271. The power purchase agreement is considered a binding arrangement with compliance obligations, as the utility has agreed to provide a distinct good (electricity) to a purchaser (the household) in exchange for the consideration. Given the regulations, the utility may not deny the initial connection nor suspend the provision of electricity even if a household is in default – i.e., the utility is compelled to satisfy the compliance obligation to provide electricity regardless of a household's ability to pay.
- IE272. During the year, the utility provided electricity that would have resulted in total revenue of CU100 million if revenue had been recognized at the utility's standard rates for 100 percent of the electricity provided. However, throughout the year, a number of households were unable to pay their amounts owed to the utility in full.
- IE273. The utility applies paragraph AG37 of IPSAS 47, and based on historical data, estimates that only CU90 million of the amount is collectible. For the remaining CU10 million, the utility accepts that it has implicitly provided a price concession of CU10 million due to the regulations compelling the utility to continue to provide electricity. As a result, the utility recognizes revenue based on a transaction consideration of CU90 million. (See [Example 11](#) for more guidance on implicit price concessions.)
- IE274. To comply with the disclosure requirements in paragraph 171 of IPSAS 47, the utility discloses the following information in the notes to its annual financial statements:

*The utility is subject to the provisions of the Power and Energy Act, which requires all utilities to provide electricity to residential households regardless of the purchasers' ability to pay. As a result, the utility is compelled to connect all residential purchasers to its power grid and to continue to provide electricity even in the event of non-payment.*

*During the year, the utility provided and billed CU100 million of electricity to the households, but only recognized revenue of CU90 million, as this was the amount expected to be collected based on historical data. Therefore, CU10 million of the amount billed was not recognized as revenue.*

## **Application of Principles to Specific Transactions**

### *Capital Transfers*

- IE275. Example 51 illustrates the application of paragraphs AG140–AG142 of IPSAS 47 on capital transfers. Example 52 illustrates the initial measurement of a transfer of a physical asset.

#### *Example 51 – Capital Transfers*

##### *Case A – Transfer Only Relates to the Construction of an Asset*

- IE276. Entity R enters into a binding arrangement with Entity P. The terms of the binding arrangement are as follows:
- (a) Entity R is to receive a capital transfer of CU22 million in cash from Entity P, to be used by Entity R to construct a building. There are no terms specifying how the building is to be used after construction;
  - (b) This amount is based on budgeted construction and related costs. The funding is to be fully paid to Entity R at the beginning of the construction period;

- (c) To facilitate Entity P's enforcement of the binding arrangement, the terms require Entity R to:
  - (i) Have a detailed construction plan outlining the activities to be completed in each significant phase of construction (e.g., clearing the site, foundations, framing, etc.) along with the budgeted costs of these activities;
  - (ii) Provide detailed progress reports at each significant stage of construction; and
- (d) Upon completion of construction, Entity R obtains control of the building. If construction of the building is not completed within five years, Entity R retains control of any construction in progress, but any funds that have not been spent on construction are to be returned to Entity P.

IE277. Entity R has determined that the binding arrangement has only one compliance obligation and that completion of the construction activities noted in the construction plan, as measured by the costs spent on these activities, is an appropriate measure of progress towards complete satisfaction of the compliance obligation.

IE278. In this example, the substance of the binding arrangement is to receive funding for the construction of the building, and there was no transfer relating to the subsequent use of the building by Entity R. Therefore, upon receipt of the CU22 million, Entity R recognizes cash and liability for the full amount of CU22 million because it has not yet started satisfying its compliance obligation (i.e., construction of the building) and is required to return any funds not spent on construction.

IE279. As Entity R completes the construction activities in its construction plan, the costs incurred in completing these activities is used to determine the percentage of construction completed. Entity R applies this percentage to the CU22 million to determine the amount of deferred revenue that should be derecognized from liabilities and recognized as earned revenue throughout the construction period.

*Case B – Transfer Relates to the Construction and Operation of an Asset*

IE280. Building on Case A, the binding arrangement now states that:

- (a) The funding amount has been increased to CU32 million. The amount is based on budgeted construction costs of CU20 million, construction-related overhead costs of CU2 million, and a subsidy of CU10 million to cover some of the costs of operating the building as a public library for the first 10 years after completion of the building;
- (b) Throughout the 10-year period, Entity R is required to provide evidence to Entity P that the building has been operated as a public library. The evidence can include documentation such as audited financial statements which provide details on the operating costs incurred by Entity R;
- (c) If Entity R stops operating the building as a library at any time during the 10-year period, it is required to repay a portion of the CU10 million operating transfer to Entity P based on the amount of time remaining in the 10-year period. For example, if Entity R stops operating the building as a library at two years into the 10-year period, it is required to return CU8 million to Entity P; and
- (d) Similar to Case A, Entity P transfers the entire CU32 million to Entity R at the beginning of the construction period. Entity R is also required to provide information regarding construction progress to Entity P.



- IE281. In this scenario, Entity R considers the substance of the transaction in accordance with the terms of the binding arrangement and concludes that the binding arrangement consists of two compliance obligations: the construction of the building and the operation of the building as a library for a 10-year period. Applying the requirements from IPSAS 47, Entity R has allocated CU22 million to the construction of the building and CU10 million to its operation as a public library.
- IE282. For the compliance obligation relating to the construction of the building, as in Case A, Entity R recognizes a liability of CU22 million upon receipt of the funds. Entity R then derecognizes the CU22 million liability (and recognizes the amounts as earned revenue) over the construction period based on its construction progress as determined by the direct construction costs incurred.
- IE283. For the compliance obligation relating to the operation of the building as a library, Entity R has determined that this compliance obligation is satisfied as the building is being operated as a library during the 10-year period, and therefore would recognize a CU10 million liability upon initial receipt of the funds. After construction has been completed, Entity R derecognizes CU1 million liability per year as it operates the building as a public library and recognizes the amount as earned revenue.

*Case C – Transfer Relates to the Construction and Operation of an Asset, and an Additional Penalty is Payable if the Entity Ceases Operation of the Asset*

- IE284. In this scenario, the binding arrangement includes all of the terms from Case B, with the addition of the following:
- (a) The binding arrangement now imposes a penalty of CU5 million under specific conditions. If Entity R stops operating the building as a library within the 10-year period, it is required to pay a penalty of CU5 million to Entity P.
  - (b) The CU5 million penalty is payable in addition to the return of funds for not complying with the terms of the binding arrangement related to the construction or operation of the asset. For clarity, if Entity R has completed construction of the building and operated it as a library for nine years but stops operating the library at the beginning of the 10<sup>th</sup> year, it is required to pay CU6 million (repayment of CU1 million of unearned revenue related to the operating subsidy and the CU5 million penalty) to Entity P.
- IE285. In this scenario, the accounting for the CU22 million and CU10 million portions of the transfer for construction and operation of the building as a library will be the same as Cases A and B. That is, the CU32 million will be recognized as a liability upon receipt. Subsequently, the CU22 million liability will be derecognized and recognized as earned revenue as the building is constructed, and the CU10 million liability will be derecognized and recognized as earned revenue over the 10-year operating period.
- IE286. The additional CU5 million penalty is not recognized by Entity R because it is a contingent liability (as defined in IPSAS 19) that is not a present obligation (as described in Chapter 5, *Elements in Financial Statements of the Conceptual Framework*). This penalty only becomes a present obligation once the past event (breaching the terms of the agreement by not operating the building as a library) has occurred. Entity R will need to consider if disclosure of the contingent liability is required by IPSAS 19.

*Case D – Transfer Only Relates to the Operation of an Asset*

IE287. The following scenario is independent from Cases A-C, and illustrates the accounting for revenue from an operating transfer to highlight the differences with accounting for revenue from capital transfers.

IE288. In this scenario:

- (a) Entity R already owns the building;
- (b) The binding arrangement includes the terms relating to a CU10 million transfer to subsidize the operation of the building as a public library for the next 10 years. The transfer of funds is required to occur upon finalization of the binding arrangement;
- (c) Throughout the 10-year period, Entity R is required to provide evidence to Entity P that the building has been operated as a public library; and
- (d) If Entity R stops operating the building as a library at any time during the 10-year period, it is required to repay a portion of the CU10 million operating transfer to Entity P based on the amount of time remaining in the 10-year period.

IE289. In this scenario, the CU10 million transfer only relates to the compliance obligation to operate the existing building as a public library over a 10-year period. Upon initial receipt, Entity R recognizes the CU10 million as a liability.

IE290. Entity R has determined that this compliance obligation is satisfied as the building is being operated as a library throughout the 10-year period. Therefore, Entity R derecognizes the liability and recognizes earned revenue of CU1 million per year as it operates the building as a public library.

*Example 52 – Transfers of Physical Assets*

IE291. A public health network (Public Health) enters into a binding arrangement on January 1, 20X2 with the regional government (Government) and agrees to the following:

- (a) The Government will transfer ownership of an X-ray machine to Public Health upon finalization of the binding arrangement;
- (b) Public Health will use the machine to provide X-ray imaging services to the citizens in the region for 10 years. After this 10-year period, Public Health retains ownership of the machine;
- (c) If Public Health stops using the machine to provide imaging services during the 10-year period, it is required to return the machine to the Government; and
- (d) At the time of transfer, the remaining useful life of the machine is 15 years.

IE292. In this scenario, the transaction constitutes a transfer as defined in paragraph 4 of IPSAS 47, but is not a capital transfer as Public Health is not required to use the physical asset received to acquire or construct a non-financial asset.

IE293. Upon transfer of the X-ray machine, Public Health applies paragraph 129 of the IPSAS 47 and recognizes and measures the asset at its deemed cost at the acquisition date in accordance with IPSAS 45. The entity also recognizes an equivalent liability, which is derecognized (and earned revenue is recognized) over the 10 years as the compliance obligation is satisfied over time. Public Health would also amortize the X-ray machine over its remaining useful life of 15 years in accordance with IPSAS 45.

*Pledges*

*Example 53 – Television Appeal for Public Hospital*

IE294. On the evening of June 30, 20X5, a local television station conducts a fundraising appeal for a public hospital (the Hospital). The annual reporting date of the Hospital is June 30. Television viewers telephone or e-mail, promising to send donations of specified amounts of money. At the conclusion of the appeal, CU2 million has been pledged. The pledged donations are not binding on those making the pledge. Experience with previous appeals indicates approximately 75 percent of pledged donations will be made.

IE295. The Hospital does not recognize any amount in its general purpose financial statements in respect of the pledges. The Hospital does not control the resources related to the pledge, because it does not have the ability to exclude or regulate the access of others to the economic benefits or service potential of the pledged resources; therefore it cannot recognize the asset or the related revenue until the donation is binding on the donor in accordance with paragraph AG150 of IPSAS 47.

*Concessionary Loans*

*Example 54 – Concessionary Loans*

IE296. An Entity receives CU6 million funding from a multi-lateral development agency (Agency) to build 10 schools over the next 5 years. The funding is provided on the following conditions:

- (a) CU1 million of the funding need not be repaid, provided that the schools are built;
- (b) CU5 million of the funding is to be repaid as follows:

Year	Capital to be repaid
1	0%
2	10%
3	20%
4	30%
5	40%

- (c) Interest is charged at five percent per annum over the period of the loan (assume interest is paid annually in arrears). The market rate of interest for a similar loan is 10 percent;
- (d) To the extent that schools have not been built, the funding provided should be returned to the donor (assume that the donor has effective monitoring systems in place and has a past history of requiring any unspent funds to be returned); and
- (e) The Entity built the following schools over the period of the loan;

Year	Status
1	1 school completed
2	3 schools completed
3	5 schools completed
4	10 schools completed

REVENUE

IE297. The Entity determined that the substance of the CU1 million is revenue, and not a contribution from owners. In substance, the Entity has received a concessionary loan which includes a transfer of CU1 million and a loan of CU5 million, and an additional transfer of CU784,550 (which is the difference between the proceeds of the loan of CU5 million and the present value of the contractual cash flows of the loan, discounted using the market related rate of interest of 10 percent).

IE298. Considering paragraphs AG152–AG153 of IPSAS 47, the Entity accounts for the transfer of CU1 million + CU784,550 in accordance with this Standard, and the loan with its related contractual interest and capital payments in accordance with IPSAS 41.

IE299. The journal entries are illustrated below:

1. On initial recognition, the resource recipient will recognize the following:				
Dr		Bank	CU6,000,000	
	Cr	Loan		CU4,215,450
	Cr	Liability		CU1,784,550

2. Year 1: the resource recipient will recognize the following:				
Dr		Liability	CU178,455	
	Cr	Revenue		CU178,455
(1/10 of the schools built x CU1,784,550) (Note: The journal entries for the repayment of interest and capital and interest accruals, have not been reflected in this example, as it is intended to illustrate the recognition of revenue arising from concessionary loans. Comprehensive examples are included in the Illustrative Examples to IPSAS 41).				

3. Year 2: the resource recipient will recognize the following (assuming that the resource recipient subsequently measures the concessionary loan at amortized cost):				
Dr		Liability	CU356,910	
	Cr	Revenue		CU356,910
(3/10 schools built x CU1,784,550 – CU178,455 already recognized)				

4. Year 3: the resource recipient will recognize the following:				
Dr		Liability	CU356,910	
	Cr	Revenue		CU356,910
(5/10 schools built x CU1,784,550 – CU535,365 already recognized)				

5. Year 4: the resource recipient will recognize the following:				
Dr		Liability	CU892,275	
	Cr	Revenue		CU892,275
(All schools built, CU1,784,550 – CU892,275) If the concessionary loan was granted with no conditions, the resource				

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recipient would recognize the following on initial recognition:				
Dr		Bank	CU6,000,000	
	Cr	Loan		CU4,215,450
	Cr	Revenue		CU1,784,550

*Debt Forgiveness*

*Example 55 – Debt Forgiveness*

- IE300. The national government (Government N) entered into a binding arrangement to lend a local government (Government L) CU20 million to enable Government L to build a water treatment plant. After a change in policy, Government N decides to forgive the loan and advises the local government in writing. It also encloses the loan documentation, which has been annotated to the effect that the loan has been waived.
- IE301. Upon receipt of this letter and documentation from Government N, Government L derecognizes the liability for the loan and recognizes revenue in the statement of financial performance in the reporting period in which the liability is derecognized in accordance with paragraphs AG155–AG158 of IPSAS 47.

*Bequests*

*Example 56 – Proposed Bequest*

- IE302. A 25-year-old recent graduate (the Graduate) of a public university names the public university (the University) as the primary beneficiary in her will. This is communicated to the university. The graduate is unmarried and childless and has an estate currently valued at CU500,000.
- IE303. The University does not recognize any asset or revenue in its general purpose financial statements for the period in which the will is made, in accordance with paragraphs AG161–AG163 of IPSAS 47. The past event for a bequest is the death of the testator (i.e., the Graduate), which has not occurred.

*Gifts and Donations, including Goods In-kind*

*Example 57 – Goods In-kind*

- IE304. A Defense Force Agency of Government A (Defense Agency) agrees to provide an Aid Agency of Government B (Aid Agency) with its obsolete canvas tents for use as emergency relief housing after a natural disaster. Defense Agency purchased the tents for CU100 per unit two years prior to transferring them to Aid Agency. The agreement states that the tents are valued at CU100 per unit.
- IE305. Aid Agency concludes that it has received a donation in the form of goods in-kind and applies paragraphs AG164–AG167 of IPSAS 47. Upon receipt, Aid Agency determines that IPSAS 45 is the relevant IPSAS, and the tents are held for operational capacity. Aid Agency determines that the current operational value for this obsolete version of the tent is CU50. Therefore, Aid Agency recognizes revenue at the value of CU50 per unit received instead of the CU100 as stated in the agreement.

*Example 58 – External Assistance*

- IE306. National Government A (Government A) enters into an external assistance agreement with National Government B (Government B), which provides Government A with development assistance to support Government A's health objectives over a two-year period. The external assistance agreement is binding on both parties through an international court of law. The agreement specifies the details of the development assistance receivable by Government A and the types of items or expenditures the funds can be spent on to further its health objectives. Government A measures the transaction consideration of the development assistance at CU5 million. Any funding not used over the two-year period is to be returned to Government B.
- IE307. At inception of the binding arrangement, Government A has a combined right and obligation which constitute a single asset or liability, which is measured at zero because the binding arrangement is wholly unsatisfied. Government A will recognize an asset on its statement of financial position in accordance with paragraphs 18–25 (for example, when Government A receives an inflow of resources from Government B, or if Government A begins satisfying its compliance obligation by incurring eligible expenditures in accordance with the terms of the external assistance agreement). Government A would also recognize a liability, which is derecognized (and earned revenue is recognized) as the compliance obligation is satisfied.

### **Comparison with IFRS 15**

The binding arrangement accounting requirements in IPSAS 47, *Revenue* are drawn primarily from IFRS 15, *Revenue from Contracts with Customers* (issued in 2014, including amendments up to March 2018). The main differences between IPSAS 47 and IFRS 15 are as follows:

- IPSAS 47 applies to all revenue transactions in the public sector, which may arise from transactions with or without binding arrangements. IFRS 15 applies to a subset of binding arrangements, specifically contracts to deliver goods or services to customers.
- IPSAS 47 explicitly requires an entity to determine whether the revenue arises from a transaction with or without a binding arrangement. IFRS 15 does not explicitly require an entity to determine whether the revenue arises from a contract.
- IPSAS 47 uses the term “compliance obligation” as the unit of account for revenue recognition in a binding arrangement, which is a promise to either use resources internally for distinct goods or services, or to transfer distinct goods or services to another party (i.e., a purchaser or third-party beneficiary). IFRS 15 uses the term “performance obligation” as the unit of account for revenue recognition in a contract, which is a promise to transfer distinct goods or services to a customer.
- The concept of compliance obligations in IPSAS 47 is broader than performance obligations in IFRS 15. As a result, IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance* is not applicable for public sector organizations because IPSAS 47 includes principles to account for capital transfers and other transfers arising from binding arrangements.
- IPSAS 47 requires an entity to disclose any transactions where it is compelled to satisfy an obligation, regardless of the counterparty’s ability or intention to pay and the probability of collection of consideration. IFRS 15 does not require this disclosure.
- IPSAS 47 uses different terminology from IFRS 15. For example, IPSAS 47 uses the terms “compliance obligation”, “resource provider”, “stand-alone value”, and “economic substance”, while IFRS 15 uses the terms “performance obligation”, “customer”, “stand-alone selling price”, and “commercial substance”, respectively.

### Comparison with GFS

In developing IPSAS 47, *Revenue*, the IPSASB considered Government Finance Statistics (GFS) reporting guidelines.

Key similarities and differences with GFS are as follows:

- The similarities and differences between the accounting under IPSAS 47 and GFS will depend on the facts and circumstances of the revenue transactions.
- Both IPSAS 47 and GFS require an entity to account for revenue on an accrual basis. However, IPSAS 47 uses accounting terminology whereas GFS uses economic terminology, which may lead to the same accounting outcome.
- IPSAS 47 distinguishes between revenue arising from transactions with or without a binding arrangement. GFS distinguishes revenue transactions by their characteristics, including whether it is a market transaction.
- IPSAS 47 considers the enforceability of the entity's individual rights and/or obligations in order to identify whether the revenue arises from a transaction with a binding arrangement. GFS considers different characteristics to identify the type of revenue, including whether it is a market transaction.
- Under IPSAS 47, an entity recognizes revenue when (or as) it satisfies any enforceable obligations associated with an inflow (or right to an inflow) of resources, as specified in the arrangement. Under GFS, the timing of revenue recognition is based on the type of revenue.
- IPSAS 47 includes disclosure requirements that are not present in GFS.



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**International Public  
Sector Accounting  
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529 Fifth Avenue, New York, NY 10017  
T + 1 (212) 286-9344 F +1 (212) 286-9570  
[www.ipsasb.org](http://www.ipsasb.org)

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*International Public Sector Accounting Standard®*

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IPSAS 48, *Transfer Expenses*

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# IPSAS 48, Transfer Expenses

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## Objective

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

## Scope

3. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for transfer expenses as defined in this Standard, including transfer expenses incurred for capital transfers.**
4. **This Standard does not apply to:**
  - (a) **Leases as defined in IPSAS 43, *Leases*;**
  - (b) **Contributions from, and distributions to, owners;**
  - (c) **Service concession arrangements as defined in IPSAS 32, *Service Concession Arrangements: Grantor*;**
  - (d) **Employee benefits as defined in IPSAS 39, *Employee Benefits*;**
  - (e) **Financial instruments, including concessionary loans, as defined in IPSAS 41, *Financial Instruments*;**
  - (f) **Social benefits as defined in IPSAS 42, *Social Benefits*;**
  - (g) **Insurance contracts (see the international or national accounting standard dealing with insurance contracts);**
  - (h) **Share-based payments (see the international or national accounting standard dealing with share-based payments); and**
  - (i) **Income taxes (see the international or national accounting standard dealing with income taxes).**
5. A binding arrangement may be partially within the scope of this Standard and partially within the scope of other Standards:
  - (a) If the other Standards specify how to separately recognize and/or initially measure one or more parts of the binding arrangement, then an entity shall first apply the separation and/or measurement requirements in those Standards. An entity shall exclude from the transfer consideration or other transfer of resources the amount of the part (or parts) of the binding arrangement that are initially measured in accordance with other Standards and shall apply paragraphs 18-43 to account for the amount of the transfer consideration or other transfer of resources that remains (if any); and

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

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

## Definitions

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

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

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

For the purposes of this Standard, the **transfer consideration** represents the total amount of resources<sup>1</sup> which an entity expects to transfer.

A **transfer expense** is an expense arising from a transaction, other than taxes, in which an entity provides a good, service, or other asset to another entity (which may be an individual) without directly receiving any good, service, or other asset in return (paragraphs 8-9 provide additional guidance).

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

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

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

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

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

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

7. The following terms are defined in IPSAS 47, *Revenue*:

- (a) Binding arrangement;
- (b) Compliance obligation;
- (c) Taxes; and

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<sup>1</sup> In this Standard, the term resources includes goods, services, and other assets, and may encompass cash or non-current assets.

(d) Third-party beneficiary.

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

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

Paragraphs AG4-AG9 provide additional guidance on the definitions in this Standard.

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

## Identifying the Transfer Expense Transaction

8. **An entity accounts for a transfer based on whether or not the transaction results in the recognition of an asset. When a transfer results in the recognition of an asset, the asset is derecognized when (or as) the entity's rights from the transfer arrangement are extinguished.<sup>2</sup> For transfers which do not result in the recognition of an asset, a transfer expense is recognized:**
- (a) When the entity loses control of the transferred resources; or
  - (b) When the entity has incurred an obligation to transfer resources and recognizes a liability for the obligation.

**The identification of whether the transaction arises from a binding arrangement impacts this determination, as the rights and obligations from a binding arrangement provide inputs into the assessment of the asset recognition criteria and whether an obligation to transfer resources exists.**

9. An entity will apply the guidance on recognition and measurement in this Standard as follows:
- (a) Transfer expenses from transactions without binding arrangements (hereby referred to as transfer expenses without binding arrangements) are accounted for using paragraphs 18-20; and
  - (b) Transfer expenses from transactions with binding arrangements (hereby referred to as transfer expenses with binding arrangements) are accounted for using paragraphs 21-43.

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

## Binding Arrangements and Enforceability

10. **For an arrangement to be binding, it must be enforceable through legal or equivalent means. Enforceability can arise from various mechanisms, so long as the mechanism(s) provide(s) the entity with the ability to enforce the terms of the binding arrangement and hold the parties accountable for the satisfaction of stated obligations.**
11. In determining whether an arrangement is enforceable, the entity considers the substance rather than the legal form of the arrangement. The assessment of whether an arrangement is enforceable is based on an entity's ability to enforce the specified terms and conditions of the arrangement and the satisfaction of the other parties' stated obligations.

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<sup>2</sup> The asset may be derecognized at a point in time or over a period of time depending on the terms of the arrangement.



12. A binding arrangement includes both rights and obligations that are enforceable for two or more of the involved parties. Each party's enforceable right and obligation within the binding arrangement are interdependent and inseparable.
13. Binding arrangements can be evidenced in several ways. A binding arrangement can be written, oral or implied by an entity's or a sector's customary practices. The practices and processes for establishing binding arrangements with transfer recipients vary across legal jurisdictions, sectors, and entities. In addition, they may vary within an entity (for example, they may depend on the class of transfer recipient or third-party beneficiary, or the nature of the promised goods or services). An entity shall consider those practices and processes in determining whether and when an agreement with a transfer recipient creates enforceable rights and obligations.
14. A binding arrangement has at least one obligation because its enforceability holds the entity accountable for satisfying the stated obligations of the arrangement, and the accountability imposes little or no realistic alternative for the entity to avoid the transfer of resources.
15. When the binding arrangement is wholly unsatisfied, an entity shall not recognize any asset, liability, or expense associated with the binding arrangement. The recognition of assets, liabilities, and expenses commences when one party to the binding arrangement starts to satisfy its obligations under the arrangement.
16. A binding arrangement is wholly unsatisfied if both of the following criteria are met:
  - (a) The entity has not yet paid, and is not yet obligated to pay, any consideration to the transfer recipient for the transfer recipient satisfying any of its compliance obligations in the binding arrangement; and
  - (b) The transfer recipient has not started satisfying any of its compliance obligations in the binding arrangement.

Paragraphs AG11-AG29 provide additional guidance on enforceability and binding arrangements.

### **Combination of Binding Arrangements**

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

## **Transfer Expenses from Transactions without Binding Arrangements**

### **Recognition**

18. **For transfer expenses without binding arrangements, an entity shall recognize expenses as follows:**

- (a) **At the point when a constructive obligation or legal obligation to transfer resources arises and results in the recognition of a provision in accordance with paragraph 22 of IPSAS 19. In such cases, the recognition of the provision results in the recognition of an expense, and the subsequent transfer of resources settles the recognized provision; or**
- (b) **If a constructive or legal obligation to transfer resources does not exist, when the entity ceases to control the resources; this will usually be the date at which it transfers the resources to the transfer recipient. In such cases, the entity derecognizes the resources it ceases to control in accordance with other Standards.**

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

### **Measurement**

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

## **Transfer Expenses from Transactions with Binding Arrangements**

### **Identifying Transfer Rights**

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

**Paragraphs AG31-AG34 provide additional guidance on identifying transfer rights.**

### **Recognition of Transfer Expenses**

- 22. **When (or as) an entity transfers resources in accordance with a binding arrangement prior to the transfer recipient satisfying its obligations, the transferred resources are derecognized, and a transfer right asset is recognized for the transfer rights arising from the binding arrangement.**

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

- 23. **Conversely, when (or as) a transfer recipient satisfies its obligations in the binding arrangement prior to the entity transferring resources, the arrangement gives rise to a transfer obligation for the entity. The existence of a transfer obligation results in the recognition of a transfer obligation liability. A transfer obligation liability is also recognized when it is more likely than not that a present obligation exists for the transfer of variable consideration (see paragraphs 35-37).**
- 24. **For transfer expenses with binding arrangements, an entity shall recognize expenses:**

- (a) When (or as) a transfer right asset is derecognized; or**
- (b) When a transfer obligation liability is recognized.**

25. The derecognition of the transfer right asset results from the extinguishment of the transfer rights in accordance with the terms of the binding arrangement. For each transfer right identified in paragraph 21, the transfer right is extinguished when (or as) the entity no longer has enforceable rights in accordance with the binding arrangement.

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

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

26. After the recognition of a transfer right asset by the entity, the transfer recipient may become unable or unwilling to satisfy its obligations under the binding arrangement. Where the entity has an enforceable and unconditional right to the receipt of cash or other financial assets arising from the terms of the binding arrangement, the legal system in the jurisdiction, and/or other circumstances, the entity shall derecognize the transfer right asset and recognize a financial asset. Subsequent to its recognition, the entity shall measure the financial asset in accordance with IPSAS 41. (See paragraph 43 for situations where a transfer right asset still exists but is impaired.)

### **Modifications to a Binding Arrangement**

27. A modification to a binding arrangement is a change in the rights and obligations of a binding arrangement that is approved by the parties to the binding arrangement. A modification to a binding arrangement exists when the parties to a binding arrangement approve a modification that either creates new enforceable rights and obligations, or changes the existing enforceable rights and obligations of the parties to the binding arrangement. A modification to a binding arrangement could be approved in writing, by oral agreement, or implied by an entity's customary practices. If the parties to the binding arrangement have not approved a modification to a binding arrangement, an entity shall continue to apply this Standard to the original binding arrangement until the modification to the binding arrangement is approved.

28. An entity shall account for a modification to a binding arrangement as a separate binding arrangement if both of the following conditions exist:

- (a) The scope of the binding arrangement increases, providing the entity with one or more additional transfer rights (see paragraphs AG31-AG34), because the transfer recipient accepts one or more additional obligations, or an increase in one or more existing obligations; and
- (b) The transfer consideration increases by an amount that is intended to reflect the value of the additional transfer rights by compensating the transfer recipient for the additional or increased obligations assumed.

29. If a modification to a binding arrangement is not accounted for as a separate binding arrangement in accordance with paragraph 28, an entity shall account for the modification to the binding arrangement as if it were a part of the original binding arrangement. The entity shall determine the accumulated transfer expense to be recognized as at the date of the modification by revising its estimates of the transfer consideration and the amount of the transfer consideration allocated to extinguished and unextinguished transfer rights. The difference between the accumulated transfer expense determined

as at the date of the modification and the accumulated transfer expense previously recognized shall be recognized in surplus or deficit as at the date of the modification.

### **Measurement**

30. **An entity shall consider the terms of the binding arrangement to determine the transfer consideration. Transfer consideration is the total carrying amount of the resources which an entity has transferred, or is obligated to transfer, to the transfer recipient in accordance with the binding arrangement and includes the effects of variable consideration (see paragraphs 35-37).**
31. **When an entity transfers resources to a transfer recipient prior to the transfer recipient starting to satisfy its obligation, the entity shall, at recognition, measure the resulting transfer right asset at the total carrying amount of the resources which have been transferred in accordance with the binding arrangement.**
32. **When a transfer expense is recognized from the extinguishment of a transfer right, the transfer expense is measured at the amount of the transfer consideration that is allocated to the extinguished transfer right in accordance with paragraph 38.**
33. **When the transfer recipient has satisfied its compliance obligations and the entity has not yet transferred its resources as required by the binding arrangement, the entity measures its transfer obligation liability at the total carrying amount of the resources which the entity is obligated to transfer in accordance with the binding arrangement.**
34. To determine the transfer consideration, an entity shall assume that the transfer recipient will satisfy its obligations in accordance with the existing binding arrangement and that the binding arrangement will not be cancelled, renewed, or modified.

### **Variable Consideration**

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

### **Allocating the Transfer Consideration to Transfer Rights**

38. **When a binding arrangement involves multiple distinct transfer rights, the transfer consideration shall be allocated to each distinct transfer right to reflect its stand-alone consideration, adjusted for amounts of variable consideration.**

39. Variable consideration that is agreed in a binding arrangement may be attributable to the entire binding arrangement or to specific transfer rights. An entity shall allocate variable consideration as follows:
- (a) When the variable consideration can be identified with one or more transfer rights, the variable consideration shall be allocated to those transfer rights in accordance with paragraph 38; or
  - (b) When the variable consideration cannot be identified with one or more transfer rights, the entity shall allocate the variable consideration to all the transfer rights proportionately to their share of the transfer consideration (excluding variable consideration that cannot be identified with one or more transfer rights).<sup>3</sup>

Paragraphs AG50-AG51 provide additional guidance on allocating the transfer consideration to transfer rights.

### Changes in the Transfer Consideration

- 40. After the inception of the binding arrangement, the transfer consideration can change for various reasons, including the resolution of uncertain events or other changes in circumstances that change the amount of consideration which an entity is obligated to pay in the binding arrangement.
- 41. For a change in transfer consideration that did not arise from a modification to the binding arrangement, an entity shall allocate to the transfer right assets and transfer obligation liabilities in the binding arrangement any subsequent changes in the transfer consideration on the same basis as at the inception of the binding arrangement. Amounts allocated to an extinguished transfer right shall be recognized as an expense, or as a reduction of an expense, in the period in which the transfer consideration changes.
- 42. An entity shall account for a change in the transfer consideration that arises from a modification to the binding arrangement in accordance with paragraphs 27-29.

### Impairment of a Transfer Right Asset

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

### Presentation

#### Display

- 44. **For transfer expenses from transactions without binding arrangement, if an entity recognizes a provision for a constructive or legal obligation to transfer resources, the resulting provision is presented in accordance with the presentation requirements for provisions in paragraphs 88, 94, and 107 of IPSAS 1.**

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<sup>3</sup> This guidance is also applicable to a specific portion of variable consideration that can or cannot be identified with one or more transfer rights.

45. **For transfer expenses from transactions with binding arrangements, when only one party to a binding arrangement has performed and the other parties have yet to perform, an entity shall present the binding arrangement in the statement of financial position as a transfer right asset or transfer obligation liability, based on the guidance in paragraphs 22-23.**
46. An entity shall present a transfer right asset in accordance with the presentation guidance for prepayment assets in paragraphs 76, 90, 91, and 94 of IPSAS 1.
47. When a transfer right asset has been derecognized for non-performance and a financial asset has been recognized (see paragraph 26), the entity presents the financial asset in accordance with the requirements in IPSAS 28, *Financial Instruments: Presentation*.
48. An entity shall present a transfer obligation liability in accordance with the presentation guidance for transfers payable in paragraphs 80 and 88 of IPSAS 1.
49. As required by paragraph 109 of IPSAS 1, an entity shall present, either on the face of the statement of financial performance or in the notes, an analysis of expenses using a classification based on the nature of expenses or their function within the entity. Paragraph 111 of IPSAS 1 also requires the subclassification of expenses to highlight the costs and cost recoveries of particular programs, activities, or other relevant segments of the reporting entity. In the context of transfer expenses, the analysis of expenses by nature results in the presentation of transfer expenses as a separate line item, while the analysis of expenses by function results in the allocation of transfer expenses to the various programs or purposes for which the transfers were made.

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

## Disclosure

50. **The objective of the disclosure requirements is for the entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of expenses and cash flows arising from transfer expense transactions. To achieve that objective, the entity shall disclose qualitative and quantitative information about all of the following:**
  - (a) **Transfer expenses and related balances (see paragraphs 53-58);**
  - (b) **Transfer arrangements (see paragraphs 59-60); and**
  - (c) **The significant judgments, and changes in the judgments, made regarding the recognition of transfer right assets from transfer expense transactions (see paragraph 61).**
51. In making the disclosures required by this Standard, an entity shall consider the requirements of paragraphs 45-47 of IPSAS 1 which provide guidance on materiality and aggregation. A specific disclosure requirement in this Standard need not be satisfied if the information is not material.
52. An entity shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. An entity shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have substantially different characteristics.

*Transfer Expenses and Related Balances*

53. As noted in paragraph 49, an entity shall incorporate transfer expenses in the analysis of expenses required by IPSAS 1. This analysis can be presented on the face of the statement of financial performance or disclosed in the notes.

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

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

*Transfer Arrangements*

59. An entity shall disclose information about its transfer binding arrangements, including a description of the following:
- (a) The purpose of the transfer binding arrangements;
  - (b) Significant payment terms;
  - (c) The nature of the resources that have been or will be transferred; and
  - (d) Significant risks and uncertainties relating to the realization of transfer rights assets.

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

60. An entity may enter an arrangement for a transfer that is not a binding arrangement. For such arrangements, an entity shall disclose the following:
- (a) The purpose of the transfer arrangements;
  - (b) Significant payment terms, if any; and
  - (c) The nature of the resources that have been or will be transferred.

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

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

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

**Effective Date and Transition**

**Effective Date**

62. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is permitted. If an entity applies this Standard for a period beginning before January 1, 2026, it shall disclose that fact and shall apply IPSAS 47, *Revenue*, at the same time.**
63. When an entity adopts the accrual basis IPSAS of accounting as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)*, for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS.

**Transition**

64. **An entity shall apply this Standard using one of the following two methods:**
- (a) Prospectively to transfers occurring on or after the date of initial application arising from transactions with and without binding arrangements; or**
  - (b) Retrospectively to each prior reporting period presented in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.**



### Application Guidance

This Appendix is an integral part of IPSAS 48.

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

- (a) Scope (paragraphs AG2-AG3);
- (b) Definitions (paragraphs AG4-AG9);
- (c) Identifying the Transfer Expense Transaction (paragraph AG10);
- (d) Binding Arrangements and Enforceability (paragraphs AG11-AG29);
- (e) Derecognition of the Transferred Resources (paragraph AG30);
- (f) Identifying Transfer Rights (paragraphs AG31-AG34);
- (g) Recognition of Transfer Expenses from Transactions with Binding Arrangements (paragraphs AG35-AG49);
- (h) Allocating the Transfer Consideration to Transfer Rights (paragraphs AG50-AG51); and
- (i) Presentation: Display and Disclosure (paragraph AG52); and
- (j) Application of Principles to Specific Transactions (paragraphs AG53-AG55).

#### Scope (paragraphs 3-5)

AG2. The scope of this Standard is focused on establishing principles and requirements when accounting for transfer expenses, where an entity provides a good, service, or other asset to another entity without directly receiving any good, service, or other asset in return.

AG3. This Standard does not address transactions where an entity receives any good, service, or other asset in return for the good, service, or other asset that it transfers to another party. Such transactions are accounted for in accordance with other Standards.

#### Definitions (paragraphs 6-7)

##### *Binding Arrangement*

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

##### *Transfer Expense*

AG5. This Standard defines a transfer expense as an expense arising from a transaction, other than taxes, in which the transfer provider (the entity) provides a good, service, or other asset to another entity (the transfer recipient, which may be a public sector entity, a not-for-profit organization, or an individual) without directly receiving any good, service, or other asset in return.

AG6. As noted in paragraph AG9, a transfer right asset is not considered a good, service, or other asset that is received directly from the transfer recipient.

*Transfer Obligation and Transfer Obligation Liability*

AG7. Binding arrangements confer rights and obligations on the parties to the arrangement. This Standard refers to the entity's obligations from a binding arrangement to transfer resources as transfer obligations. The liability recognized for the existence of one or more transfer obligations arising from a binding arrangement is referred to as a transfer obligation liability.

*Transfer Recipient*

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

*Transfer Right and Transfer Right Asset*

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

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

**Identifying the Transfer Expense Transaction (paragraphs 8-9)**

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

**Binding Arrangements and Enforceability (paragraphs 10-16)**

*Binding Arrangement*

AG11. A binding arrangement is an arrangement that confers both enforceable rights and obligations on the parties to the arrangement. Each party in the binding arrangement willingly enters into the arrangement and is able to enforce its respective rights and obligations in the arrangement.

- AG12. 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.
- AG13. In accordance with paragraph 11, the assessment of whether an arrangement is enforceable is based on an entity's ability to enforce the specified terms and conditions of the binding arrangement and the satisfaction of the other parties' stated obligations. Consequently, an entity's intentions about enforcing the binding arrangement do not affect the existence of a binding arrangement unless these intentions have been communicated to the transfer recipient such that they affect the enforceability of the binding arrangement.
- AG14. Binding arrangements confer both rights and obligations on the parties to the arrangement. This Standard refers to the entity's obligations as transfer obligations. The entity also has rights to have the transfer recipient satisfy its obligations. This Standard refers to these rights as transfer rights.

*Enforceability*

- AG15. The interdependent rights and obligations in an arrangement must be enforceable to meet the definition of a binding arrangement. Enforceability can arise from various mechanisms, so long as the mechanism(s) provide(s) the entity with the ability to enforce the terms of the arrangement and hold the involved parties accountable for the satisfaction of stated obligations. An entity should determine whether an arrangement is enforceable based on whether the entity has the ability to enforce the rights and the obligations. The entity's assessment of enforceability occurs at inception and when a significant external change indicates that there may be a change in the enforceability of that arrangement.
- AG16. Since enforceability can arise from various mechanisms, an entity should objectively assess all relevant factors to determine whether an arrangement is enforceable. In some jurisdictions, public sector entities cannot enter into legal obligations, because they are not permitted to contract in their own name, but there are alternative processes with equivalent effect to legal arrangements (described as enforceable through equivalent means). For an arrangement to be enforceable through 'equivalent means', the presence of an enforcement mechanism outside the legal systems, that is similar to the force of law without being legal in nature, is required to establish the right of the entity to obligate the transfer recipient to complete the agreed obligation or be subject to remedies for non-completion. Similarly, a mechanism outside the legal system, that is similar to the force of law without being legal in nature, is required to establish the right of the transfer recipient to obligate the entity to pay the agreed consideration. Thus, an entity should identify and assess all relevant factors by considering legal or equivalent means by which the involved parties enforce each of the respective rights and obligations under the arrangement.
- AG17. In the public sector, an arrangement is enforceable when each of the involved parties is able to enforce its respective rights and obligations. An arrangement is enforceable by another party if the agreement includes:
- (a) Distinct rights and obligations for each involved party; and

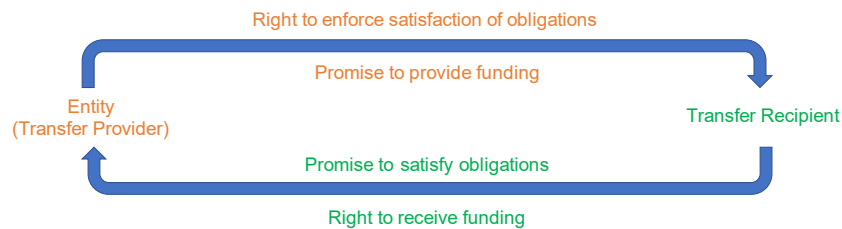
- (b) Remedies for non-completion by either party which can be enforced through the identified enforcement mechanisms.
- AG18. When an entity assesses enforceability, the entity should consider how the identified mechanisms of enforceability impose implicit or explicit consequences on any party or parties that do not satisfy their agreed-upon obligation(s) in the arrangement. If the entity is not able to determine how the mechanisms of enforceability identified at inception would in substance enable the entity to hold the other involved parties accountable for satisfying their stated obligation(s) in cases of non-completion, then the arrangement is not enforceable and does not meet the definition of a binding arrangement.
- AG19. Enforceability arises from the compulsion by a legal system, including through legal means (enforced in the courts in a jurisdiction, as well as judicial rulings and case law precedence to comply with the terms of the arrangement) or compliance through equivalent means (laws and regulations, including legislation, executive authority, cabinet or ministerial directives).
- AG20. Executive authority (sometimes called an executive order) is an authority given to a member or selected members of a government administration to create legislation without ratification by the full parliament. This may be considered a valid enforcement mechanism if such an order was issued directing an entity to satisfy the agreed-upon obligations in the arrangement.
- AG21. Cabinet and ministerial directives may create an enforcement mechanism between different government departments or different levels of government of the same government structure. For example, a directive given by a minister or government department to an entity controlled by the government to satisfy the agreed-upon obligations in the arrangement may be enforceable. Each party must be able to enforce both the rights and obligations conferred on them in the arrangement to meet the definition of a binding arrangement. Each party must have the ability and authority to compel the other party or parties to satisfy the promises established within the arrangement or to seek redress should those promises not be satisfied.
- AG22. Sovereign rights are the authority to make, amend and repeal legal provisions. On its own, this authority does not establish enforceable rights and obligations for the purposes of applying this Standard. However, if the use of sovereign rights were detailed in the arrangement as a means of enforcing the satisfaction of agreed-upon obligations by an entity, this may result in a valid enforcement mechanism.
- AG23. A transfer recipient may feel compelled to deliver on the obligations in an arrangement because of the risk that it might not receive future funding from the entity. In general, the entity's ability to reduce or withhold future funding to which the transfer recipient is not presently entitled would not be considered a valid enforcement mechanism in the context of this Standard because there is no obligation on the entity to provide such funding. However, if the transfer recipient is presently entitled to funding in the future through another binding arrangement, and the terms of this other binding arrangement specifically allow for a reduction in the future funding if other arrangements are breached, then the potential reduction in future funding could be considered a valid enforcement mechanism.
- AG24. When determining if a reduction of future funding would be an enforcement mechanism, the entity shall apply judgment based on the facts and circumstances. Key factors that may indicate the entity would reduce future funding in the event of a breach of promises made in another binding arrangement are the entity's ability to reduce future funding and its past history of doing so.

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

**Parties in a Binding Arrangement**

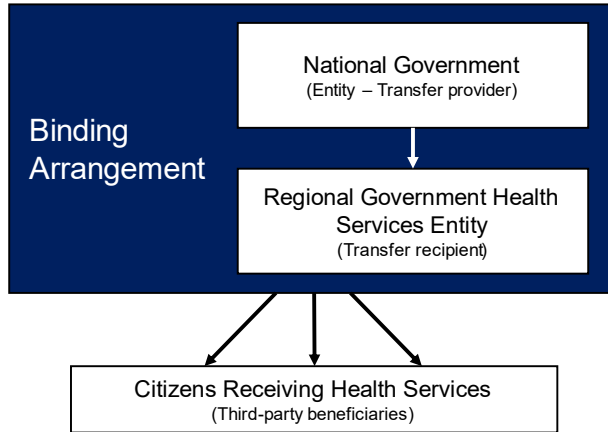
AG26. Arrangements in the public sector often include two or more parties. For the arrangement to meet the definition of a binding arrangement for the purposes of this Standard, at least two of the parties to the arrangement must have their own rights and obligations conferred by the arrangement, and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

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



AG28. Parties noted within a binding arrangement that do not have enforceable rights and obligations are third-party beneficiaries. Third-party beneficiaries in multi-party binding arrangements do not have any rights to force the transfer recipient to deliver goods and services.

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



### Derecognition of the Transferred Resources (paragraphs 18 and 22)

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

- (a) Prior to the transfer of a non-financial asset to a transfer recipient, the entity should consider paragraph 27(d) of IPSAS 21, *Impairment of Non-Cash-Generating Assets*, to determine if there has been a significant change in use of the non-financial asset, which could be an indication of impairment;
- (b) The consideration in paragraph AG30(a) does not apply to financial assets to be transferred, as the potential impairment of financial assets is assessed continuously in accordance with the requirements of IPSAS 41, *Financial Instruments*; and
- (c) When the transferred resources are derecognized, an entity should apply the derecognition guidance from other Standards that are applicable to the assets which have been transferred.

### Identifying Transfer Rights (paragraph 21)

AG31. Transfer rights provide the basis of the timing of recognition for transfer expenses. This Standard requires transfer expenses with binding arrangements to be recognized as or when a transfer right is extinguished, and therefore requires the entity to allocate the transfer consideration to transfer rights.

AG32. A transfer right is identified as a distinct right that can be enforced separately from other rights in the binding arrangement. Typically, from the entity's perspective, whether a transfer right is distinct will be evident from the negotiations of the binding arrangement.

AG33. The entity shall aggregate related rights until the aggregation produces a distinct right that can be enforced separately. This aggregation is identified as a transfer right.

AG34. In some binding arrangements, it may not be possible to identify aggregations of rights to have the transfer recipient satisfy its obligations that are distinct. In such cases, the entity shall identify the binding arrangement as a single transfer right.

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

### *Recognition at Inception of a Binding Arrangement*

- AG35. In accordance with paragraph 15, at the inception of a binding arrangement and when the binding arrangement is wholly unsatisfied, an entity shall not recognize any asset, liability, or expense associated with the binding arrangement. The transfer rights and transfer obligations under a wholly unsatisfied binding arrangement are interdependent and inseparable. The combined transfer rights and transfer obligations constitute a single asset or liability that is measured at zero.
- AG36. Individual transfer rights and transfer obligations are recognized as items (assets, liabilities and expenses depending on their nature) only when or as one or more parties to the binding arrangement satisfy their stated obligations. An entity shall account for these items in accordance with paragraphs 22-25.
- AG37. Where parts of the binding arrangement remain equally unsatisfied, the entity shall not recognize any asset, liability, or expense for the equally unsatisfied parts of the binding arrangement. Such equally unsatisfied parts of the binding arrangement continue to constitute a single asset or liability that is measured at zero.

### *Derecognition of the Transfer Right Asset*

- AG38. Typically, a transfer recipient's satisfaction (or lack of satisfaction) of its obligations can serve as an indicator for whether the entity continues to have enforceable rights under the binding arrangement. When the transfer recipient satisfies its obligations, the entity's corresponding transfer right is extinguished.
- AG39. A binding arrangement may specify that as the transfer recipient satisfies its obligations, the entity's transfer rights are reduced accordingly. This will result in the gradual derecognition of the transfer right asset and the recognition of an expense in a similar pattern as when the transfer recipient satisfies its obligations. In these situations, an entity shall consider if it can reliably estimate the transfer recipient's progress towards complete satisfaction of its obligations in the binding arrangement. If the entity cannot reliably estimate the transfer recipient's progress towards complete satisfaction of its obligations, the transfer right asset shall be expensed immediately.
- AG40. Methods for measuring progress towards complete extinguishment of a transfer right may include surveys of performance completed to date, appraisals of results achieved, milestones reached, time elapsed and units produced or delivered. When an entity evaluates whether to apply a particular method to measure progress towards complete extinguishment of a transfer right, the entity shall consider whether the method selected would faithfully depict the reduction of a transfer right in accordance with the terms of the binding arrangement. A method would not provide a faithful depiction of the progress towards complete extinguishment of a transfer right if the method selected would fail to measure some aspects of the binding arrangement. For example, in arrangements where a transfer right is extinguished as the transfer recipient satisfies its obligations, methods based on elapsed time would not faithfully depict the transfer recipient's satisfaction of obligations if its performance involved goods or services that are not delivered evenly over time. In evaluating whether to apply a particular method to measure a transfer recipient's progress, an entity should apply judgment.

- AG41. In some situations, a transfer right asset may be derecognized when the transfer recipient is unable or unwilling to satisfy its obligations in a binding arrangement. (See paragraph 26). A transfer right asset may also be derecognized if changes in facts and circumstances indicate that the arrangement is no longer binding. (See paragraph AG15).
- AG42. If the entity and the transfer recipient both satisfy their obligations from the binding arrangement at the same time, the entity's transfer right will no longer exist at the time of transfer, and an expense is recognized upon the transfer of resources.

*Recognition of a Transfer Obligation Liability*

- AG43. If the transfer recipient has satisfied its obligations and the entity has not yet transferred its resources as required by the binding arrangement, the entity typically no longer has any enforceable rights within the binding arrangement. In these situations, the terms of the binding arrangement, as well as the laws and regulations that apply to the binding arrangement, will typically grant the transfer recipient the enforceable right to payment for the satisfaction of the obligation completed to date. As the transfer recipient has already satisfied its obligations, the obligation to transfer resources is unconditional and the nature of the liability is similar to a payable. Therefore, the entity recognizes a transfer obligation liability and an expense for its transfer obligation, and the subsequent transfer of resources is a settlement of the recognized liability.
- AG44. 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 obligation. In assessing whether a transfer recipient has a right to payment for satisfaction of the obligation completed to date, an entity shall consider whether the transfer recipient would have an enforceable right to demand or retain payment for satisfaction of its obligation completed to date if the binding arrangement were to be terminated before completion for reasons other than the transfer recipient's failure to satisfy its obligations as promised.
- AG45. In some binding arrangements, an entity may or may not have a right to terminate the binding arrangement only at specified times during the life of the binding arrangement. If an entity acts to terminate a binding arrangement without having the right to terminate the binding arrangement at that time (including when the transfer recipient fails to satisfy its obligations as promised), the binding arrangement (or other laws) might entitle the transfer recipient to continue to satisfy its obligations and require the entity to pay the consideration promised in exchange for those obligations being satisfied. In those circumstances, a transfer recipient has a right to payment for satisfaction of its obligations completed to date because the transfer recipient has a right to continue to satisfy its obligations in accordance with the binding arrangement and to require the entity to satisfy its transfer obligations.
- AG46. In assessing the existence and enforceability of a right to payment for performance completed to date, an entity shall consider the terms of the binding arrangement as well as any legislation or legal precedent that could supplement or override those terms of the binding arrangement.
- AG47. The payment schedule specified in a binding arrangement does not necessarily indicate whether a transfer recipient has an enforceable right to payment for satisfaction of its obligations completed to date. Although the payment schedule in a binding arrangement specifies the timing and amount of consideration that is payable by an entity, the payment schedule might not necessarily provide evidence of the transfer recipient's right to payment for satisfaction of its obligations completed to date. This is because, for example, the binding arrangement could specify that the consideration



transferred by the entity is refundable for reasons other than the transfer recipient failing to satisfy its obligations as promised in the binding arrangement.

*Interaction Between Transfer Right Assets and Transfer Obligation Liabilities*

- AG48. After recognition, the transfer right asset shall be increased by the carrying amount of additional resources transferred and decreased by the amount of expenses or any impairment recognized, until the carrying amount of the transfer right asset is zero. At that point, any further satisfaction of the transfer recipient's compliance obligations will result in the recognition of an expense and a transfer obligation liability.
- AG49. After recognition, the transfer obligation liability shall be increased by the amount of additional expenses recognized and decreased by the carrying amount of resources transferred to the transfer recipient, until the carrying amount of the transfer obligation liability is zero. Any further transfer of resources to the transfer recipient at that point shall be recognized as a transfer right asset.

**Allocating the Transfer Consideration to Transfer Rights (paragraphs 38-39)**

- AG50. Where a binding arrangement specifies the amount of stand-alone consideration for each transfer right, the transfer consideration shall be allocated to the transfer rights in accordance with the binding arrangement (adjusted, where necessary, for amounts of variable consideration).
- AG51. Where a binding arrangement does not specify the amount of transfer consideration for each transfer right, the entity shall determine the amounts to be allocated to each transfer right based on its best estimates of the amounts that were intended to compensate the transfer recipient for satisfying its obligations when negotiating the binding arrangement.

**Presentation: Display and Disclosure (paragraphs 44-61)**

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

**Application of Principles to Specific Transactions**

*Capital Transfers*

- AG53. This Standard defines a capital transfer as a transaction that arises from a binding arrangement where the entity provides cash or another asset with a specification that the transfer recipient acquires or constructs a non-financial asset that will be controlled by the transfer recipient. A capital transfer gives rise to at least one transfer right to the entity for the transfer recipient to satisfy its obligation to acquire or construct a non-financial asset or comply with non-compliance requirements as specified in the binding arrangement.
- AG54. An entity shall account for a capital transfer transaction by applying paragraphs 21-25. An entity shall identify the transfer rights in the binding arrangement in accordance with paragraph 21 then separately account for each transfer right by applying paragraphs 22-25. In situations where an entity transfers resources prior to the acquisition or construction of the non-financial asset by the

transfer recipient, upon the transfer of resources, the entity typically recognizes a transfer right asset, which is then expensed when the non-financial asset is acquired or as it is being constructed by the transfer recipient.

- AG55. Some binding arrangements for capital transfers may include a transfer right for the acquisition or construction of a non-financial asset, which meets the definition of a capital transfer, and separate transfer rights for the operation of the asset, which would not meet the capital transfer definition. The entity determines whether the binding arrangement includes one or more transfer rights relating to the operation of the asset by assessing whether the transfer consideration is intended to compensate the transfer recipient for the operation of the asset once constructed or acquired.

## Appendix B

### Amendments to Other IPSAS

#### Amendments to IPSAS 4, The Effects of Changes in Foreign Exchange Rates

Paragraph 17 is amended, and paragraph 71J is added. New text is underlined, and deleted text is struck through.

...

#### Monetary Items

17. The essential feature of a monetary item is a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include: social policy obligations and other employee benefits to be paid in cash; provisions that are to be settled in cash; lease liabilities; and cash dividends or similar distributions that are recognized as a liability. Conversely, the essential feature of a non-monetary item is the absence of a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include: amounts prepaid for goods and services; transfer right assets; goodwill; intangible assets; inventories; property, plant, and equipment; right-of-use assets; and provisions that are to be settled by the delivery of a non-monetary asset.

...

#### Effective Date

...

- 71J. Paragraph 17 was amended by IPSAS 48, *Transfer Expenses*, issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 48 at the same time.

...

#### Amendments to IPSAS 12, *Inventories*

Paragraphs 11, 17, 43, and 44 are amended, and paragraph 51J 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 IPSAS 48, *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

...

- 51J. **Paragraphs 11, 17, 43 and 44 were amended by IPSAS 48, *Transfer Expenses*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity**

applies the amendments for a period beginning before January 1, 2026 it shall disclose that fact and apply IPSAS 48 at the same time.

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

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

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

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### **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*

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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 IPSAS 48, *Transfer Expenses*.

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*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 IPSAS 48, *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 IPSAS 48. The transitional provision in paragraph 43A allows a first-time adopter to apply IPSAS 48 incrementally to different classes of transfer expenses. For example, a first-time adopter may be able to recognize and measure transfer expenses without binding arrangements in accordance with IPSAS 48 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 binding arrangements.

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## **Implementation Guidance**

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

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**IPSAS 48, Transfer Expenses**

IG89A. If a first-time adopter applies IPSAS 48 on a retrospective basis and has transferred amounts that do not yet qualify for recognition as an expense (for example, the transfer of resources where the related transfer right has not yet been extinguished), the first-time adopter recognizes the amounts transferred as an asset in its opening statement of financial position and measures that asset at the amount transferred. It shall derecognize the asset and recognize the expense in its statement of financial performance when the recognition criteria in IPSAS 48 are met.

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

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

	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
...								
<u>IPSAS 48, Transfer Expenses</u>			✓ <u>All transfer expenses not recognized under previous basis of accounting</u>	✓ <u>All transfer expenses recognized under previous basis of accounting</u>	✓ <u>To extent that 3-year relief period was adopted for assets and/or liabilities</u>			

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**Effective Date**

**1540. Paragraphs 41A, 43A and 43B were added by IPSAS 48, *Transfer Expenses*, issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2026 it shall disclose that fact and apply IPSAS 48 at the same time.**

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## Amendments to IPSAS 40, Public Sector Combinations

Paragraphs IE164, IE265, IE264 and IE265 are amended, and paragraph IE266 is deleted. New text is underlined, and deleted text is struck through.

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### Illustrative Examples

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#### Accounting for Amalgamations

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#### Eliminating Transactions between the Combining Operations – Transfers

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

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IE164. The grant was subject to a condition that the grant would be returned proportionately to the number of training courses not delivered. At the amalgamation, COB had delivered half of the agreed number of courses, and recognized a liability of CU350 in respect of its performance obligation, in accordance with IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*. ~~Based on past experience, COA considered that COB was more likely than not to deliver the training courses. It was therefore not probable that there would be a flow of resources to COA, and COA did not recognize an asset in respect of the grant, but accounted for the full CU700 as an expense.~~ Upon the transfer of funds, COA recognized a transfer right asset for its right to have COB deliver the training courses. Immediately prior to the amalgamation, based on COB's delivery of the courses up to the amalgamation, COA derecognizes CU350 of the transfer right asset and recognizes the amount as a transfer expense.

IE165. At the amalgamation date, the transaction is eliminated. There is no longer an obligation to an external party or an enforceable right to have an external party deliver training courses. ~~The resulting entity does not recognize a liability no for the CU250, but instead recognizes this amount in the net assets/equity.~~

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IE264. The grant was subject to a condition that the grant would be returned proportionately to the number of training courses not delivered. At the acquisition, TE had delivered a quarter of the agreed number of courses, and recognized a liability of CU600 in respect of its performance obligation, in accordance with IPSAS 23. ~~Based on past experience, AE considered that TE was more likely than not to deliver the training courses. It was therefore not probable that there would be a flow of resources to AE, and AE did not recognize an asset in respect of the grant, but accounted for the full CU800 as an expense.~~ Upon the transfer of funds, AE recognized a transfer right asset for its right to have TE deliver the training courses. Immediately prior to the acquisition, based on TE's performance to date, AE derecognizes CU200 of the transfer right asset and recognizes the amount as a transfer expense.

IE265. In this example, ~~AE calculates a gain of CU600. The gain is calculated as the liability is assumed that is derecognized because, as a result of the acquisition,~~ AE eliminates the liability of CU600 against the transfer right asset of CU600, as there is no longer an obligation owed to a third party

or the enforceable right to have an external party deliver training course.

IE266. In this example, ~~no corresponding asset had been recognized by AE; if AE had previously recognized a corresponding asset, this would be derecognized at the acquisition date, and the derecognized amount would be included in the calculation of the gain or loss.~~ [Deleted.]

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### Amendments to IPSAS 42, Social Benefits

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

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*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.

Category	Non-Exchange Expenses Project				Social Benefits (IPSAS 42)		Other IPSAS/IFRS	
	<u>Grants, Contributions and Other Transfers Expenses</u>	Emergency Relief	Collective Services	Individual Services	Social Benefits	Employee Benefits	Contracts for Insurance	Contracts for Goods and Services
Examples	<del>Grants</del> <u>Transfers</u> to other public sector entities <del>Grants</del> <u>Transfers</u> to charities	Emergency relief <del>Planning and preparation activities</del>	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
Exchange or Non-Exchange Type Transactions?	<u>Non-Exchange</u>	Non-Exchange	Non-Exchange	Non-Exchange	Non-Exchange	Exchange	Exchange	Exchange
Provided as cash transfers to specific individuals/households	<u>Sometimes</u>	Sometimes	No	No	Yes	Sometimes	No	No
Provided to specific individuals/households who meet eligibility criteria?	<u>Sometimes</u>	Sometimes	No	Sometimes	Yes	Yes	No	No



IPSAS 48, TRANSFER EXPENSES

Mitigates effect of social risks?	<u>Sometimes</u>	No	No	Sometimes	Yes	Yes	No	No
Addresses needs of society as a whole?	<u>Sometimes</u>	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, IPSAS 48.*

### Introduction

- BC1. The primary objective of most public sector entities is to deliver services to the public, rather than to make profits and generate a return on equity to investors. For many governments, the delivery of services to the public through social benefits, collective and individual services, and transfer expenses accounts for a significant portion of their expenditures.
- BC2. In March 2015, the IPSASB approved a project brief to develop the requirements for accounting for non-exchange expenses, other than social benefits. The project brief acknowledged that there has been little guidance on non-exchange transactions from the provider's perspective and that this area was a gap in the IPSASB's literature.
- BC3. The IPSASB undertook a phased program of work to address non-exchange transactions from the provider's perspective, beginning with IPSAS 42, *Social Benefits*, which was issued in January 2019, then continuing with *Collective and Individual Services* (Amendments to IPSAS 19), issued in January 2020.
- BC4. For the remaining non-exchange expenses, the IPSASB released a Consultation Paper (CP), *Accounting for Revenue and Non-Exchange Expenses*, in August 2017 to seek constituent views on potential recognition and measurement for both revenue and non-exchange expenses. The CP:
- (a) Proposed replacing the then-current IPSAS dealing with revenue from exchange transactions and construction contracts with an IPSAS based on IFRS 15, *Revenue from Contracts with Customers*;
  - (b) Proposed updating IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* to address issues identified by users; and
  - (c) Considered recognition approaches for significant non-exchange expense transactions.

### *Development of Exposure Draft 72, Transfer Expenses (ED 72)*

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

*Feedback from Constituents on ED 72*

BC7. The IPSASB received a broad and diverse set of comment letters in response to ED 72. While the feedback indicated that some constituents supported the proposals, the following significant concerns were also identified:

- (a) The distinction between transfer expenses with and without performance obligations appeared to be unnecessary or artificial, as there was no economic difference between these transactions from a transfer provider's perspective;
- (b) The distinction based on performance obligations also did not reflect the way transfer expense transactions were carried out in the public sector, as under ED 72, only transfer expenses where the transfer recipient had at least one performance obligation could result in the recognition of an asset. Many respondents identified examples of transactions where they retained control over the transferred resources (and thus did not immediately derecognize the asset), even if the transfer did not involve performance obligations;
- (c) The proposals in ED 72 required a transfer provider to consider the transaction from the transfer recipient's perspective and assumed that the transfer provider has access to information regarding the transfer recipient's performance obligations. Many respondents noted that this assumption is not realistic and will lead to practical difficulties in applying the proposed guidance;
- (d) In ED 72, only transfer expenses with performance obligations could result in the recognition of an asset. Respondents noted that this accounting model did not necessarily achieve consistency in accounting principles, particularly with asset recognition principles in The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (the Conceptual Framework); and
- (e) The majority of respondents commented that because the proposed disclosures in ED 72 were based on the disclosure requirements from IFRS 15, they did not reflect the nature of transfer expenses, which have different characteristics and risks. Some respondents noted that the proposed disclosures would also impose an administrative burden that is disproportionate to any benefits for users.

*Discussion with the IPSASB Consultative Advisory Group (CAG)*

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

*IPSASB's Response to Feedback on ED 72*

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

- (a) Use the transfer provider's perspective when developing accounting and disclosure requirements;
- (b) Move away from the PSPOA and the distinction between transfer expenses with and without performance obligations;

- (c) Focus on whether the transfer results in the recognition of an asset when developing accounting requirements;
- (d) Use binding arrangements as a fundamental concept for transfer expense accounting;
- (e) Where appropriate, simplify presentation and disclosure requirements; and
- (f) Revise the illustrative examples to reflect the above changes in the proposed accounting and disclosures for transfer expenses.

### Scope (paragraphs 3-5)

- BC10. When the IPSASB developed ED 72, the Board had noted that the main group of non-exchange expense transactions which were not already addressed by IPSAS 41, *Financial Instruments*, IPSAS 42 or the amendments to IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, consisted of grants, contributions, and other transfers. The IPSASB noted at the time that this group of transactions was covered by the definition of 'transfers' in the statistical reporting frameworks and that aligning the scope of ED 72 with the definition of 'transfers' in the statistical reporting frameworks would be consistent with the IPSASB's Policy Paper, *Process for Considering GFS Reporting Guidelines During Development of IPSASs*. As a result, the IPSASB agreed to align the scope of ED 72 with the definition of 'transfers' (see paragraph 6) in the statistical reporting frameworks. This scoping decision was retained in IPSAS 48, *Transfer Expenses*.
- BC11. The IPSASB also decided that contributions from owners and distributions to owners did not meet the definition of transfers and were consequently outside the scope of IPSAS 48.
- BC12. The IPSASB considered whether IPSAS 48 should explicitly state that onerous contracts are not applicable to transfer expenses and noted that when IPSAS 19 was developed from IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, the definition of 'onerous contract' was modified to explicitly refer to the exchange of assets or services. Because transfer expenses are defined as transactions where an entity provides a good, service, or other asset without directly receiving any good, service, or other asset in return, the IPSASB concluded that transfer expenses could not meet the definition of an 'onerous contract'. Therefore, no explicit scope exclusion is required.

### Definitions (paragraphs 6-7)

- BC13. As noted in paragraph BC10, the IPSASB had decided to align the definition of 'transfer' with the definition in the statistical reporting frameworks. 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.*

- BC14. Having agreed to use the GFSM 2014 definition of 'transfer' as the basis for the scope of ED 72, the IPSASB had agreed to base the definition of 'transfer expenses' in ED 72 on the GFSM definition. The IPSASB had agreed to adopt the term 'transfer expenses,' as the term 'transfers' had previously been used in IPSAS 23, where the term 'transfers' referred to inflows (i.e., revenue) only. In IPSAS 23, the term 'transfers' also excluded taxes, and the IPSASB had agreed to exclude taxes from the definition of 'transfer expenses' for consistency.

- BC15. The definition of ‘transfer expense’ and the exclusion of taxes was retained in IPSAS 48, as the definition of ‘transfer’ in IPSAS 47, *Revenue*, also only referred to revenue and excluded taxes.
- BC16. As noted in paragraph BC9, the IPSASB decided to revisit the proposed accounting model for transfer expenses. Based on the revisions, as explained in paragraphs BC20-BC30, the IPSASB agreed to define the following terms in IPSAS 48:
- (a) Transfer obligation;
  - (b) Transfer obligation liability;
  - (c) Transfer right; and
  - (d) Transfer right asset.
- BC17. IPSAS 48 complements IPSAS 47 and relies on certain definitions in IPSAS 47 where possible (see paragraph 7). In some cases, the switch in perspective from recognizing revenue to recognizing an expense required a modification to the definitions. Consequently, the IPSASB agreed to define the following additional terms in IPSAS 48:
- (a) Stand-alone consideration; and
  - (b) Transfer consideration.
- These definitions are based on the definitions of ‘stand-alone value’ and ‘transaction consideration’ in IPSAS 47.
- BC18. This Standard refers to the party providing resources in a transfer expense transaction as the ‘transfer provider’, while IPSAS 47 refers to the party providing resources in a revenue transaction as the ‘resource provider’. The IPSASB considered whether the same term should be used in both Standards and decided that because the scope of IPSAS 47 is broader and encompasses revenue from transfers and other transactions, a more generic term (resource provider) should be used for revenue.
- BC19. The IPSASB also considered the definition of ‘expenses’ in IPSAS 1, *Presentation of Financial Statements*, as well as the definition of ‘constructive obligation’ in IPSAS 19 and concluded that no changes were required. The IPSASB agreed to include cross-references to these definitions in IPSAS 48 (see paragraph 7 of IPSAS 48).

### **Identifying the Transfer Expense Transaction (paragraphs 8-9)**

- BC20. Based on the decision to revisit the general accounting model for transfer expenses, the IPSASB decided that the key transfer expense accounting principle is whether the transaction results in the recognition of an asset by the entity. Transfer transactions which do not result in the recognition of an asset are generally recognized as a transfer expense when the entity loses control of the transferred resources or when the entity has incurred an obligation to transfer resources. The IPSASB also decided that when the entity has incurred an obligation to transfer resources, it recognizes a liability and a transfer expense.
- BC21. To operationalize the decisions in paragraph BC20, the IPSASB noted that whether the transaction arises from a binding arrangement provides inputs into the assessment of whether the asset recognition criteria is met and whether the entity has an obligation to transfer resources. Therefore, the IPSASB decided to move away from classification based on performance obligations and to

classify transfer expenses based on whether they arise from transactions with or without binding arrangements.

### **Binding Arrangements and Enforceability (paragraphs 10-17)**

BC22. The decision to classify transfer expenses based on whether or not the transfer expense arises from a binding arrangement is consistent with the decision on how revenue should be categorized. As outlined in the Basis for Conclusions in IPSAS 47, the IPSASB clarified the impact of binding arrangements and enforceability in IPSAS 47 and agreed that these clarifications also apply to transfer expenses.

BC23. This decision had the following impacts on the development of IPSAS 48:

- (a) The definition of a 'binding arrangement' was carried over from IPSAS 47;
- (b) The guidance on how to determine if an arrangement is enforceable through legal or equivalent means by considering all relevant factors and whether the arrangement meets the definition of a binding arrangement was also carried over;
- (c) Enforceability is based on the entity's ability to enforce the terms of the binding arrangement, including imposing non-compliance requirements on parties that do not fulfill their agreed-upon obligations;
- (d) The assessment of enforceability for transfer expenses occurs at the inception of a binding arrangement and when a significant internal or external change indicates that there may be a change in enforceability;
- (e) In a binding arrangement, each party will have at least one enforceable right and one obligation;
- (f) For transfer expenses with binding arrangements, there is no initial recognition when none of the parties has started to satisfy its stated obligations under the binding arrangement;
- (g) Because an entity's right and obligation within a binding arrangement are directly linked and interdependent, when both the entity and transfer recipient begin to perform in accordance with the binding arrangement, the resulting transfer right assets and transfer obligation liabilities arising from the same binding arrangement are presented as a single asset or liability in the statement of financial position; and
- (h) Where a transfer expense arises from a transaction that is subject to an appropriation, the appropriation may limit the enforceability of the related arrangements and impact whether they are binding. The IPSASB noted that this conclusion results from the application of the principles on binding arrangements and enforceability, and therefore developed implementation guidance on how appropriations could impact transfer expense transactions.

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

BC24. The IPSASB decided that when a transfer expense arises from a transaction without a binding arrangement, there is no basis for the recognition of a transfer right asset from the transfer of resources. (That is, the recognition of a transfer right asset is only possible when a transfer arises from a binding arrangement—see paragraph BC27.) In these cases, the IPSASB decided that when

the transfer occurs and control of the asset is lost, the entity derecognizes the transferred asset and recognizes a transfer expense at the asset's carrying amount.

- BC25. The IPSASB noted that even when there is no binding arrangement, an entity may still have a one-way enforceable right which results in retaining control of the resources after they are transferred. In these cases, the entity would consider the principles in the Conceptual Framework and IPSAS 1, and whether it should recognize an asset. Because this asset's recognition is driven by the definition of an asset in IPSAS 1, the IPSASB decided to include implementation guidance on these situations, and no additional authoritative text is required.
- BC26. The IPSASB also noted that even when there is no binding arrangement, if facts and circumstances result in a legal or constructive obligation to transfer resources, the entity is required to recognize a liability in accordance with IPSAS 19. IPSAS 48 refers to this liability as a transfer obligation liability.

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

#### *Recognition*

- BC27. The IPSASB decided that when an entity begins to transfer resources as specified in a binding arrangement, the transfer results in a transfer right (i.e., the transfer provider's enforceable right to have the transfer recipient fulfill its obligations, or carry out the non-compliance requirements outlined in the binding arrangement) which meets the definition of an asset in the Conceptual Framework. This is because:
- (a) The transfer right embodies a resource (i.e., the right to direct how the transfer recipient is to use resources internally);
  - (b) The binding arrangement provides the transfer provider with control of the transfer right; and
  - (c) This control arises from a past event (i.e., the transfer of resources within the context of a binding arrangement).
- BC28. The IPSASB decided that an asset recognized to reflect the existence of a transfer right shall be referred to as a transfer right asset. When or as the entity's transfer right is extinguished, the basis of asset recognition no longer exists. Therefore, the related transfer right asset is derecognized and expensed.
- BC29. The IPSASB also decided that when a transfer recipient has satisfied its obligations in a binding arrangement, the entity is obligated by the terms of the binding arrangement to transfer resources. This obligation results in the recognition of a liability in accordance with the Conceptual Framework<sup>4</sup>, and IPSAS 48 refers to such a liability as a transfer obligation liability.

#### *Measurement*

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

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<sup>4</sup> The IPSASB referred to the definition of a liability in the Conceptual Framework rather than IPSAS 1 at this stage, as IPSAS 1 has not yet been updated for the proposed changes to the framework.

- (a) Similar to transfer expenses from transactions without binding arrangements, the transfer consideration is measured based on the total carrying amount of the transferred resources, adjusted for the effects of variable consideration;
- (b) The guidance on variable consideration should refer to the existing recognition and measurement guidance for a provision in IPSAS 19. This is because variable consideration for a transfer expense is of a similar nature as a provision (i.e., a liability of uncertain timing and amount);
- (c) The requirement in ED 72 to consider the time value of money and the effect of financing was removed. Many respondents to ED 72 noted that transfers are typically funded in tranches rather than one large upfront payment, so it would be rare for the discounting of transfers to have a material impact on the financial statements; and
- (d) The allocation of the transfer consideration to the individual transfer rights in a binding arrangement should be based on the amounts stated in the binding arrangement, or if not explicitly stated, the amounts that the entity intends to compensate the transfer recipient for satisfying each of its compliance obligations in the binding arrangement. The IPSASB noted that this simplification is appropriate because:
  - (i) A transfer provider would be fully aware of how much it is willing to pay for each transfer right when negotiating the binding arrangement with the transfer recipient; and
  - (ii) The allocation requirements are more robust for revenue because, in addition to potentially changing the timing of revenue recognition, an inappropriate allocation for revenue could obscure the margins for certain goods or services or delay the recognition of losses. These additional concerns are not applicable for transfer expenses.

**Presentation (paragraphs 44-61)**

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

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



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

- (b) Qualitative information regarding transfer arrangements – To enable users of the financial statements to understand the nature, amount, timing, and uncertainty arising from transfer expenses, the IPSASB decided to require the disclosure of certain qualitative information for both binding arrangements and non-binding arrangements regarding transfer expenses; and
- (c) Significant judgments made regarding the recognition of transfer right assets – Because expenditures for programs and activities are typically expensed in the statement of financial performance, the recognition of a transfer right asset is not in line with general expectations. Therefore, the IPSASB decided to require the disclosure of significant judgments that led to the recognition of transfer right assets.

BC32. In addition, respondents to ED 72 had previously raised concerns over the complexity and value of reconciliations for opening and ending balances of transfer right assets and transfer obligation liabilities. Respondents also noted that these items are similar in nature to prepayment assets and transfers payable, which do not require such disclosures. Based on the feedback received, the IPSASB decided to remove the requirement to disclose these reconciliations.

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

### **Effective Date and Transition (paragraphs 62-64)**

BC34. When ED 72 was developed, the transition provisions, including the practical expedients available, largely mirrored those from the revenue EDs. Some respondents noted that even with the practical expedients, the retrospective transitional provisions in ED 72 were onerous, with benefits not outweighing the costs, and could lead to practical difficulties in applying the final standard.

BC35. Based on the feedback received, the IPSASB noted that allowing prospective application of IPSAS 48 would not result in a significant loss of information because:

- (a) If a transfer expense was fully expensed in the prior period, the transfer of resources would have already occurred and would have been reported in the prior period financial statements. Even if the expensed amount would have qualified for asset recognition in accordance with the revised guidance, requiring an entity to reverse a transfer expense would not result in any new information regarding the underlying expenditure; and
- (b) If an entity recognized an asset or liability for a transfer expense transaction by applying the asset or liability recognition and measurement principles of the Conceptual Framework, these principles are already consistent with the revised accounting model for transfer expenses.

BC36. Based on the above reasons, the IPSASB decided to allow prospective application of IPSAS 48 for all transfers occurring on or after the date of initial application. To provide entities with the flexibility to adjust their prior-period financial statements, the IPSASB also decided to include the option to

adopt IPSAS 48 on a full retrospective basis in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

### **Application Guidance**

- BC37. The IPSASB considered the interaction between transfer expenses and the potential impairment of the assets to be transferred. The IPSASB noted that when a decision has been made to transfer a non-financial asset in the context of a transfer expense transaction, the asset is no longer held for the purposes of generating a commercial return and becomes a non-cash-generating asset for impairment purposes. Before the asset is transferred, the entity should consider if the decision to transfer the asset results in a significant change in use, which is an indicator to consider impairment in IPSAS 21, *Impairment of Non-Cash-Generating Assets*. The IPSASB also noted that this separate consideration of impairment is not applicable to financial assets, as IPSAS 41 requires such assets to be assessed for impairment continuously. These decisions have been reflected in application guidance, as they relate to the application of existing IPSAS rather than new principles.
- BC38. The IPSASB noted the revised general accounting model for transfer expenses arising from transactions with binding arrangements fully addresses transactions involving capital transfers. Therefore, the IPSASB decided that capital transfers should be addressed in application guidance and implementation guidance, and that no separate principles are required to be developed.

### **Consideration of Re-Exposure**

- BC39. The IPSASB considered whether there had been a substantial change to the ED such that re-exposure may be necessary:
- (a) The IPSASB discussed the differences between IPSAS 48 and ED 72 issued in 2020. In particular, the IPSASB discussed the accounting for transfers from the transfer provider's perspective and the use of a rights-based approach to asset recognition rather than the PSPOA. The IPSASB agreed that the changes made since the ED process addresses issues raised by constituents, and results in a clearer Standard. Although there were differences in the drafting and the mechanics in the Standard, there were no significant changes to the intended accounting for transfer expenses.
  - (b) The IPSASB noted that issuance of IPSAS 48 fills a gap in the IPSAS suite of standards. The IPSASB agreed that, from a public interest perspective, the expected costs of re-exposure, including delayed implementation of the standard that constituents are actively seeking, outweigh the potential benefits of re-exposure.
- BC40. Based on the above assessment, the IPSASB decided to approve IPSAS 48 without re-exposure and to finalize and issue the Standard.

## Implementation Guidance

*This guidance accompanies, but is not part of, IPSAS 48.*

### Section A: Definitions

#### A.1 Capital Transfers

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

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

A transfer of a physical asset is a ‘capital transfer’ if the entity transfers the physical asset within a binding arrangement and the transfer recipient is required by the binding arrangement to use the physical asset received to acquire or construct another non-financial asset that it will subsequently control. A transfer of a physical asset which only has a requirement to be used or operated in specific manner would not meet the definition of a ‘capital transfer’.

### Section B: Identifying the Transfer Expense Transaction

#### B.1 Identify Whether a Binding Arrangement Exists

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

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

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

#### B.2 Enforceability

##### **What should an entity consider in assessing enforceability?**

Determining whether an arrangement, and each party’s rights and obligations in that arrangement, are enforceable may be complex and requires professional judgment. This assessment is integral to identifying whether an entity has a binding arrangement (i.e., with both enforceable rights and enforceable obligations), only enforceable rights, or only enforceable obligations. In cases where an entity does not have a binding arrangement, it may still have an enforceable right or an enforceable obligation which shall be accounted for appropriately. (See Implementation Guidance C.1 for these

scenarios.) Enforceability may arise from various mechanisms, so long as the mechanism(s) provide(s) the entity with the ability to enforce the terms of the arrangement and hold the parties accountable for the satisfaction of their obligations in accordance with the terms of the arrangement.

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

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

Some mechanisms (for example, sovereign rights or reductions of future funding) may constitute a valid mechanism of enforcement. An entity should apply judgment and consider all facts and circumstances objectively, within the context of its jurisdiction, sector, and operating environment, in making this assessment. Paragraphs AG15-AG25 provide further guidance on assessing enforceability through legal or equivalent means.

### *B.3 Enforceability: Transfers Subject to Appropriations*

#### **Can an appropriation give rise to a transfer expense?**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## **Section C: Transfer Expenses from Transactions without Binding Arrangements**

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

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

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

However, it is possible for an entity to have an enforceable right over transferred assets (for example, the right to direct the recipient on how to use resources) without an enforceable obligation as the result of a transfer expense transaction without binding arrangements. In such cases, the transfer would result in the recognition of an asset which would be derecognized when or as the enforceable right is extinguished.

## **Section D: Transfer Expenses from Transactions with Binding Arrangements**

### *D.1 Identifying Transfer Rights in a Binding Arrangement*

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

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

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

include cash) to a third party or third parties. A thorough assessment is necessary for the entity to identify all of its rights in the binding arrangement.

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

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

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

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

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

### *E.1 Derecognition of a Transfer Right Asset*

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

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

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

In cases where multiple parties are involved in the arrangement, the entity will need to consider whether a transfer right relates to the right to require another party in the arrangement to satisfy a specific compliance obligation. There may be situations in the public sector where resources are passed through a series of entities before being transferred to the ultimate transfer recipient. In these situations, some binding arrangements may specify that the extinguishment of an entity's transfer right depends on the satisfaction of the ultimate transfer recipient's compliance obligations. Other binding arrangements may result in transfer rights and compliance obligations at each step of the series as resources are being transferred from one entity to the next. An entity will need to consider the terms of the binding arrangements and any relevant facts and circumstance to determine when to derecognize its transfer right assets.

In other cases, a transfer right may be extinguished due to the transfer recipient's inability or unwillingness to satisfy its obligations in the binding arrangement. When this occurs, the entity considers if the terms of the binding arrangement, along with the legal framework in the relevant jurisdiction, give the entity the unconditional right to receive cash (e.g., a refund of the transferred cash). Such an unconditional right results in the derecognition of the transfer right asset and the recognition of a financial asset (see paragraph 26). If the binding arrangement and relevant legal framework do not support the recognition of a financial asset, the transfer right asset is not derecognized, and the entity then considers if the asset has been impaired (see paragraph 43). This topic is further illustrated in Illustrative Example 8 (see paragraphs IE42-IE48).

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

### *F.1 Allocating the Transfer Consideration to Transfer Rights*

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

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

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



## **Section G: Multi-Year Arrangements**

### *G.1 Accounting for Multi-Year Arrangements*

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

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

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

## Illustrative Examples

*These examples accompany, but are not part of, IPSAS 48.*

IE1. These examples portray hypothetical situations illustrating how an entity might apply the requirements in IPSAS 48, *Transfer Expenses*, to particular transfer expense transactions 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 presented in actual fact patterns, all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying IPSAS 48.

### Scope

IE2. Examples 1-2 illustrate the requirements in paragraphs 3-5 of IPSAS 48 on the determination of whether a transaction is within the scope of IPSAS 48.

#### *Example 1: Transfer Where the Other Party Provides Goods and Services*

IE3. An international organization enters a binding arrangement to purchase a vehicle from a dealer for CU30,000.<sup>5</sup> 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 of the international organization, as the international organization directly 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 IPSAS 48. The international organization applies IPSAS 45, *Property, Plant, and Equipment*, in accounting for the purchase of the vehicle and subsequent costs incurred for repairs and maintenance.

##### Case B – Vehicle is Provided to a National Government

IE6. In this separate scenario, the binding arrangement requires the dealer to transfer the vehicle, and provide the subsequent maintenance services, to a national government (a third-party beneficiary) rather than to the international organization.

IE7. The binding arrangement gives rise to a transfer expense of the international organization, as the international organization transfers the consideration of CU30,000 to the dealer without directly receiving any goods or services in return. (The vehicle and maintenance services are transferred to the national government, a third-party beneficiary.) The international organization (the transfer provider) applies paragraphs 21-43 of IPSAS 48 in accounting for the transfer, as it arises from a binding arrangement.

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<sup>5</sup> In these examples, monetary amounts are denominated in 'currency units' (CU).

**Example 2: Research Grants**

IE8. A national government enters a binding arrangement with a university whereby the national government will provide the 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 university will transfer the results of the research to the national government, including rights to any intellectual property and/or patents created.

IE10. The binding arrangement does not give rise to a transfer expense of the national government, as the national government directly receives the results of the research (including rights to any intellectual property and/or patents) from the research in return for providing the grant as consideration. Consequently, the binding arrangement is outside the scope of IPSAS 48. The national government applies IPSAS 31, *Intangible Assets*, in accounting for the binding arrangement.

**Case B—University Controls Research**

IE11. The binding arrangement does not require the university to transfer the results of the research to the national government. Rather, the university retains control of the research, including rights to any intellectual property and/or patents created.

IE12. The binding arrangement gives rise to a transfer expense of the national government, as the national government transfers the grant (consideration) to the university without directly receiving any goods or services in return. The national government (the transfer provider) applies paragraphs 21-43 of IPSAS 48 in accounting for the transaction, as it arises from a binding arrangement.

**Binding Arrangements and Enforceability**

IE13. Examples 3 and 4 illustrate the consideration of binding arrangements and enforceability from paragraphs 10-16 of IPSAS 48.

**Example 3: Identifying Whether a Binding Arrangement Exists**

IE14. A local government is required under its constitution to undertake various social programs; however, it has insufficient resources to undertake these programs without assistance. The national government decides to transfer CU10 million of surplus funds to the local government to assist with its social programs. The details of the transfer are documented in a “funding agreement.” However, the agreement only results in an obligation for the national government to transfer funds and does not provide the national government with any rights to compel the local government to act in a specific manner.

IE15. Since the agreement does not confer both rights and obligations to the national government, it is not a binding arrangement. The national government shall apply the accounting principles in paragraphs 18-20 to account for the transfer.

*Example 4: Agreement for Transfer Subject to Completion of the Appropriations Process*

- IE16. A national government has a financial year end of December 31. On March 15, 20X2, the national government (the transfer provider) enters into an 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. CU10 million is to be transferred in 20X2, and the remaining CU5 million to be transferred in 20X3. As the reduction of air pollution is a priority for the local government, the local government began to build the new infrastructure as soon as the arrangement was signed.
- IE17. The arrangement includes a term that the funding is subject to the completion of an appropriation by parliament. Parliament completed the appropriation for CU10 million in 20X2 on October 31, 20X2 and immediately transferred CU10 million to the local government. By the time the appropriation for the CU10 million was completed, the local government had already satisfied the compliance obligations which related to the CU10 million portion of the total transfer. The appropriation process for the CU5 million was not completed in 20X2 but will be considered in the following year as part of the appropriation process for 20X3.
- IE18. In determining the effect of the appropriation on the arrangement, the national government considers substance over form, in accordance with paragraphs 10-16 and AG11-AG25.

Case A – Requirement to Complete the Appropriation Process has Substance

- IE19. 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 arrangement states that the funding is subject to the appropriation process being completed by parliament. The arrangement also makes it clear that the completion of the appropriation process is not certain, and that, consequently, the transfer may be reduced or cancelled. Therefore, in this scenario, the arrangement is not binding until the appropriation process has been completed.
- IE20. The national government concludes that it does not have an obligation to transfer the CU15 million (CU10 million in 20X2 and CU5 million in 20X3) until the appropriation process is completed. Consequently, in 20X2, the national government only recognizes an expense of CU10 million to reflect the obligation to pay the local government for its satisfaction of the compliance obligations up to October 31, 20X2. Had the local government not satisfied any of its compliance obligations at the time the CU10 million is transferred, the national government would instead recognize a transfer right asset of CU10 million.
- IE21. On March 31, 20X3, parliament completes the appropriation process for the remaining CU5 million. At this date, the national government applies paragraphs 21-26 of IPSAS 48 to assess the accounting implications for the remaining CU5 million.

Case B – Requirement to Complete the Appropriation Process does not have Substance

- IE22. In this scenario, the reduction of air pollution is a priority of both the national and local governments, and there is legislation in place which requires the national government to invest in certain measures to reduce air pollution. The infrastructure to be built by the local government falls within the scope of this legislation, so the national government is required by law to complete the appropriation for the CU15 million transfer.
- IE23. The national government concludes that although the agreement states that the funding is subject to the completion of an appropriation process, this term has no substance, as the national government is required by law to complete the appropriation for the CU15 million transfer. Upon

execution of the binding arrangement, the national government applies paragraphs 21-26 of IPSAS 48 in determining when to recognize a transfer right asset or a transfer expense.

### **Transfer Expenses from Transactions with Binding Arrangements**

IE24. Example 5 illustrates the principles regarding identification of transfer rights from paragraph 21 of IPSAS 48.

#### *Example 5: Determining Whether Goods or Services are Distinct*

##### Case A – Goods or Services are not Distinct

IE25. The Department of Health (the Department) enters a binding arrangement with the Department of Public Works (Public Works) for Public Works to build a hospital for the Provincial Government, a third-party beneficiary. Under the terms of the binding arrangement, Public Works has agreed to perform the overall management of the project, as well as design and engineering, site clearance, foundation, procurement, construction of the structure, piping, electrical wiring, installation of equipment, and finishing.

IE26. To determine if the binding arrangement has more than one transfer right, the Department applies paragraphs 21, AG31-AG34 and considers the factors discussed in Implementation Guidance D.1 of IPSAS 48 to determine whether the right to have each service performed can be enforced separately from the other rights in the binding arrangement.

IE27. Without the context of the overall arrangement, the rights to have Public Works perform the individual activities such as project management, design, procurement, and construction, could be viewed as distinct rights that can be enforced separately. However, within the context of the binding arrangement, these rights are all highly interdependent (e.g., the construction of the structure can only be performed after completion of the design, engineering, site clearance foundation, and procurement activities) and highly interrelated (i.e., the individual services together result in the building of a hospital.)

IE28. Because the services in the binding arrangement are all highly interdependent and interrelated, none of the rights in the binding arrangement are distinct. Therefore, as noted in paragraph AG33 of IPSAS 48, the Department aggregates these related rights into a single transfer right.

##### Case B – Goods or Services are Distinct

IE29. A regional government office (Regional Government) enters into a binding arrangement with an IT services agency (the Agency) for the Agency to provide the following to a public sector university in the region (the University, the third-party beneficiary) over a two-year period:

- (a) Productivity software for faculty and staff (e.g., word processing and spreadsheet programs);
- (b) Website-related services;
- (c) Unspecified software updates for security purposes; and
- (d) Technical support (online and telephone) to the University's faculty and staff.

IE30. The Agency provides the above goods or services separately. The software is comparable to purchasing an off-the-shelf productivity software that is expected to provide enough user accounts for existing and new faculty and staff throughout the two-year period, and the Agency is not expected to change the functionality of the software throughout the two-year period. The website-

related services include hosting and maintaining the websites for the University, its departments, and its faculty and staff members. The security updates are routinely performed to address potential vulnerabilities to cyberattacks and do not significantly modify the function of the software or websites. Lastly, technical support services are provided upon request by faculty and staff throughout the two-year period.

- IE31. The Regional Government assesses its rights to have the goods or services provided by the Agency to determine which rights are distinct in accordance with paragraph 21 of IPSAS 48. In making this assessment, the Regional Government applies the guidance in paragraphs AG31-AG34 of IPSAS 48.
- IE32. The Regional Governments observes that:
- (a) As noted in paragraph IE30, the Agency can deliver each of the goods or services separately from the other goods or services in the binding arrangement. This is an indicator that the right to have each of the goods delivered or services performed can be separately enforced;
  - (b) The software and the various services in the binding arrangement can each be used separately by the University's faculty and staff (e.g., a staff member could be provided with the productivity software but not have a website). This fact further supports that the rights to the license and services can be separately enforced; and
  - (c) The goods or services are neither highly interdependent nor highly interrelated. The Regional Government noted that the productivity software and websites clearly do not relate to each other. Furthermore, while the security updates modify both the productivity software and websites, these updates do not change their functionality, and the purpose of the updates is to protect against cybersecurity risks. Finally, technical support relates to assisting the faculty and staff with the use of the software or websites and does not modify their functionality.
- IE33. The Regional Government also noted that it could have purchased the above goods or services from separate entities but decided to enter one binding arrangement with the Agency to centralize the University's purchasing process and potentially negotiate a discount by bundling the license with services.
- IE34. On the basis of the above assessment, the Regional Government identifies four transfer rights in the binding arrangement for the following goods or services:
- (a) The productivity software;
  - (b) Website-related services;
  - (c) Security updates; and
  - (d) Technical support.

### **Recognition of Transfer Expenses**

- IE35. Examples 6-8 illustrate the requirements in paragraphs 22-25 on the overall accounting model for transfer expenses from transactions with binding arrangements:
- (a) Example 6 illustrates a scenario where the transfer provider has transferred resources prior to the transfer recipient satisfying its obligations from the binding arrangement;
  - (b) Example 7 illustrates a scenario where a transfer recipient satisfies its obligations prior to the full transfer of resources; and

- (c) Example 8 illustrates the derecognition and impairment of a transfer right asset due to the non-performance by the transfer recipient as discussed in paragraphs 26 and 43 of IPSAS 48.

*Example 6: Recognition of a Transfer Right Asset and its Subsequent Derecognition*

- IE36. The following example expands on the fact pattern presented in Case B of Example 5 and Case A of Example 10 where a regional government office (the Regional Government) entered into a binding arrangement with an IT services agency (the Agency) to provide certain goods and services to a university in the region (the University). In Examples 5 and 10, the Regional Government determined that its transfer rights in the binding arrangement and its allocation of the transfer consideration are as follows:
- (a) The productivity software for CU6 million;
  - (b) Website-related services for CU2 million;
  - (c) Security updates for CU3 million; and
  - (d) Technical support for CU1 million.
- IE37. The binding arrangement specifies that the transfer of the software occurs and the service period begins upon payment of the entire CU12 million by the Regional Government (i.e., the Regional Government pays upfront). Upon payment of the CU12 million, the Agency transferred the software to the University and began the two-year service period for the website services, security updates and technical support.
- IE38. The Regional Government recognizes the amount as a transfer right asset upon payment then determines how the transfer right asset should be derecognized based on the nature of each transfer right:
- (a) Productivity software – The Regional Government observes that the Agency is only obligated to transfer the productivity software to the University upon payment and is not expected to perform further services such as updating the functionality of the software over the two-year period. Therefore, the transfer right for the software license was extinguished once the software was provided to the University, and CU6 million of the transfer right asset should be expensed at that time;
  - (b) Website-related services – The Regional Government observes that the website hosting and maintenance services are to be performed for the University continuously throughout the two-year period. Therefore, a reasonable approach to reflect the extinguishment of this transfer right is to evenly derecognize CU2 million of the transfer right asset while recognizing a transfer expense over time during the two-year period (e.g., amortizing CU83,333 into expenses each month over the two-year period);
  - (c) Security updates, and technical support services – The Regional Government's remaining transfer rights relate to services that are performed on an as-needed basis throughout the two-year period. As it would be overly onerous, if not impossible, to estimate when these services are required, a reasonable approach to reflect the extinguishment of these transfer rights would be to evenly derecognize the CU4 million while recognizing a transfer expense over time during the two-year period. (e.g., amortizing CU166,667 into expenses each month over the two-year period).

**Example 7: Recognition of a Transfer Obligation Liability**

IE39. A municipal government (the Government) enters into a binding arrangement with a publisher (the Publisher) for the Publisher to provide copies of an accounting textbook to the public secondary schools in the city (the Schools, the third-party beneficiaries). Because the number of textbooks required by each school is based on the number of students enrolled in the accounting course, the binding arrangement only specifies that the Government will pay the Publisher CU30 per textbook, and the number of textbooks to be provided will be based on enrollment numbers which will be finalized a month before the beginning of the school year.

IE40. Under the terms of the binding arrangement, the Government will provide the enrollment numbers along with an upfront deposit for 10% of the expected transfer consideration to the Publisher. The Publisher will then provide the textbooks to the Schools at least two weeks before the start of the school year, and the Government will pay the remaining consideration for the textbooks provided within 30 days after the Schools have received the shipments.

IE41. Upon finalization of student enrollment, the enrollment numbers were provided to the Publisher, and 19,800 textbooks were shipped to the Schools. To account for this binding arrangement, the Government applies paragraphs 22-25 of IPSAS 48:

(a) Upon entering the binding arrangement, no accounting occurs as neither party has started to satisfy its obligations in the arrangement.

(b) A month before the school year begins, the Government provides the enrollment numbers and the 10% deposit to the Publisher. Upon payment of the deposit, the Government recognizes a transfer right asset of CU59,400 (CU30 × 19,800 books × 10%):

Transfer right asset	CU59,400	
Cash		CU59,400

(c) Two weeks before the beginning of the school year, the Publisher has fully satisfied its obligations by transferring the textbooks to the Schools, and the Government’s right to have the textbooks delivered has been extinguished. The Government derecognizes the transfer right asset of CU59,400 and records the amount as a transfer expense. In addition, the Government also recognizes a transfer obligation liability and a transfer expense for the unpaid consideration of CU534,600 (CU30 × 19,800 books – CU59,400 deposit) based on the terms of the binding arrangement:<sup>6</sup>

Transfer expense	CU594,000	
Transfer right asset		CU59,400
Transfer obligation liability		CU534,600

**Example 8: Derecognition of a Transfer Right Asset Due to Non-Performance**

IE42. The Ministry of Health (the Ministry) enters into a binding arrangement with a corporation that operates a number of private clinics in a region (the Corporation). Under the terms of the binding

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<sup>6</sup> It should be noted that IPSAS 48 does not prohibit the Government from using alternative descriptions in its financial statements for the terms ‘transfer right asset’, ‘transfer obligation liability’, or ‘transfer expense’.



arrangement, the Ministry will provide an upfront payment of CU1 million to the Corporation for the Corporation to operate a vaccination program and administer 10,000 doses of a vaccine to the citizens in the region over the next 12 months. The Corporation is required to provide monthly reports on the number of doses administered and patient information to the Ministry.

- IE43. The binding arrangement specifies that if the Corporation stops administering the vaccine or if the 10,000 doses are not administered at the end of the 12-month period, the Corporation is required to pay CU100 per unadministered dose to the Ministry. This requirement to return funds is applicable regardless of whether the Corporation has spent the funds on acquiring the vaccinations. (e.g., if the Corporation purchases 10,000 doses immediately upon receipt of the CU1 million, then only administers 5,000 doses and stops the vaccination program, it will be required to return CU500,000 to the Ministry even though the entire CU1 million has been spent.) However, the binding arrangement also specifies that the Corporation is not responsible for the repayment of funds related to vaccines that cannot be administered due to a force majeure event such as war, terrorist attacks, or natural disasters.

Case A – The Corporation Decides to Stop the Vaccination Program

- IE44. Upon paying the CU1 million, the Ministry recognizes a transfer right asset for the right to have the Corporation's clinics administer the 10,000 doses of the vaccine. Upon receipt of the CU1 million, the Corporation purchases and distributes 1,000 doses of the vaccine to its clinics. After administering only 500 vaccines, the Corporation observes that the administration of each dose of the vaccine is resulting in a loss. As a result, the Corporation makes a business decision and informs the Ministry that it will stop administering the vaccines.
- IE45. For the vaccines that have been administered, the Ministry derecognizes CU50,000 of the transfer right asset and recognizes a transfer expense for the same amount. For the remaining 9,500 doses, based on the terms of the binding arrangement, the Ministry applies paragraph 26 of IPSAS 48 and:
- (a) Derecognize the transfer right asset of CU950,000; and
  - (b) Recognize a receivable for CU950,000 (CU100 × 9,500 doses). The fact that the Corporation has already spent CU100,000 to purchase vaccines has no relevance to the amount to be repaid to the Ministry based on the terms of the binding arrangement. This receivable is a financial asset within the scope of IPSAS 41, *Financial Instruments*—that is, the amount is subject to the recognition and measurement requirements, including impairment considerations, in IPSAS 41 and is no longer within the scope of IPSAS 48.

Case B – A Force Majeure Event Prevents the Administration of 10,000 Doses

- IE46. Similar to Case A, upon paying the CU1 million, the Ministry recognizes the amount as a transfer right asset. In this scenario, the Corporation also purchases 1,000 doses of the vaccine upon the receipt of funds. However, after administering 500 doses, an earthquake occurred in the region and the remaining 500 doses of the vaccine held in storage were destroyed. The Corporation informed the Ministry of the destruction of the 500 doses but noted that it intends to continue with the vaccination program and administer the remaining 9,000 within 12 months.
- IE47. Like Case A, the Ministry derecognizes CU50,000 of the transfer right asset and recognizes a transfer expense of CU50,000 for the 500 administered vaccines. However, the terms of the binding arrangement do not confer the right to recover any funds for the 500 vaccines which were destroyed

in the earthquake. In addition, the Corporation has not provided any indication that they will not be able to administer the remaining 9,000 doses within the 12-month period.

- IE48. Based on the fact pattern in this scenario, the Ministry applies paragraph 43 of IPSAS 48 and considers if the remaining transfer right asset of CU950,000 has been impaired. Because the Ministry does not have any recourse for the 500 doses lost in the earthquake, it now only has a transfer right to have the Corporation's clinics provide 9,000 doses to the citizens in the region. As a result, the Ministry records an impairment of CU50,000 in accordance with IPSAS 21 and reduces its transfer right asset to CU900,000.

### **Modifications to a Binding Arrangement**

- IE49. Example 9 illustrates the requirements in paragraphs 27-29 of IPSAS 48 on binding arrangement modifications. In addition, Case C of this example illustrates the requirements to estimate variable consideration in paragraphs 35-37 of IPSAS 48, as well as the requirements on changes in transfer consideration in paragraphs 40-42. Cases A, B, and C all build on the fact pattern outlined in paragraphs IE50-IE51 but are each independent from each other.

#### *Example 9: Modifications to a Construction Arrangement*

- IE50. 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. In accordance with paragraph 25 of IPSAS 48 and based on the terms of the binding arrangement, Housing accounts for the transfer as a single transfer right extinguished over time as construction of the residential building is being completed.
- IE51. Housing determines that an output measure, the stage of completion assessed by a qualified quantity surveyor, provides an appropriate measure of progress towards completion of the residential building. By the end of the first year, Housing assesses that Public Works has completed 60% of the building's construction based on the surveyor's report. Consequently, the expenses recognized by Housing for the first year are CU600,000 (transfer consideration of CU1 million x 60%).

#### **Case A – Modification Resulting in a Cumulative Catch-Up Adjustment to Expenses**

- IE52. 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 transfer consideration increases by CU150,000 and the total transfer consideration after the modification is CU1,150,000. In assessing the modification to the binding arrangement, Housing evaluates paragraph (a) of IPSAS 48 and concludes that the upcoming construction based on the revised floor plan remains a single transfer right rather than any additional transfer rights, because the modification does not result in the acceptance of additional distinct compliance obligations by Public Works or an increase in Public Works' existing compliance obligations.
- IE53. Consequently, Housing accounts for the modification to a binding arrangement as if it were part of the original binding arrangement in accordance with paragraph 29 of IPSAS 48. Based on an updated quantity surveyor's report, Housing updates its measure of progress and estimates that construction of the modified building is 53% complete at the date of modification. As a result, Housing recognizes additional expenses of CU9,500 [(53% complete x CU1,150,000 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.

**Case B – Modification Resulting in a New Binding Arrangement**

- IE54. Continuing with the facts presented in paragraphs IE50-IE51, in the first quarter of the second year, the parties to the arrangement agree to modify the binding arrangement by including additional funding of CU100,000 for the construction of a parking lot to be located next to the residential building.
- IE55. Housing determines that this modification results in a separate binding arrangement because:
- (a) The construction of the parking lot is a new transfer right, as Housing can enforce its construction separately from the construction of the building. That is, the enforceable right for the construction of the parking lot is a distinct right as noted in paragraph AG32 of IPSAS 48; and
  - (b) The additional consideration of CU100,000 is intended to reflect the value of the additional transfer right by compensating Public Works for the construction of the parking lot.
- IE56. As a result, Housing continues to account for the transfer relating to the construction of the residential building in the manner described in paragraphs IE50-IE51. The CU100,000 transfer relating to the construction of the parking lot is accounted for as a separate binding arrangement.

**Case C – Change in Transfer Consideration Due to the Resolution of Uncertain Events**

- IE57. Modifying the facts presented in paragraphs IE50-IE51, at the inception of the binding arrangement, Housing also agreed to pay a bonus of CU200,000 after construction of the building if it is completed within 24 months. For clarity, this bonus is part of the original terms of the binding arrangement and not a subsequent modification.
- IE58. Completion of the building is highly susceptible to factors outside Public Works' influence, including weather conditions and regulatory approvals. In addition, Public Works has limited experience with similar types of binding arrangements. Based on these factors, Housing excluded the CU200,000 bonus from the transfer consideration at the inception of the binding arrangement.
- IE59. At the end of the first year, the required regulatory approvals have been obtained and the remaining construction work related primarily to interior work which was not subject to weather conditions. Furthermore, the progress of work completed to date indicated that completion of the building within 24 months is likely. As a result, Housing concludes that payment of the bonus is now probable and adjusts the transfer consideration to CU1,200,000.
- IE60. The reassessment of variable consideration is not, in and of itself, a modification of the binding arrangement. Housing accounts for the probable payment of the bonus by applying paragraph 41 of IPSAS 48 and allocates the CU200,000 bonus to the transfer right relating to construction of the building. As 60% of the construction has been completed to date, Housing expenses an additional CU120,000 for the probable bonus payment as a cumulative catch-up adjustment ((CU1.2 million x 60%) – CU600,000 expense recognized to date).

**Measurement**

- IE61. Example 10 expands upon the fact pattern from Case B of Example 5 to illustrate the allocation of transfer consideration to individual transfer rights.

*Example 10: Allocation of Transfer Consideration*

- IE62. Continuing the fact pattern from Case B of Example 5, the regional government office (Regional Government) has concluded that it has four distinct transfer rights in its binding arrangement with the IT services agency (the Agency). As noted in paragraph IE34, these transfer rights relate to providing the University with productivity software, website-related services, security updates, and technical support services over a two-year period.
- IE63. When the Regional Government began negotiations with the Agency, it observed that the Agency's published prices would have been as follows, had the software and services been purchased separately for the two-year period: CU6 million for the software, CU4 million for the website-related services, CU3 million for the security updates, and CU2 million for technical support. During negotiations, the Regional Government and the Agency used these published prices as a starting point then agreed to reduce the total consideration for all four deliverables from CU15 million to CU12 million.

**Case A – Binding Arrangement Specifies Each Transfer Right's Stand-Alone Consideration**

- IE64. In this scenario, the binding arrangement specifies that the CU3 million reduction in transfer consideration resulted from a CU2 million discount for website-related services and a CU1 million discount for technical support.
- IE65. Applying paragraph AG50, the Regional Government uses the amount of stand-alone consideration and the negotiated discount specified in the binding arrangement for each transfer right and allocates the transfer consideration as follows:
- (a) Productivity software: CU6 million;
  - (b) Website-related services: CU2 million;
  - (c) Security updates: CU3 million; and
  - (d) Technical support: CU1 million.

**Case B – Binding Arrangement Only Specifies the Total Transfer Consideration**

- IE66. In this scenario, the Regional Government and the Agency only agreed to the overall CU3 million discount for the entire bundle of the software and the various services, and the binding arrangement does not specify how the CU3 million is to be allocated.
- IE67. Applying paragraph AG51, the Regional Government estimates the consideration allocated to each transfer right based on the amounts that were intended to compensate the Agency for the software and the services. As the Agency's published prices were used as the starting point for negotiations, the Regional Government noted that these prices are appropriate proxies for the stand-alone consideration of the software and services. Therefore, one reasonable allocation approach is to proportionately allocate the CU12 million based on each deliverable's published prices.

- IE68. Using this approach, the Regional Government allocates the transfer consideration as follows:
- (a) Productivity software: CU4.8 million (CU6 million ÷ CU15 million × CU12 million);
  - (b) Website-related services: CU3.2 million (CU4 million ÷ CU15 million × CU12 million);
  - (c) Security updates: CU2.4 million (CU3 million ÷ CU15 million × CU12 million); and
  - (d) Technical support: CU1.6 million (CU2 million ÷ CU15 million × CU12 million).

### **Application of Principles to Specific Transactions**

IE69. Example 11 illustrates the application of paragraphs AG53-AG55 of IPSAS 48 to capital transfers.

#### *Example 11: Capital Transfers*

##### Case A – Transfer Only Relates to the Construction of an Asset

- IE70. Entity P enters into a binding arrangement with Entity R. The terms of the binding arrangement are as follows:
- (a) Entity P is to provide funding in the form of CU22 million in cash to Entity R, to be used by Entity R to construct a building. There are no terms specifying how the building is to be used after construction;
  - (b) The amount of CU22 million is based on the budgeted construction and related costs. The funding is to be fully provided to Entity R at the beginning of the construction period;
  - (c) To facilitate Entity P's enforcement of the binding arrangement, the terms require Entity R to:
    - (i) Have a detailed construction plan outlining the activities to be completed in each significant phase of construction (e.g., clearing the site, foundations, framing, etc.), along with the budgeted costs of these activities;
    - (ii) Provide detailed progress reports at each significant stage of construction; and
  - (d) Upon completion of construction, Entity R obtains control of the building. If construction of the building is not completed within five years, Entity R retains control of any construction in progress but any funds that have not been spent on construction are to be returned to Entity P.
- IE71. Entity P has determined that the binding arrangement consists of one transfer right (for Entity R to construct the building) and that completion of the construction activities noted in the construction plan, as measured by the costs spent on these activities, is an appropriate measure of progress towards complete extinguishment of this right.
- IE72. In this example, the substance of the binding arrangement is to provide funding for the construction of the building, and there is no transfer relating to the subsequent use of the building by Entity R. Therefore, upon payment of the CU22 million, Entity P recognizes a transfer right asset for the full amount of CU22 million as Entity R has not yet started construction of the building.
- IE73. As Entity R completes the construction activities in the construction plan, the costs incurred in completing these activities is used to determine the percentage of construction completed. Entity P applies this percentage to the CU22 million to determine the portion of the transfer right asset that should be derecognized and expensed throughout the construction period.

Case B – Transfer Relates to the Construction and Operation of an Asset

IE74. In this example, the binding arrangement states that:

- (a) The funding amount has been increased to CU32 million. This amount is based on the budgeted construction costs of CU20 million, construction-related overhead costs of CU2 million, and a subsidy of CU10 million to cover some of the costs of operating the building as a public library for the first 10 years after completion of the building;
- (b) Throughout the 10-year operating period, Entity R is required to provide evidence to Entity P that the building has been operated as a public library. The evidence can include documentation such as audited financial statements which provide details on the operating costs incurred by Entity R;
- (c) If Entity R stops operating the building as a public library at any time during the 10-year period, it is required to repay a portion of the CU10 million operating transfer to Entity P based on the amount of time remaining in the 10-year period. For example, if Entity R stops operating the building as a library at two years into the 10-year period, it is required to return CU8 million to Entity P; and
- (d) Similar to Case A, Entity P transfers the entire CU32 million to Entity R at the beginning of the construction period. Entity R is also required to provide information regarding construction progress to Entity P.

IE75. In this scenario, Entity P concludes that the binding arrangement consists of two transfer rights: the construction of the building and the operation of the building as a library for a 10-year period. Applying the requirements from IPSAS 48, Entity P has allocated CU22 million to the right for Entity R to construct the building and CU10 million to the right for Entity R to operate the building as a public library for 10 years.

IE76. For the transfer right relating to the construction of the building, as in Case A, Entity P recognizes a transfer right asset of CU22 million upon the transfer of funds. Entity P then derecognizes the CU22 million (and recognizes the amounts as transfer expenses) over the construction period, based on the construction progress as determined by information reported by Entity R.

IE77. For the transfer right relating to the operation of the building as a library, Entity P has determined that this transfer right is extinguished as the building is being operated by Entity R as a library during the 10-year period. Therefore, Entity P recognizes the entire CU10 million as a transfer right asset upon payment. After construction has been completed, as Entity R operates the building as a public library, Entity P derecognizes CU1 million of the transfer right asset per year over the 10-year period and recognizes the amount as a transfer expense.

Case C – Transfer Relates to the Construction and Operation of an Asset, and an Additional Penalty is Payable if the Entity Ceases Operation of the Asset

IE78. In this scenario, the binding arrangement includes all the terms from Case B, with the addition of the following:

- (a) The binding arrangement now imposes a penalty of CU5 million under specific conditions. If Entity R stops operating the building as a library within the 10-year period, it is required to pay a penalty to Entity P;

- (b) The CU5 million penalty is payable in addition to the return of funds for not complying with the terms of the binding arrangement related to the operation of the asset. For clarity, if Entity R has completed construction of the building and operated the building as a library for nine years but stops operating the library at the beginning of the 10<sup>th</sup> year, it is required to pay CU6 million (repayment of CU1 million of the operating subsidy plus the CU5 million penalty) to Entity P.

IE79. In this scenario, the accounting for the CU22 million and CU10 million portions of the transfer for construction and operation of the building as a library will be the same as Cases A and B. That is, Entity P will recognize the CU32 million as a transfer right asset upon the transfer of funds. Subsequently, the CU22 million will be expensed as the building is constructed and the CU10 million will be expensed over the 10-year operating period.

IE80. The additional CU5 million penalty is not recognized by Entity P because its receipt is contingent on Entity R ceasing to operate the building as a public library. Such a contingent asset is not recognized in accordance with IPSAS 19.

#### Case D – Transfer Only Relates to the Operation of an Asset

IE81. The following scenario is independent from Cases A-C and illustrates the accounting for a transfer without a capital transfer component.

IE82. In this scenario:

- (a) Entity R already owns the building;
- (b) Under the terms of the binding arrangement, Entity P is required to transfer CU10 million to Entity R to subsidize the operation of the building as a public library for the next 10 years. The transfer of funds is required to occur upon finalization of the binding arrangement;
- (c) Throughout the 10-year period, Entity R is required to provide evidence to Entity P that the building has been operated as a public library; and
- (d) If Entity R stops operating the building as a public library at any time during the 10-year period, it is required to repay a portion of the CU10 million operating transfer to Entity P based on the amount of time remaining in the 10-year period.

IE83. In this scenario, the CU10 million transfer only relates to the right to have Entity R operate the existing building as a public library over a 10-year period. Upon initial payment, Entity P recognizes the CU10 million as a transfer right asset.

IE84. Entity P has determined that the transfer right extinguishes as the building is being operated as a library by Entity R throughout the 10-year period. As the operation of the library consists of many different activities which are performed consistently from period to period, Entity P derecognizes the transfer right asset evenly over the 10-year period and recognizes a transfer expense of CU1 million per year.

### **Comparison with GFS**

In developing IPSAS 48, *Transfer Expenses*, the IPSASB considered Government Finance Statistics (GFS) reporting guidelines.

Key similarities and differences with GFS are as follows:

- The similarities and differences between the accounting under IPSAS 48 and GFS will depend on the facts and circumstances of the transfer expense transactions.
- The definition of 'transfer expenses' in IPSAS 48 is drawn from the definition of 'transfers' in GFS but focuses on the perspective of the transfer provider.
- The accounting in IPSAS 48 is driven by the existence of a binding arrangement. In principle, the accounting in GFS is based on, among other considerations, the assessment of whether the transfer is compulsory or voluntary. Both IPSAS 48 and GFS may lead to the same accounting outcome in certain situations.
- IPSAS 48 distinguishes between transfer expenses arising from transactions with binding arrangements (including capital transfers) and transfer expenses from transactions without binding arrangements. GFS distinguishes grants as either current or capital grants, regardless of whether the grant arises from a binding arrangement, so different accounting outcomes could arise in certain situations.
- Under IPSAS 48, an entity recognizes a transfer expense when (or as) its enforceable right to have the transfer recipient satisfy its obligations is extinguished. Under GFS, the timing of expense recognition is based on the type of grant.



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**International Public  
Sector Accounting  
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529 Fifth Avenue, New York, NY 10017  
T + 1 (212) 286-9344 F +1 (212) 286-9570  
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**IFRS<sup>®</sup>**

Accounting

June 2023

# Request for Information

IFRS<sup>®</sup> Accounting Standard

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**Post-implementation Review**

***IFRS 15 Revenue from Contracts with Customers***

Comments to be received by 27 October 2023

## **Request for Information**

### Post-implementation Review of IFRS 15 *Revenue from Contracts with Customers*

*Comments to be received by 27 October 2023*

Request for Information *Post-implementation Review of IFRS 15 Revenue from Contracts with Customers* is published by the International Accounting Standards Board (IASB) for comment only. Comments need to be received by 27 October 2023 and should be submitted by email to [commentletters@ifrs.org](mailto:commentletters@ifrs.org) or online at <https://www.ifrs.org/projects/open-for-comment/>.

All comments will be on the public record and posted on our website at [www.ifrs.org](http://www.ifrs.org) unless the respondent requests confidentiality. Such requests will not normally be granted unless supported by a good reason, for example, commercial confidence. Please see our website for details on this policy and on how we use your personal data.

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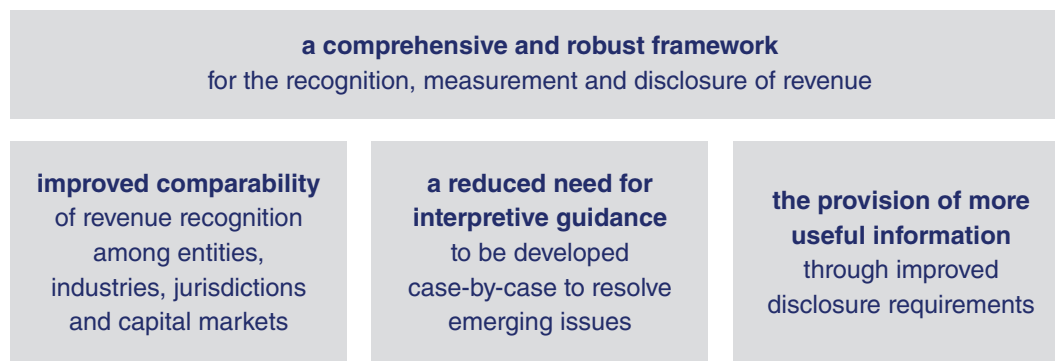
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## Introduction

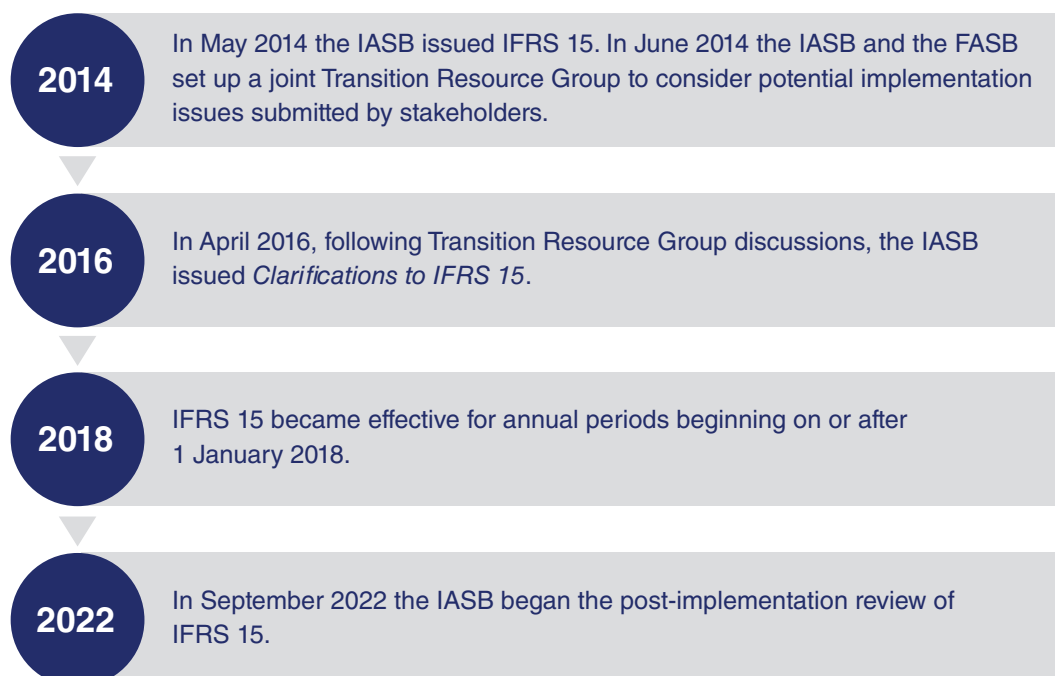
The International Accounting Standards Board (IASB) is undertaking a post-implementation review of IFRS 15 *Revenue from Contracts with Customers*.

IFRS 15 was developed jointly with the US Financial Accounting Standards Board (FASB) to improve the accounting for revenue arising from contracts with customers. Intended improvements include:



IFRS 15 replaced IAS 18 *Revenue*, IAS 11 *Construction Contracts*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfers of Assets from Customers* and SIC 31 *Revenue—Barter Transactions Involving Advertising Services*.

## Timeline



## What is a post-implementation review?

The objective of a post-implementation review is to assess whether the effects of applying the new requirements on users of financial statements, preparers, auditors and regulators are those the IASB intended when it developed the requirements.

The IASB concludes a post-implementation review by determining:

- (a) whether, overall, the new requirements are working as intended. Respondents asking fundamental questions about the clarity and suitability of the core objectives or principles in the new requirements would suggest that the requirements are not working as intended.
- (b) whether stakeholders have specific questions about applying the new requirements that require a response. If stakeholders have specific application questions, the IASB may still conclude that the new requirements are working as intended. However, the IASB will respond to those application questions if they meet the criteria necessary for the IASB to take further action (see page 6).

The IASB acts, subject to prioritisation criteria, if there is **evidence** that:

<p>there are <b>fundamental questions</b> (fatal flaws) about the clarity and suitability of the core objectives or principles in the new requirements</p>	<p>the <b>benefits to users of financial statements</b> of the information arising from applying the new requirements are significantly lower than expected (for example, there is significant diversity in application)</p>	<p>the <b>costs of applying</b> the new requirements and auditing and enforcing their application are significantly greater than expected</p>
--	--	---

A post-implementation review is not a standard-setting project and does not automatically lead to standard-setting, nor is it intended to lead to the resolution of every application question. However, a post-implementation review can identify improvements that can be made to a new requirement, to the standard-setting process or to the structure of an IFRS Accounting Standard.



## How does the IASB prioritise matters in a post-implementation review?

The IASB prioritises matters identified in a post-implementation review based on the extent to which evidence gathered during the review shows:

- (a) the matter has substantial consequences.
- (b) the matter is pervasive.
- (c) the matter arises from a financial reporting issue that can be addressed by the IASB or the IFRS Interpretations Committee (Committee).
- (d) the benefits of any action would be expected to outweigh the costs. To do this analysis, the IASB would consider the extent of the potential disruption and operational costs from change and the importance of the matter to users of financial statements.

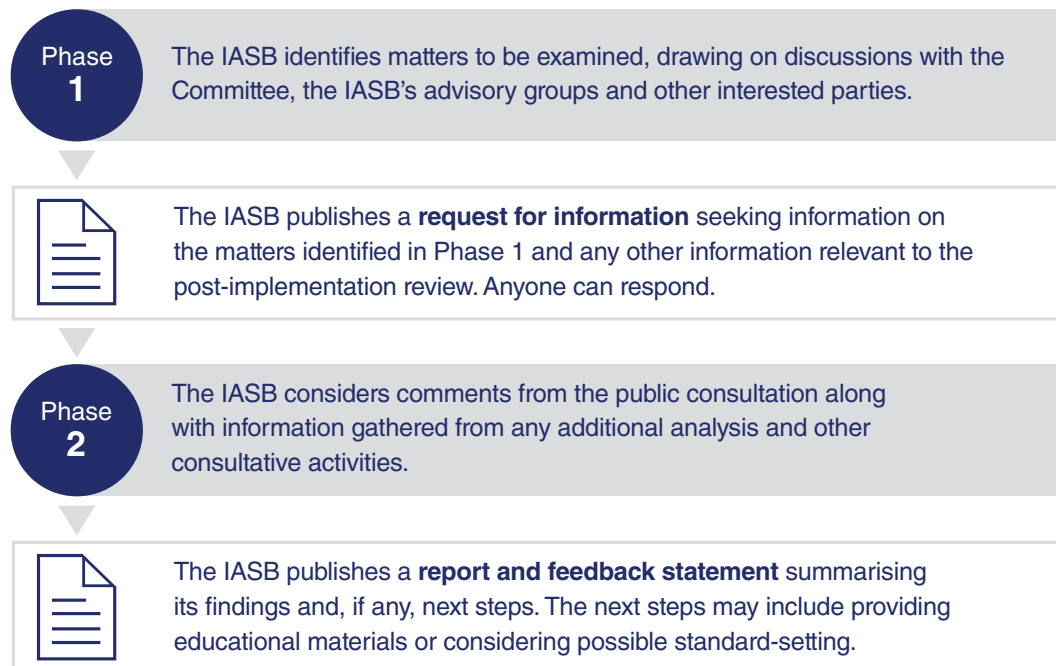
Depending on this IASB assessment:

- (a) high-priority matters would be addressed as soon as possible. This category is expected to be used rarely.
- (b) medium-priority matters would be added to the IASB's research pipeline or the Committee's pipeline. The IASB will try to make pipeline projects active before the next agenda consultation.
- (c) low-priority matters would be considered in the next agenda consultation and explored if the IASB decides to take action in its deliberations on the feedback on that agenda consultation.
- (d) no-action matters will not be explored by the IASB.<sup>1</sup>

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<sup>1</sup> The IASB's description of the post-implementation review process is available on our [website](#).

## What is involved in a post-implementation review?



## Invitation to Comment

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### Summary of questions

This Request for Information sets out questions in 11 sections:

- (a) **Section 1** seeks stakeholders' overall views and experiences relating to IFRS 15;
- (b) **Sections 2–8** seek information on specific areas of IFRS 15;
- (c) **Section 9** seeks information on applying IFRS 15 with other IFRS Accounting Standards;
- (d) **Section 10** seeks information on the importance of convergence between IFRS 15 and the FASB's *Topic 606 Revenue from Contracts with Customers* (Topic 606); and
- (e) **Section 11** seeks other information relevant to the post-implementation review of IFRS 15.

Responses will inform the IASB's assessments in this post-implementation review (see the 'What is a post-implementation review?' section on page 5).

### Guidance for responding to questions

You need not answer all questions. Comments are most helpful if they:

- (a) answer the questions as stated;
- (b) state the paragraph(s) of IFRS 15 to which they relate;
- (c) identify the cause of the described issue;
- (d) describe fact patterns relevant to the questions and explain:
  - (i) how the IFRS 15 requirements are applied;
  - (ii) the effects of applying the requirements (for example, the quantitative effect on an entity's financial statements or an operational effect); and
  - (iii) how pervasive the fact pattern is; and
- (e) are supported by evidence.

Preparers of financial statements, please respond to questions considering your entity's accounting treatment. Auditors, regulators and users of financial statements, please respond to questions considering financial statements you audit, regulate or use.

## Deadline

The IASB will consider all written comments received by 27 October 2023.

## How to comment

Please submit your comments:

Online <https://www.ifrs.org/projects/open-for-comment/>

By email [commentletters@ifrs.org](mailto:commentletters@ifrs.org)

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## Request for Information

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### 1. Overall assessment of IFRS 15

#### Background

IFRS 15's objective is to establish the principles that an entity applies to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.<sup>2</sup> To meet the objective, the Standard:

- (a) establishes a core principle for revenue recognition—an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.
- (b) introduces a five-step model to support the core principle. The five steps an entity applies in recognising revenue are:
  - (i) Step 1—identify the contract(s) with a customer;
  - (ii) Step 2—identify the performance obligations in the contract;
  - (iii) Step 3—determine the transaction price;
  - (iv) Step 4—allocate the transaction price to the performance obligations in the contract; and
  - (v) Step 5—recognise revenue when (or as) the entity satisfies a performance obligation.

The previous IFRS Accounting Standards had limited revenue recognition requirements. In particular, the Standards lacked requirements on important topics, such as accounting for multiple-element arrangements and allocating consideration to those elements. By providing a comprehensive and robust framework for revenue recognition, measurement and disclosure the IASB expected to improve the consistency of revenue accounting among entities and thus improve financial reporting.

The IASB expected the benefits of the new requirements to be ongoing and to justify the costs of implementing the requirements (for example, systems and operational changes), which would be incurred mainly in transitioning from the previous revenue recognition requirements.

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<sup>2</sup> See paragraph 1 of IFRS 15 *Revenue from Contracts with Customers*.

**Spotlight 1—What we have heard so far**

Initial feedback suggests that IFRS 15 has achieved its objective and is working well, though some stakeholders still find applying aspects of the requirements challenging. Stakeholders generally see the five-step revenue recognition model as helpful—in particular, as a robust basis for analysing complex transactions.

Stakeholders observed that implementing IFRS 15 involved a significant learning process for entities. They commented that the Standard is complex and most entities took time to understand the concepts and terminology, often turning to accounting firms for advice on developing accounting policies. Therefore, a few stakeholders suggested that the Standard might be too complex to apply for smaller entities and for entities in emerging economies.

Stakeholders reported that IFRS 15 has improved the comparability of revenue information among entities within the same industry, among industries and among entities in various capital markets. They attributed some of these improvements to convergence between IASB and FASB requirements. However, some stakeholders said entities need to use significant judgement in applying the requirements in IFRS 15 to complex fact patterns, which might lead to inconsistent outcomes among entities.

Most feedback during phase 1 of the post-implementation review related to application matters. Many stakeholders observed that although applying IFRS 15 was initially challenging, entities have now developed accounting policies. Some stakeholders cautioned the IASB against making any fundamental changes to IFRS 15 that would result in further disruption.

The cost and effort incurred by an entity in implementing IFRS 15 varied depending on the entity's industry, contract types, previous judgements and former accounting system. Many stakeholders reported that implementing IFRS 15 was challenging and costly, but that incremental costs have decreased. Some stakeholders mentioned that implementing IFRS 15 had resulted in further benefits, including better knowledge of contracts, improved internal controls and enhanced cooperation between accounting and business functions within entities. Overall, most stakeholders expressed a view that the benefits of IFRS 15 outweigh the costs of implementing and applying the Standard.

The IASB would like to understand stakeholders' views on IFRS 15 as a whole, including its understandability. The IASB would also like to gather evidence to help it assess whether the costs and benefits of preparing, auditing, enforcing and using information about revenue are those the IASB intended when it developed the Standard.

**Question 1—Overall assessment of IFRS 15****(a) In your view, has IFRS 15 achieved its objective? Why or why not?**

Please explain whether the core principle and the supporting five-step revenue recognition model provide a clear and suitable basis for revenue accounting decisions that result in useful information about an entity's revenue from contracts with customers.

If not, please explain what you think are the fundamental questions (fatal flaws) about the clarity and suitability of the core principle or the five-step revenue recognition model.

**(b) Do you have any feedback on the understandability and accessibility of IFRS 15 that the IASB could consider:**

**(i) in developing future Standards; or**

**(ii) in assessing whether, and if so how, it could improve the understandability of IFRS 15 without changing its requirements or causing significant cost and disruption to entities already applying the Standard—for example, by providing education materials or flowcharts explaining the links between the requirements?**

**(c) What are the ongoing costs and benefits of applying the requirements in IFRS 15 and how significant are they?**

If, in your view, the ongoing costs of applying IFRS 15 are significantly greater than expected or the benefits of the resulting information to users of financial statements are significantly lower than expected, please explain why you hold this view.

These questions aim to help the IASB understand respondents' overall views and experiences relating to IFRS 15. Sections 2–9 seek more detailed information on specific requirements.

## 2. Identifying performance obligations in a contract

### Background

IFRS 15 requires an entity to identify performance obligations in its contracts with customers. A performance obligation is defined as a promise in a contract with a customer to transfer to the customer 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 customer.

An entity determines whether a good or service promised to a customer is distinct by considering:

- (a) whether the customer can benefit from the good or service on its own or together with other resources that are readily available to the customer; and
- (b) whether the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract.<sup>3</sup>

Appropriately identifying the promises in a contract as performance obligations is fundamental to recognising revenue on a basis that faithfully depicts the entity's performance in transferring the promised goods or services to the customer.

#### **Spotlight 2—Identifying goods or services promised in a contract and determining whether they are distinct**

Often, it is easy to identify the goods or services promised in a contract that are distinct. However, sometimes, closer analysis and judgement are required to make the assessment.

Initial feedback suggests that stakeholders sometimes find making the assessment challenging, in particular, for:

- (a) arrangements involving internally developed products or digital products, for example, web-based software applications;
- (b) contract modifications;
- (c) licensing arrangements; and
- (d) arrangements in which an entity uses its judgement to determine whether it is acting as an agent or a principal.

*continued ...*

<sup>3</sup> See paragraphs 22 and 27 of IFRS 15.



... *continued*

Stakeholders said their challenges relate to identifying goods or services promised in a contract and determining whether those goods or services are distinct.

The IASB would like to understand from stakeholders in what circumstances they find identifying performance obligations difficult and why, and how pervasive these circumstances are.

### Question 2—Identifying performance obligations in a contract

**(a) Does IFRS 15 provide a clear and sufficient basis to identify performance obligations in a contract? If not, why not?**

Please describe fact patterns in which the requirements:

- (i) are unclear or are applied inconsistently;
- (ii) lead to outcomes that in your view do not reflect the underlying economic substance of the contract; or
- (iii) lead to significant ongoing costs.

If diversity in application exists, please explain and provide supporting evidence about how pervasive the diversity is and explain what causes it. Please also explain how the diversity affects entities' financial statements and the usefulness of the resulting information to users of financial statements.

**(b) Do you have any suggestions for resolving the matters you have identified?**

### 3. Determining the transaction price

#### Background

Determining the transaction price is an important step in the IFRS 15 revenue recognition model because the transaction price is the amount an entity allocates to the performance obligations in a contract and ultimately recognises as revenue.

IFRS 15 defines the transaction price as the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (for example, some sales taxes). The Standard also provides specific requirements for determining the transaction price if consideration includes a variable amount, a significant financing component or any consideration payable to the customer.<sup>4</sup>

#### Spotlight 3—Consideration payable to a customer

Consideration payable to a customer includes cash amounts that an entity pays, or expects to pay, to the customer (or to other parties that purchase the entity's goods or services from the customer).

IFRS 15 requires an entity to account for consideration payable to a customer as a reduction of the transaction price and, therefore, of revenue, unless the payment to the customer is in exchange for a distinct good or service that the customer transfers to the entity.<sup>5</sup>

#### *Marketing incentives to end customers*

Initial feedback suggests that some stakeholders are unsure how to account for incentives offered in three-way arrangements when a party acting as an agent pays a marketing incentive to end customers—for example, when a digital platform entity offers incentives to end customers who buy goods or services such as food delivery or taxi services through the platform.

The feedback suggests that some entities treat these incentives as payments to customers and so account for them as reductions of revenue. Other entities treat these incentives as marketing expenses. This diversity in application might reduce the usefulness of revenue information to users of financial statements.

The IASB would like to understand how pervasive the practice of entities paying incentives to end customers is, how entities account for such incentives and why, and how various accounting treatments affect the usefulness of the resulting information to users of financial statements.

*continued ...*

<sup>4</sup> See paragraphs 47–72 of IFRS 15.

<sup>5</sup> See paragraphs 70–72 of IFRS 15.

... continued

*‘Negative’ revenue*

Some stakeholders were unsure how to account for consideration payable to a customer if it exceeds the amount of consideration expected to be received from the customer—for example, when an entity wishing to enter a highly competitive market offers large incentives to attract customers.

Initial feedback suggests that some entities present as ‘negative’ revenue the amount of consideration payable exceeding the consideration receivable. Other entities reclassify that excess as an expense. Stakeholders asked the IASB to clarify how to account for negative net consideration, including:

- (a) how to determine the unit of account for assessing net consideration—for example, does an entity assess net consideration on a contract-by-contract basis or on a portfolio basis?
- (b) how to determine the assessment period—for example, does an entity consider consideration it expects to be entitled to in the current reporting period or over the term of the contract?

The IASB would like to understand from stakeholders how pervasive cases of negative net consideration are, how entities account for negative net consideration and why, and how various accounting treatments affect the usefulness of the resulting information to users of financial statements.

### Question 3—Determining the transaction price

- (a) **Does IFRS 15 provide a clear and sufficient basis to determine the transaction price in a contract—in particular, in relation to accounting for consideration payable to a customer? If not, why not?**

Please describe fact patterns in which the requirements on how to account for incentives paid by an agent to the end customer or for negative net consideration from a contract (see Spotlight 3) are unclear or are applied inconsistently.

If diversity in application exists, please explain and provide supporting evidence about how pervasive the diversity is and explain what causes it. Please also explain how the diversity affects entities’ financial statements and the usefulness of the resulting information to users of financial statements.

- (b) **Do you have any suggestions for resolving the matters you have identified?**

## 4. Determining when to recognise revenue

### Background

IFRS 15 requires an entity to recognise revenue when (or as) the entity transfers goods or services to a customer, which is when (or as) the customer obtains control of that good or service.<sup>6</sup>

This requirement is a change from the previous revenue recognition requirements, which were based on an entity assessing the transfer of the risks and rewards of ownership. One reason for this change was to enable entities to make more consistent decisions about when goods or services are transferred. However, in making the change, the IASB acknowledged that some judgements, especially those related to construction-type contracts and contracts for service, could remain challenging.

#### Spotlight 4—Criteria for recognising revenue over time

IFRS 15 includes criteria for determining whether control is transferred, and hence revenue recognised, over time. These criteria—at least one of which must be met for the recognition of revenue over time—are:

- (a) the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs;
- (b) the entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- (c) the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.<sup>7</sup>

Initial feedback suggests that many entities have largely overcome initial challenges related to determining whether to recognise revenue over time or at a point in time. However, in some cases, for example, in the software development, gaming and construction industries, some challenges remain. Some stakeholders said that assessments based on the criterion in paragraph (c) can be especially challenging, notably in relation to the enforceability of an entity's right to payment.

The IASB would like to understand from stakeholders in what circumstances they find determining when to recognise revenue difficult and why, and how pervasive these circumstances are.

<sup>6</sup> See paragraph 31 of IFRS 15.

<sup>7</sup> See paragraph 35 of IFRS 15.

#### Question 4—Determining when to recognise revenue

**(a) Does IFRS 15 provide a clear and sufficient basis to determine when to recognise revenue? If not, why not?**

Please describe fact patterns in which the requirements are unclear or are applied inconsistently—in particular, in relation to the criteria for recognising revenue over time (see Spotlight 4).

If diversity in application exists, please explain and provide supporting evidence about how pervasive the diversity is and explain what causes it. Please also explain how the diversity affects entities' financial statements and the usefulness of the resulting information to users of financial statements.

**(b) Do you have any suggestions for resolving the matters you have identified?**

## 5. Principal versus agent considerations

### Background

When another party is involved in providing goods or services to a customer, IFRS 15 requires an entity to determine whether it is a principal or an agent based on the nature of its promise and on whether it controls the good or service before it is transferred to the customer. According to IFRS 15:

- (a) a principal controls a good or service before it is transferred to a customer. A principal's performance obligation is to provide that good or service to the customer. The principal recognises as revenue the gross amount of the consideration received in exchange for the good or service transferred.
- (b) an agent does not control a good or service before it is transferred to a customer. Instead, an agent merely facilitates the sale of goods or services between a principal and the customer. An agent's performance obligation is to arrange for another party to provide the good or service to the customer. The agent recognises as revenue the fee or commission received for providing these services.<sup>8</sup>

#### Spotlight 5—The concept of control and related indicators

An entity determines whether it is a principal or an agent by identifying the specified goods or services to be provided to the customer and then assessing whether it controls each specified good or service before it is transferred to the customer.

To help an entity assess whether it controls a specified good or service before it is transferred to a customer, IFRS 15 provides a non-exhaustive list of indicators of control. Examples of indicators of control include:

- (a) the entity is primarily responsible for fulfilling the promise to provide the specified good or service;
- (b) the entity has inventory risk before the specified good or service has been transferred to a customer or after the transfer of control to the customer; and/or
- (c) the entity has discretion in establishing the price for the specified good or service.<sup>9</sup>

*continued ...*

<sup>8</sup> See paragraphs B34–B38 of IFRS 15.

<sup>9</sup> See paragraph B37 of IFRS 15.

... *continued*

The indicators may be more or less relevant to the assessment of control depending on the nature of the specified good or service and the terms and conditions of the contract. The IASB explained that the indicators merely support the assessment of control—they do not replace or override that assessment.<sup>10</sup>

Initial feedback suggests that entities sometimes find applying the concept of control alongside the related indicators challenging. Some stakeholders suggested that the concept of control is not well understood—especially in relation to services. The IASB also heard that some entities assess whether they are a principal or an agent based solely on the indicators and overlook the concept of control. Some stakeholders also said that entities sometimes struggle to apply the indicators if those indicators point to different conclusions or if an arrangement involves more than three parties.

The IASB would like to understand from stakeholders in what circumstances they find applying the concept of control and the related indicators difficult and why, and how pervasive these circumstances are.

#### Question 5—Principal versus agent considerations

**(a) Does IFRS 15 provide a clear and sufficient basis to determine whether an entity is a principal or an agent? If not, why not?**

Please describe fact patterns in which the requirements are unclear or are applied inconsistently—in particular, in relation to the concept of control and related indicators (see Spotlight 5).

If diversity in application exists, please explain and provide supporting evidence about how pervasive the diversity is and explain what causes it. Please also explain how the diversity affects entities' financial statements and the usefulness of the resulting information to users of financial statements.

**(b) Do you have any suggestions for resolving the matters you have identified?**

<sup>10</sup> See paragraphs B37A of IFRS 15 and BC385J of the Basis for Conclusions on IFRS 15.

## 6. Licensing

### Background

For contracts that grant licences of intellectual property (IP) to customers, IFRS 15 requires an entity:

- (a) to determine whether the promise to grant a licence is distinct from other goods or services promised in the contract. The Standard provides examples of licences that are not distinct, such as a licence that forms a component of a tangible good and is integral to the functionality of the good.
- (b) to consider the nature of the licence to determine whether the licence transfers to a customer either at a point in time or over time.<sup>11</sup>

IFRS 15 provides criteria to determine whether the nature of a licence is to provide:

- (a) a right to access an entity's IP as it exists throughout the licence period—in which case the licence is accounted for as a performance obligation satisfied over time; or
- (b) a right to use the entity's IP as it exists at the point in time at which the licence is granted—in which case the licence is accounted for as a performance obligation satisfied at a point in time.<sup>12</sup>

The Standard provides requirements for recognising revenue for sales-based and usage-based royalties when the royalties relate only to a licence of IP or when a licence of IP is the predominant item to which the royalties relate. For such royalties, IFRS 15 requires an entity to constrain estimates of variable consideration to which the entity expects to be entitled by recognising revenue only when (or as) the later of the following events occurs:

- (a) the subsequent sale or usage occurs; and
- (b) the performance obligation to which some or all of the sales-based or usage-based royalty has been allocated has been satisfied (or partially satisfied).<sup>13</sup>

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<sup>11</sup> See paragraphs B52–B62 of IFRS 15.

<sup>12</sup> See paragraphs B56–B62 of IFRS 15.

<sup>13</sup> See paragraphs B63–B63B of IFRS 15.



**Spotlight 6—Licensing**

Initial feedback suggests that sometimes entities find the requirements for accounting for licensing arrangements unclear or apply them inconsistently. For example, stakeholders asked the IASB to clarify how:

- (a) to determine whether an arrangement is a licensing arrangement if the contract refers to licensing but is in substance similar to a sale of IP or service provision.
- (b) to identify performance obligations in arrangements that include an obligation to provide goods or services as well as a licence.
- (c) to account for licence renewals. Stakeholders commented that some entities recognise revenue when the renewal period starts and others recognise it when the renewal is agreed. Some stakeholders noted that the FASB has amended Topic 606 to clarify that an entity is not permitted to recognise revenue from a licence renewal until the beginning of the renewal period.

The IASB would like to understand from stakeholders in what circumstances they find applying the licensing requirements difficult and why, and how pervasive these circumstances are.

**Question 6—Licensing**

- (a) Does IFRS 15 provide a clear and sufficient basis for accounting for contracts involving licences? If not, why not?**

Please describe fact patterns in which the requirements are unclear or are applied inconsistently—in particular, in relation to matters described in Spotlight 6.

If diversity in application exists, please explain and provide supporting evidence about how pervasive the diversity is and explain what causes it. Please also explain how the diversity affects entities' financial statements and the usefulness of the resulting information to users of financial statements.

- (b) Do you have any suggestions for resolving the matters you have identified?**

## 7. Disclosure requirements

### Background

In developing IFRS 15, the IASB sought to improve on the disclosure requirements in previous Standards to enable entities to provide more useful information about the nature, amount, timing and uncertainty of revenue.

IFRS 15 requires an entity to disclose information about:

- (a) revenue recognised from contracts with customers, including disaggregation of revenue into appropriate categories (the Standard provides examples of such categories);
- (b) any impairment losses recognised on receivables or contract assets arising from contracts with customers;
- (c) contract balances, including opening and closing balances of receivables, contract assets and contract liabilities, and reasons for significant changes in contract asset and contract liability balances;
- (d) performance obligations, including when the entity typically satisfies its performance obligations and how much of the transaction price it allocates to the remaining performance obligations in a contract;
- (e) significant judgements and changes in judgements made in applying the requirements, including judgements made in determining:
  - (i) the timing of the satisfaction of performance obligations; and
  - (ii) the transaction price and the amounts allocated to performance obligations;
- (f) assets recognised from the costs to obtain or fulfil a contract with a customer; and
- (g) practical expedients used, if any.<sup>14</sup>

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<sup>14</sup> See paragraphs 110–129 of IFRS 15.

**Spotlight 7—Disclosure requirements**

Initial feedback on the disclosure requirements was generally positive. Some users of financial statements, regulators and accounting firms said they saw some improvement in the usefulness of information entities disclosed about revenue after IFRS 15 was implemented.

Stakeholders' main concerns about the disclosure requirements related to:

- (a) the costs of meeting some disclosure requirements potentially exceeding the usefulness of the resulting information to users of financial statements. For example, stakeholders raised concerns about the cost of providing disclosures related to contract assets and contract liabilities and remaining performance obligations.
- (b) entities sometimes omitting the information required by IFRS 15. Some stakeholders suggested this issue might be caused by a lack of specificity in the disclosure requirements.

The IASB would like evidence about how pervasive these concerns are and their causes.

**Question 7—Disclosure requirements**

- (a) Do the disclosure requirements in IFRS 15 result in entities providing useful information to users of financial statements? Why or why not?**

Please identify any disclosures that are particularly useful to users of financial statements and explain why. Please also identify any disclosures that do not provide useful information and explain why the information is not useful.

- (b) Do any disclosure requirements in IFRS 15 give rise to significant ongoing costs?**

Please explain why meeting the requirements is costly and whether the costs are likely to remain high over the long term.

- (c) Have you observed significant variation in the quality of disclosed revenue information? If so, what in your view causes such variation and what steps, if any, could the IASB take to improve the quality of the information provided?**

## 8. Transition requirements

### Background

The IASB allowed an entity applying IFRS 15 for the first time a choice between two transition methods, namely:

- (a) applying the Standard retrospectively to each prior reporting period presented in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, subject to practical expedients allowed by IFRS 15 (retrospective method).
- (b) applying the Standard retrospectively with the cumulative effect of initially applying IFRS 15 recognised at the date of initial application (modified retrospective method). An entity using this method was required to provide additional disclosures, namely:
  - (i) the amount by which each financial statement line item is affected in the current reporting period by the initial application of IFRS 15; and
  - (ii) an explanation of the reasons for significant changes identified in (i).<sup>15</sup>

IFRS 15 also required an entity to explain which practical expedients were used and, to the extent reasonably possible, to provide a qualitative assessment of the estimated effect of applying each practical expedient.<sup>16</sup>

The IASB introduced the practical expedients and the option to use the modified retrospective method to reduce the cost and burden of transition for preparers of financial statements. At the same time, by requiring additional disclosures, the IASB sought to ensure users of financial statements received useful information for their trend analyses.

#### Question 8—Transition requirements

- (a) Did the transition requirements work as the IASB intended? Why or why not?**

Please explain:

- (i) whether entities applied the modified retrospective method or the practical expedients and why; and
- (ii) whether the transition requirements in IFRS 15 achieved an appropriate balance between reducing costs for preparers of financial statements and providing useful information to users of financial statements.

<sup>15</sup> See paragraphs C3–C8 of IFRS 15.

<sup>16</sup> See paragraph C6 of IFRS 15.

## 9. Applying IFRS 15 with other IFRS Accounting Standards

### Background

IFRS 15 requires an entity to apply the requirements in the Standard to all contracts with customers, except:

- (a) lease contracts within the scope of IFRS 16 *Leases*.
- (b) contracts within the scope of IFRS 17 *Insurance Contracts*. However, an entity may choose to apply IFRS 15 to insurance contracts that have as their primary purpose the provision of services for a fixed fee.
- (c) financial instruments and other contractual rights or obligations within the scope of IFRS 9 *Financial Instruments*, IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*.
- (d) non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers.

IFRS 15 also sets out requirements for contracts that are partially within the scope of IFRS 15 and partially within the scope of the other specified IFRS Accounting Standards. If the other Standards:

- (a) specify how to separate and/or initially measure one or more parts of the contract, then an entity should first apply the separation and/or measurement requirements in those Standards;
- (b) do not specify how to separate and/or initially measure one or more parts of the contract, then the entity should apply IFRS 15 to separate and/or initially measure the part (or parts) of the contract.<sup>17</sup>

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<sup>17</sup> See paragraphs 5–7 of IFRS 15.

**Spotlight 9.1—IFRS 3 Business Combinations**

Initial feedback suggests that, sometimes, the difference between the measurement principles in IFRS 3 (based on fair value) and those in IFRS 15 (based on the transaction price) might create difficulties for entities when measuring contract assets and contract liabilities acquired as part of a business combination. Fair value adjustments on acquisition of contract assets and contract liabilities could affect the amount of goodwill recognised on acquisition and amounts of revenue that will be recognised from related contracts with customers in the future.

Stakeholders suggested the IASB consider resolving the difference between the requirements for measuring contract assets and contract liabilities in IFRS 15 and IFRS 3. Stakeholders noted that in October 2021 the FASB made changes to the requirements in *Topic 805 Business Combinations*. The changes require an acquirer to apply the FASB's Topic 606 to measure contract assets and contract liabilities acquired in a business combination at the acquisition date.

The IASB would like to understand from stakeholders in what circumstances the differences between the requirements in IFRS 3 and IFRS 15 lead to significant fair value adjustments on acquisition, how pervasive the matter is and how it affects entities' financial statements and the usefulness of the resulting information to users of financial statements.

**Spotlight 9.2—IFRS 9 Financial Instruments**

Initial feedback suggests that, sometimes, stakeholders are unsure whether to apply the requirements in IFRS 15 or those in IFRS 9.

***Price concession versus impairment losses***

The IASB has learned that, sometimes, stakeholders are unsure whether, when an entity accepts lower consideration from a customer whose financial position has deteriorated over the course of their relationship, the entity needs to account for this reduction:

- (a) as a contract modification in accordance with IFRS 15, with the reduction treated as a price concession that reduces revenue; or
- (b) as impairment of receivables or contract assets in accordance with IFRS 9.

The IASB would like to understand from stakeholders in what circumstances they find determining how to account for reduced consideration difficult and why, and entities' current accounting policies for these items.

*continued ...*

... continued

### *Liabilities arising from IFRS 15*

IFRS 15:

- (a) sets out requirements for accounting for some liability types, for example, contract liabilities and refund liabilities; and
- (b) specifies two cases (both relate to repurchase agreements) in which entities account for liabilities arising from IFRS 15 in accordance with IFRS 9.

Some stakeholders suggested that entities might be unsure of which requirements to use to account for other liabilities arising from IFRS 15, especially if those liabilities could meet the definition of a financial liability in IAS 32 *Financial Instruments: Presentation*. For example, if an entity sells gift cards that give the customer a right to choose a supplier—including the entity—to provide goods or services, which requirements apply to the resulting liability?

The IASB would like to understand from stakeholders in what circumstances they are unsure of the requirements to apply to liabilities arising from IFRS 15, the nature of these liabilities and entities' current accounting policies for these liabilities.

### **Spotlight 9.3—IFRS 16 Leases**

Initial feedback suggests that in some cases entities might find accounting for contracts that include a service component and a lease component difficult due to differences between the requirements in IFRS 15 and IFRS 16.

The IASB would like to understand from stakeholders in what circumstances they are unsure of how to apply the requirements in IFRS 15 alongside the requirements in IFRS 16, how pervasive these circumstances are, what causes the ambiguity and how that ambiguity affects the usefulness of information to users of financial statements.

**Spotlight 9.4—IFRS 10 Consolidated Financial Statements**

Some stakeholders asked how to account for transactions in which an entity—as part of its ordinary activities—sells an asset by selling an equity interest in a single-asset entity that is a subsidiary (a so-called ‘corporate wrapper’).

The IASB noted that it considered the accounting for such transactions:

- (a) in 2019 and 2020, while discussing a question submitted to the IFRS Interpretations Committee about a transaction in which an entity, as part of its ordinary activities, enters into a contract with a customer to sell real estate by selling its equity interest in a single-asset entity that is a subsidiary. The IASB considered whether to add to the work plan a narrow-scope project relating to such transactions, but decided against doing so.
- (b) during the post-implementation review of IFRS 10, IFRS 11 and IFRS 12 *Disclosure of Interests in Other Entities*. The IASB determined that the corporate wrapper matter was of low priority and would be explored further if it were identified as a priority in the next agenda consultation.
- (c) in the Third Agenda Consultation. Only a few respondents suggested developing requirements on the sale of assets via corporate wrappers, so the IASB concluded that the matter did not meet the criteria for adding a project to the work plan.

In discussing the initial feedback on this matter in this post-implementation review, the IASB noted that accounting for sales of assets via corporate wrappers is a cross-cutting issue. Developing a comprehensive solution for corporate wrappers could affect multiple IFRS Accounting Standards—for example, IFRS 10, IFRS 16 and IAS 12 *Income Taxes*—and would require significant resources. Stakeholders in the Third Agenda Consultation identified other priorities for the IASB for the 2022–2026 period.

Therefore, the IASB decided against including a question about accounting for the sale of assets via corporate wrappers in this Request for Information. The IASB will assess the demand for resolving this matter in the next agenda consultation and consider whether the matter meets the criteria for adding a project to the work plan.



**Question 9—Applying IFRS 15 with other IFRS Accounting Standards**

- (a) Is it clear how to apply the requirements in IFRS 15 with the requirements in other IFRS Accounting Standards? If not, why not?**

Please describe and provide supporting evidence about fact patterns in which it is unclear how to apply IFRS 15 with the requirements of other IFRS Accounting Standards, how pervasive the fact patterns are, what causes the ambiguity and how that ambiguity affects entities' financial statements and the usefulness of the resulting information to users of financial statements. The IASB is particularly interested in your experience with the matters described in Spotlights 9.1–9.3.

- (b) Do you have any suggestions for resolving the matters you have identified?**

## 10. Convergence with Topic 606

### Background

IFRS 15 was developed jointly with the FASB. In May 2014 the IASB issued IFRS 15 and the FASB issued Topic 606. When issued, the requirements in IFRS 15 and Topic 606 were substantially converged, except for some minor differences.

In 2014 and 2015 the IASB and FASB's joint Transition Resource Group—formed to support implementation of IFRS 15 and Topic 606—discussed potential implementation issues submitted by stakeholders. As a result of these discussions, the IASB and the FASB amended their respective standards in 2016.<sup>18</sup> The FASB's amendments to Topic 606 were more extensive than the IASB's amendments to IFRS 15, which resulted in further differences between IFRS 15 and Topic 606.<sup>19</sup>

In deciding whether to take action on its post-implementation review findings, the IASB will need to consider how any actions will affect convergence between IFRS 15 and Topic 606. As part of this consideration, the IASB is seeking respondents' views on how important retaining the current level of convergence between IFRS 15 and Topic 606 is.

#### Question 10—Convergence with Topic 606

- (a) **How important is retaining the current level of convergence between IFRS 15 and Topic 606 to you and why?**

18 See the IASB's [Clarifications to IFRS 15 Revenue from Contracts with Customers](#) and the FASB's [Accounting Standards Update \(ASU\) No. 2016-08 Revenue from Contracts with Customers \(Topic 606\)—Principal versus Agent Considerations \(Reporting Revenue Gross versus Net\)](#), [ASU No. 2016-10 Revenue from Contracts with Customers \(Topic 606\)—Identifying Performance Obligations and Licensing](#), [ASU No. 2016-12 Revenue from Contracts with Customers \(Topic 606\)—Narrow-Scope Improvements and Practical Expedients](#) and [ASU No. 2016-20 Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers](#).

19 The differences between IFRS 15 and Topic 606 are summarised in Appendix A to the March 2023 [Agenda Paper 6A Post-implementation Review of IFRS 15—Background](#).

## 11. Other matters

### Background

Sections 1–10 focus on matters the IASB has identified as areas of interest to examine further in the post-implementation review of IFRS 15.

This section provides stakeholders with an opportunity to share feedback on other matters relevant to this post-implementation review.

Please share any information that would be helpful to the IASB in assessing whether:

there are **fundamental questions** (fatal flaws) about the clarity and suitability of the core objective or principles in IFRS 15

the **benefits to users of financial statements** of the information arising from applying IFRS 15 requirements are significantly lower than expected

the **costs of applying IFRS 15** requirements and auditing and enforcing their application are significantly greater than expected

#### Question 11—Other matters

- (a) **Are there any further matters that you think the IASB should examine as part of the post-implementation review of IFRS 15? If yes, what are those matters and why should they be examined?**

Please explain why those matters should be considered in the context of this post-implementation review and the pervasiveness of any matter raised. Please provide examples and supporting evidence.



**IFRS<sup>®</sup>**

Foundation

Columbus Building  
7 Westferry Circus  
Canary Wharf  
London E14 4HD, UK

Tel **+44 (0) 20 7246 6410**

Email **customerservices@ifrs.org**

**ifrs.org**