Exposure Draft 71
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Comments due: September 15, 2020

IPSAS®

Proposed International Public Sector Accounting Standard ®

Revenue without Performance Obligations

IPSASB International Public Sector Accounting Standards Board®

This document was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

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 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.

The structures and processes that support the operations of the IPSASB are facilitated by the International Federation of Accountants® (IFAC®).

REQUEST FOR COMMENTS

This Exposure Draft, *Revenue without Performance Obligations*, was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

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

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

This Exposure Draft forms part of the IPSASB's project on Revenue.

Objective of the Exposure Draft

The objective of this Exposure Draft is to propose improvements to the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about revenue without performance obligations.

Guide for Respondents

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

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

Specific Matter for Comment 1: (Paragraphs 14-21)

The ED proposes that a present obligation is a binding obligation (legally or by equivalent means), which an entity has little or no realistic alternative to avoid and which results in an outflow of resources. The IPSASB decided that to help ascertain whether a transfer recipient has a present obligation, consideration is given to whether the transfer recipient has an obligation to perform a specified activity or incur eligible expenditure.

Do you agree with the IPSASB's proposals that for the purposes of this [draft] Standard, *Revenue without Performance Obligations,* a specified activity and eligible expenditure give rise to present obligations? Are there other examples of present obligations that would be useful to include in the [draft] Standard?

Specific Matter for Comment 2: (Paragraph 31)

The flowchart that follows paragraph 31 of this [draft] Standard illustrates the process a transfer recipient undertakes to determine whether revenue arises and, if so, the relevant paragraphs to apply for such revenue recognition. Do you agree that the flowchart clearly illustrates the process? If not, what clarification is necessary?

Specific Matter for Comment 3: (Paragraph 57-58)

The IPSASB decided that a transfer recipient recognizes revenue without performance obligations but with present obligations when (or as) the transfer recipient satisfies the present obligation.

Do you agree that sufficient guidance exists in this [draft] Standard to determine when a present obligation is satisfied and when revenue should be recognized? For example, point in time or over time. If not, what further guidance is necessary to enhance clarity of the principle?

Specific Matter for Comment 4: (Paragraphs 80-81)

The IPSASB decided that the objective when allocating the transaction price is for a transfer recipient to allocate the transaction price to each present obligation in the arrangement so that it depicts the amount to which the transfer recipient expects to be entitled in satisfying the present obligation. The amount of revenue recognized is a proportionate amount of the resource inflow recognized as an asset, based on the estimated percentage of the total enforceable obligations satisfied.

Do you agree sufficient guidance exists in this [draft] Standard to identify and determine how to allocate the transaction price between different present obligations? If not, what further guidance is necessary to enhance clarity of the principle?

Specific Matter for Comment 5: (Paragraphs 84-85)

Do you agree with the IPSASB's proposals that receivables within the scope of this [draft] Standard should be subsequently measured in accordance with the requirements of IPSAS 41, *Financial Instruments*? If not, how do you propose receivables be accounted for?

Specific Matter for Comment 6: (Paragraphs 126-154)

The disclosure requirements proposed by the IPSASB for revenue transactions without performance obligations are intended to provide users with information useful for decision making, and to demonstrate the accountability of the transfer recipient for the resources entrusted to it.

Do you agree the disclosure requirements in this [draft] Standard provide users with sufficient, reliable and relevant information about revenue transactions without performance obligations? In particular, (i) what disclosures are relevant; (ii) what disclosures are not relevant; and (iii) what other disclosures, if any, should be required?

Specific Matter for Comment 7: (Paragraphs N/A)

Although much of the material in this [draft] Standard has been taken from IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*, the IPSASB decided that the ED should establish broad principles for the recognition of revenue from transactions without performance obligations, and provide guidance on the application of those principles to the major sources of revenue for governments and other public sector entities. The way in which these broad principles and guidance have been set out in the ED are consistent with that of [draft] IPSAS [X] (ED 72), *Transfer Expenses*.

Do you agree with the approach taken in the ED and that the structure and broad principles and guidance are logically set out? If not, what improvements can be made?

ED 71, REVENUE WITHOUT PERFORMANCE OBLIGATIONS

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Objective

1. The objective of this [draft] Standard is to establish the principles that an entity (transfer recipient) shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from transactions without performance obligations (as defined in [draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*.

2. To meet the objective in paragraph 1, the core principle of this [draft] Standard is that a transfer recipient shall recognize an asset and the associated revenue to the extent it has satisfied any present obligations associated with the transaction. A transfer recipient shall consider the terms of the arrangement, and all relevant facts and circumstances, when applying this [draft] Standard. Paragraph AG2 provides additional guidance on the Objective.

Scope

3. **A transfer recipient that prepares and presents financial statements under the accrual basis of accounting shall apply this [draft] Standard in accounting for revenue from transactions without performance obligations. This [draft] Standard does not apply to:**

   (a) **Revenue from transactions with performance obligations (see [draft] IPSAS [X] (ED 70);**

   (b) **Contributions to social benefit schemes that are accounted for in accordance with paragraphs 26-31 of IPSAS 42, *Social Benefits* (the insurance approach);**

   (c) **A public sector combination that is a non-exchange transaction;**

   (d) **The accounting for contributions from owners;**

   (e) **Lease contracts within the scope of IPSAS 13, *Leases*;**

   (f) **Insurance contracts within the scope of the relevant international or national accounting standard dealing with insurance contracts[1];**

   (g) **Financial instruments and other contractual rights or obligations within the scope of, IPSAS 41, *Financial Instruments*;**

   (h) **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, *Public Sector Combinations*;**

   (i) **Gains from the sale of non-financial assets that are not an output of a transfer recipient's activities and within the scope of IPSAS 16, *Investment Property*, IPSAS 17, *Property, Plant, and Equipment* or IPSAS 31, *Intangible Assets;***

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

(j) **Changes in the value of current and non-current assets arising from subsequent measurement;**

(k) **Initial recognition or changes in the fair value of biological assets related to agricultural activity (see IPSAS 27, *Agriculture*); and**

(l) **The extraction of mineral resources.**

4. This [draft] Standard addresses revenue arising from transactions without performance obligations. This includes transactions arising from binding arrangements and those not arising from a binding arrangement. Revenue arising from transactions with performance obligations is addressed in [draft] IPSAS [X] (ED 70). While revenues received by public sector entities arise from both transactions with and without performance obligations, the majority of revenue of governments and other public sector entities is typically derived from transactions without performance obligations, such as:

   (a) Taxes;

   (b) Capital transfers; and

   (c) Transfers (whether cash or non-cash), including debt forgiveness, fines, bequests, gifts, donations, goods or services in-kind, and the off-market portion of concessionary loans received.

5. Revenue transactions without performance obligations are transactions where there is no requirement for a transfer recipient to transfer any goods or services to a transfer provider or a third-party beneficiary. Transactions within the scope of this [draft] Standard differ from those within the scope of [draft] IPSAS [X] (ED 70) where a performance obligation does require a transfer of goods, services or other assets to either the purchaser (transfer provider) or a third-party beneficiary.

Public Sector Combinations

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

Contributions from Owners

7. 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. In determining whether a transaction satisfies the definition of a contribution from owners, the substance rather than the form of the transaction is considered. Paragraph 8 indicates the form that contributions from owners may take. If, despite the form of the transaction, the substance is clearly that of a loan or another kind of liability, or revenue, the entity recognizes it as such and makes an appropriate disclosure in the notes to the general purpose financial statements, if material. For example, if a transaction purports to be a contribution from owners, but specifies that the transfer recipient will pay fixed distributions to the transfer provider, with a return of the transfer 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.

8. 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.

Transactions with Components with Performance Obligations and Components without Performance Obligations (Hybrid Transactions)

9. Where revenue transactions include components with performance obligations and components without performance obligations, professional judgment is required to determine whether the different components are identifiable. Where the components are identifiable, the transfer recipient recognizes the revenue from the component with performance obligations according to the principles and requirements of [draft] IPSAS [X] (ED 70). The revenue component without performance obligations is recognized according to the principles and requirements of this [draft] Standard. Where it is not possible to distinguish between the components with performance obligations and the components without performance obligations, the transaction is accounted for in accordance with [draft] IPSAS [X] (ED 70). [Draft] IPSAS [X] (ED 70) paragraphs AG69 – AG70 provide additional guidance.

Definitions

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

A <u>capital transfer</u> is an inflow, that arises from a binding arrangement, of cash or another asset with a specification that the transfer recipient acquires or constructs a non-financial asset that will be controlled by the transfer recipient. (Paragraph AG24 provides additional guidance.)

<u>Eligible expenditure</u> is an outflow of resources incurred in accordance with the requirements set out in a binding arrangement. (Paragraphs AG25-AG26 provide additional guidance.)

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

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

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

A <u>specified activity</u> is an action in a binding arrangement that must be completed by a transfer recipient. (Paragraph AG27 provides additional guidance.)

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 public sector entities, 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.

For the purposes of this [draft] Standard, the transaction price is the amount of consideration to which a transfer recipient expects to be entitled in a transaction without performance obligations.

A transfer is a transaction, other than taxes, in which an entity receives a good, service, or other asset[2] from another entity (which may be an individual) without directly providing any good, service, or other asset in return.

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 recipient's binding arrangement asset is an entity's right to a transfer to satisfy a present obligation when that right is conditioned on something other than the passage of time (for example, the entity's future performance).

A transfer recipient's binding arrangement liability is an entity's obligation to satisfy a present obligation for which the entity has received an amount (or the amount is due) from the transfer provider.

11. The following terms are defined in [draft] IPSAS [X] (ED 70) and are used in this [draft] Standard with the same meaning as in [draft] IPSAS X (ED 70):

    (a) A binding arrangement (paragraphs AG10-AG15 provide additional guidance);

    (b) Control of an asset:

    (c) A performance obligation; and

    (d) A third-party beneficiary.

    Revenue is defined in IPSAS 1 and [draft] IPSAS [X] (ED 70).

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

Revenue

12. Revenue comprises gross inflows of economic benefits or service potential received and receivable by the entity (transfer recipient), which represents an increase in net assets/equity, other than increases relating to contributions from owners. Amounts collected as an agent of the government or another government organization or other third parties are not considered revenue of the agent,

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

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.

13. Where a transfer recipient incurs some cost in relation to revenue arising from a transaction without performance obligations, the revenue is the gross inflow of future economic benefits or service potential, and any outflow of resources is recognized as a cost of the transaction. For example, if a transfer recipient is required to pay delivery and installation costs in relation to the transfer of an item of plant to it from another entity (transfer provider), those costs are recognized separately from revenue arising from the transfer of the item of, plant. Delivery and installation costs are included in the amount recognized as an asset, in accordance with IPSAS 17.

Present Obligations

14. A present obligation is a binding obligation (legally or by equivalent means), which an entity has little or no realistic alternative to avoid and which results in an outflow of resources.

15. Goods, services, or other assets may be transferred by a transfer provider with the expectation and/or understanding that they will be used in a particular way and, therefore, that the transfer recipient will act or perform in a particular way. Where binding arrangements with external parties impose terms on the use of transferred assets by the transfer recipient, a present obligation exists.

16. A present obligation gives rise to a liability because the past event occurs when the transfer provider and transfer recipient enter into a binding arrangement creating enforceable rights and obligations on both parties. Further such an arrangement leads to an outflow of resources because the transfer recipient cannot avoid using those resources either to fulfill the requirements in the binding arrangement or in the event of a breach of a binding arrangement, repaying the resources to the transfer provider or incurring some other form of penalty.

17. The transfer recipient considers whether an obligation to perform a specified activity or incur an eligible expenditure is a present obligation.

Specified Activity

18. A specified activity is a particular action, stated in a binding arrangement, that the transfer provider can compel the transfer recipient to perform, such as construct a hospital or conduct a form of research. Where a specified activity is imposed by the transfer provider as part of the terms of the transfer, a present obligation is created for the transfer recipient.

19. The transfer recipient is unable to avoid the outflow of resources as it is required to use the transfer in the delivery of the specified activity or return resources to the transfer provider or incur another form of redress.

Eligible Expenditure

20. A binding arrangement may require a transfer to be used by a transfer recipient for a particular purpose and incur eligible expenditure for that purpose, but does not have an identifiable specified activity.

21. Where a requirement to incur eligible expenditure exists in a binding arrangement, the transfer recipient accepts a present obligation to use the transfer as directed. The transfer recipient is unable to avoid the outflow of resources as it is required to use the transfer on eligible expenditure or return resources to the transfer provider or incur another form of penalty.

Enforceability of binding arrangements – Substance over form

22. A transfer recipient considers the substance rather than the form of a binding arrangement in determining whether it has a present obligation.

23. For a binding arrangement to give rise to a present obligation, it is necessary that the transfer recipient cannot avoid an outflow of resources—therefore, the transaction must be enforceable by an external party (which is typically the transfer provider). Therefore, fulfillment of the present obligation constitutes an outflow of resources, as does a return of resources or the imposition of some other redress in the event that the transfer recipient breaches the terms of the binding arrangement.

24. In determining whether an arrangement is binding, the transfer recipient considers whether the transfer provider would enforce the arrangement in the event of a breach. If past experience or knowledge indicates that the transfer provider never enforces an arrangement if a breach occurs, then the transfer recipient may conclude that the arrangement is not enforceable in substance. If the transfer recipient does not have this experience or knowledge, then the transfer recipient assumes that the transfer provider would enforce the binding arrangement and, therefore, enforceability has substance.

25. For a present obligation to exist, it is necessary that an outflow of resources will be probable as a result of the agreed obligations being completed or incurred by the transfer recipient. Whether an outflow is probable will be based on the transfer provider's ability to enforce the fulfillment of agreed obligations by the transfer recipient.

26. As an administrative convenience, a transfer may be effectively returned by deducting the amount to be returned from other assets due to be transferred for other purposes. The transfer recipient will still recognize the gross amounts in its financial statements: that is, the transfer recipient 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.

Taxes

27. Taxes, which include compulsory contributions and levies, are the major source of revenue for many governments and other public sector entities. Taxes are defined in paragraph 10 as economic benefits or service potential compulsorily paid or payable to public sector entities, in accordance with laws and/or regulations, established to provide revenue to the government, excluding fines or other penalties imposed for breaches of laws and/or regulations. Non-compulsory transfers to the government or public sector entities such as donations and the payment of fees are not taxes, although they may be the result of transactions without performance obligations. A government levies taxation on individuals and other entities, known as taxpayers, within its jurisdiction by use of its sovereign powers.

28. Tax laws and/or regulations can vary significantly from jurisdiction to jurisdiction, but they have a number of common characteristics. Tax laws and/or regulations (a) establish a government's right to collect the tax, (b) identify the basis on which the tax is calculated, and (c) establish procedures to administer the tax, that is, procedures to calculate the tax receivable and ensure payment is received. Tax laws and/or regulations often require taxpayers to file periodic returns to the government agency that administers a particular tax. The taxpayer generally provides details and evidence of the level of activity subject to tax, and the amount of tax receivable by the government

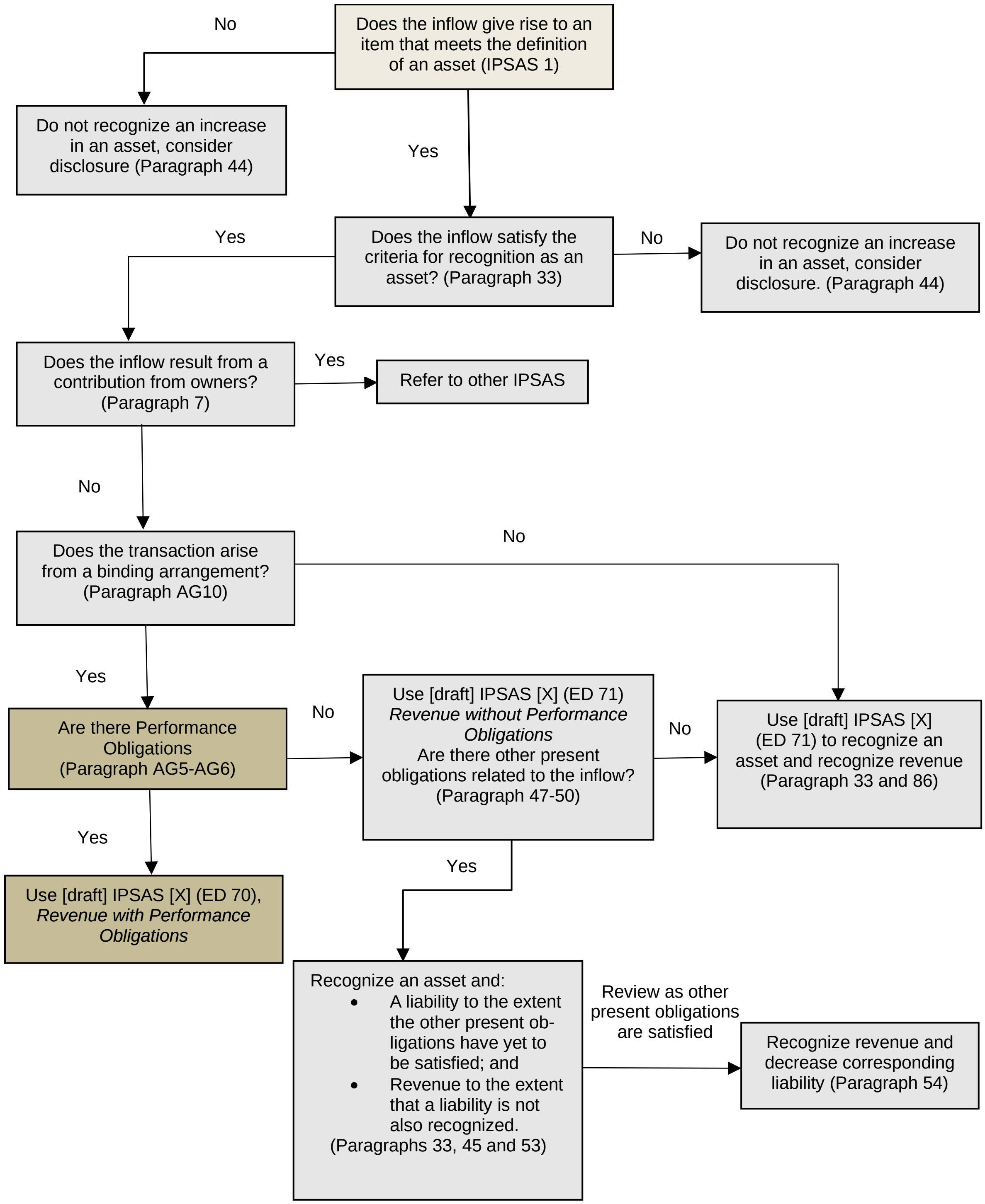
is calculated. Arrangements for receipt of taxes vary widely but are normally designed to ensure that the government receives payments on a regular basis without resorting to legal action. Tax laws and/or regulations are usually rigorously enforced and often impose severe penalties on individuals or other entities breaching the law.

29. The rights (of a government to calculate the tax receivable and ensure payment is received) and obligations (on the taxpayer to submit returns and monies when due) established in tax laws and/or regulations do not create binding arrangements between the government and the taxpayer. A binding arrangement, as defined in [draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*, creates both enforceable rights and obligations on both parties to the arrangement and not a single right and obligation on each party.

30. Advance receipts, being amounts received in advance of the taxable event, may also arise in respect of taxes.

Analysis of the Initial Inflow of Resources from Revenue Transactions without Performance Obligations

31. A transfer recipient recognizes an asset arising from an inflow of resources arising from a revenue transaction without performance obligations when it gains control of those resources. A transfer recipient is considered to control an inflow of resources when the definition of an asset and the recognition criteria are met. In certain circumstances, such as when a creditor forgives a liability, a decrease in the carrying amount of a previously recognized liability may give rise to an inflow of resources. In some cases, gaining control of the inflow of resources may also carry with it obligations that the transfer recipient will recognize as a liability until the obligations are satisfied. Contributions from owners do not give rise to revenue, so each type of inflow of resources is analyzed, and any contributions from owners are accounted for separately. The flow chart on the following page illustrates the analytic process a transfer recipient undertakes when there is an inflow of resources to determine whether and when revenue is recognized. The following flowchart identifies the relevant paragraphs in this [draft] Standard related to asset, liability and revenue recognition and measurement, for revenue transactions without performance obligations. Requirements for the treatment of transactions are set out in paragraphs 32–154.



* The flowchart is illustrative only. It does not take place of this [draft] Standard and is provided as an aid to interpreting this [draft] Standard.

* In certain circumstances, such as when a creditor forgives a liability, a decrease in the carrying amount of a previously recognized liability may arise. In these cases, instead of recognizing an asset, the entity decreases the carrying amount of the liability.

* In determining whether the entity has satisfied all of the present obligations, the application of the definitions of specified activity or eligible expenditure, and the criteria for recognizing a liability, are considered.

Recognition of Assets Arising from Resource Inflows

32. Assets are defined in IPSAS 1 as resources controlled by an entity as a result of past events, and from which future economic benefits or service potential are expected to flow to the entity.

33. **An inflow of resources from a transaction without performance obligations, other than services in-kind, that meets the definition of an asset shall be recognized as an asset when, and only when:**

    (a) **It is probable that the future economic benefits or service potential associated with the asset will flow to the transfer recipient; and**

    (b) **The value of the asset can be measured reliably.**[3]

Control of an Asset

34. The ability to exclude or regulate the access of others to the benefits of an asset is an essential element of control that distinguishes a transfer recipient's assets from those public goods that all entities have access to and benefit from. In the public sector, governments exercise a regulatory role over certain activities, for example, financial institutions or pension funds. This regulatory role does not necessarily mean that such regulated items meet the definition of an asset of the government, or satisfy the criteria for recognition as an asset in the general purpose financial statements of the government that regulates those assets. In accordance with paragraph 110, entities may, but are not required, to recognize services in-kind.

35. An announcement of an intention to transfer resources to a public sector transfer recipient is not of itself sufficient to identify resources as controlled by a transfer recipient. For example, if a public school were destroyed by a forest fire and a government (transfer provider) announced its intention to transfer funds to rebuild the school, the school would not recognize an inflow of resources (resources receivable) at the time of the announcement. In circumstances where an agreement is required before resources can be transferred, a transfer recipient will not identify the resources as controlled until such time as the agreement is binding, because the transfer recipient cannot exclude or regulate the access of the transfer provider to the resources. In many instances, the transfer recipient will need to establish enforceability of its control of resources before it can recognize an asset. If a transfer recipient does not have an enforceable claim to resources, it cannot exclude or regulate the transfer provider's access to those resources.

Appropriations

36. When a binding arrangement specifies that the resources to be transferred to the transfer recipient by a transfer provider are subject to the appropriation being authorized, the transfer recipient considers substance over form in determining whether the transfer recipient has control of those resources prior to the appropriation being authorized.

37. The limitation (that the resources to be transferred are subject to the appropriation being authorized) does not have substance when the transfer recipient can establish an enforceable right

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

to those resources, before the appropriation is authorized. Paragraphs AG28-AG32 provides additional guidance on appropriations.

Past Event

38. Public sector entities normally obtain assets from governments, other entities including taxpayers, or by purchasing or producing them. Therefore, the past event that gives rise to control of an asset may be a purchase, a taxable event, or a transfer. Transactions or events expected to occur in the future do not in themselves give rise to assets – hence for example, an intention to levy taxation is not a past event that gives rise to an asset in the form of a claim against a taxpayer.

Probable Inflow of Resources

39. An inflow of resources is probable when the inflow is more likely than not to occur. The transfer recipient bases this determination on its past experience with similar types of flows of resources and its expectations regarding the taxpayer or transfer provider. For example, where (a) a government (transfer provider) agrees to transfer funds to a public sector transfer recipient, (b) the agreement is binding, and (c) the government has a history of transferring agreed resources, it is probable that the inflow will occur, notwithstanding that the funds have not been transferred at the reporting date.

40. A transfer recipient shall account for an asset that is within the scope of this [draft] Standard only when it is probable that the transfer recipient will collect and/or receive the inflow of resources. In evaluating whether collectability of an inflow is probable, a transfer recipient shall consider only the transfer provider’s ability and intention to pay. The amount of the inflow that the transfer recipient expects to collect from the transfer provider may be less than the amount stated in the binding or other arrangement if the inflow is variable (see paragraph 64).

Subsequent Consideration of Asset Recognition Criteria

41. A transfer recipient shall continue to assess the arrangement to determine whether the criteria for asset recognition in paragraph 40 are subsequently met.

42. When an arrangement with a transfer provider within the scope of this [draft] Standard does not meet the criteria in paragraph 40 and a transfer recipient receives an inflow of resources from the transfer provider, the transfer recipient shall recognize the inflow received as revenue only when either of the following events has occurred:

    (a) The transfer recipient has no present obligation; or

    (b) The arrangement has been terminated and the inflow received from the transfer provider is non-refundable.

43. A transfer recipient shall recognize the inflow received from a transfer provider as a liability until one of the events in paragraph 42 occurs or until the criteria in paragraph 40 are subsequently met (see paragraph 41). Depending on the facts and circumstances relating to the arrangement, the liability recognized represents the transfer recipient’s present obligation to act or perform in a certain way. The liability shall be measured at the amount of inflow received from the transfer provider.

Contingent Assets

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

Transfers with Present Obligations

Recognition of Liabilities

45. **When a transfer recipient recognizes an asset for an inflow of resources, it shall consider if there are present obligations related to the inflow which result in the recognition of a liability**

46. **A present obligation arising from a transaction without a performance obligation that meets the definition of a liability shall be recognized as a liability when, and only when:**

    (a) **It is probable that an outflow of resources embodying future economic benefits or service potential will be required to settle the obligation; and**

    (b) **A reliable estimate can be made of the amount of the obligation.**

Present Obligation

47. A present obligation is a duty to act or perform in a particular way and may give rise to a liability in respect of any transaction without a performance obligation. Present obligations may be imposed by requirements in binding arrangements establishing the basis of transfers. They may also arise from the normal operating environment, such as the recognition of advance receipts.

48. In many instances, assets are transferred to public sector entities in transactions without performance obligations pursuant to binding arrangements that impose requirements that they be used for particular purposes. Examples of such transfers, established by a binding arrangement that require a present obligation be satisfied, may include:

    (a) Transfers from national governments to provincial, state or local governments;

    (b) Transfers from state/provincial governments to local governments;

    (c) Transfers from governments to other public sector entities;

    (d) Transfers to governmental agencies that are created by laws or regulation to perform specific functions with operational autonomy, such as statutory authorities or regional boards or authorities; and

    (e) Transfers from donor agencies to governments or other public sector entities.

49. A transfer recipient shall recognize a liability that is within the scope of this [draft] Standard only when it has a present obligation as noted in paragraph 47.

50. If a transfer recipient receives resources prior to both 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.

Past Event

51. Public sector entities typically obtain assets from governments, other entities, or by purchasing or producing them. When the receipt of these assets results in the transfer recipient having to satisfy a present obligation, the transfer recipient recognizes a liability. Therefore, the past event that gives rise to an unavoidable obligation is the agreement to the terms of the binding arrangement by both the transfer provider and transfer recipient, when the binding arrangement gives rise to a present obligation. Transactions or events expected to occur in the future do not in themselves give rise to present obligations.

Outflow of resources

52. For revenue transactions without performance obligations, the outflow of resources from a binding arrangement represents resources that are expected to be used by the transfer recipient in fulfilling its obligation to use the transfer received from the transfer provider in a particular way or to act or perform in a certain way (i.e., satisfy other present obligations). This obligation results in an outflow of resources because the transfer recipient cannot avoid using those resources either to fulfill the requirements in the binding arrangement or in the event of a breach of a binding arrangement, by incurring some other form of redress to the transfer provider.

Recognition of Revenue

53. **When an inflow of resources arises from a transaction without performance obligations, but with present obligations, is recognized as an asset, revenue shall also be recognized, except to the extent that a liability is recognized for any unsatisfied present obligations in respect of the same inflow.**

54. **When (or as) a transfer recipient satisfies a present obligation recognized as a liability in respect of an inflow of resources from a transaction without performance obligations recognized as an asset, it shall reduce the carrying amount of the liability recognized and recognize an amount of revenue equal to that reduction.**

55. When a transfer recipient recognizes an increase in net assets as a result of a transaction without performance obligations and there are no present obligations, it recognizes revenue. If it has recognized a liability in respect of the inflow of resources arising from the transaction without performance obligations, when the liability is subsequently reduced, because a present obligation is satisfied, it recognizes revenue. If an inflow of resources satisfies the definition of contributions from owners, it is not recognized as a liability or revenue.

56. The timing of revenue recognition is determined by the nature of the requirements in a binding arrangement and their settlement. For example, if a binding arrangement has present obligations, the transfer recipient will recognize revenue when (or as) those present obligations are satisfied.

Satisfying Present Obligations

57. A transfer recipient shall recognize revenue without performance obligations when (or as) the transfer recipient satisfies the present obligation. A present obligation is satisfied when (or as) the transfer recipient undertakes the specified activities and has no further enforceable duties or acts to perform.

58. For each present obligation identified, a transfer recipient shall determine at the inception of the binding arrangement whether it satisfies the present obligation over time or satisfies the present obligation at a point in time. If the transfer recipient does not satisfy a present obligation over time, the present obligation is satisfied at a point in time.

Measurement of Revenue

59. **An asset in a revenue transaction without performance obligations but with one or more present obligations shall initially be measured by the transfer recipient at its transaction price as at the date in which the criteria for asset recognition is satisfied (see paragraphs 60-79) .**

Determining the Transaction Price

60. A transfer recipient shall consider the terms of the transaction and its customary practices to determine the transaction price. The transaction price is the amount of inflows of future economic benefit or service potential which a transfer recipient expects to receive in a revenue transaction without performance obligations. The inflow in a transaction may include fixed amounts, variable amounts, or both.

61. Credit risk is not considered when determining the amount the transfer recipient expects to receive. Impairment losses relating to a credit risk (that is, impairment of a receivable) are measured based on the guidance in IPSAS 41.

62. The nature, timing and amount of the inflow affect the estimate of the transaction price. When determining the transaction price, a transfer recipient shall consider the effects of all of the following:

    (a) Variable inflows (see paragraphs 64-68 and 71);

    (b) Constraining estimates of variable inflows (see paragraphs 69-70);

    (c) The existence of a significant financing component in the arrangement (see paragraphs 72-77); and

    (d) Non-cash consideration (see paragraphs 78–79).

63. For the purpose of determining the transaction price, a transfer recipient shall assume that the inflow will be received in accordance with the terms of the transaction.

Variable Inflows

64. If the inflow in the transaction includes a variable amount, a transfer recipient shall estimate the amount of the inflow to which the transfer recipient expects to collect from the transfer provider (or taxpayer).

65. An amount of an inflow can vary because of discounts, rebates, refunds, credits, negotiated concessions, incentives, performance bonuses, penalties or other similar items. The inflow can also vary if a transfer recipient's entitlement to the inflow is contingent on the occurrence or non-occurrence of a future event.

66. The variability relating to the inflow may be explicitly stated in laws, regulations, or a binding arrangement. In addition to the terms of laws, regulations, or a binding arrangement, the inflow is variable if either of the following circumstances exists:

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

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

67. A transfer recipient shall estimate an amount of variable inflows by using either of the following methods, depending on which method the transfer recipient expects to better predict the amount of inflows to which it expects to receive:

    (a) The expected value—the expected value is the sum of probability-weighted amounts in a range of possible amounts. An expected value may be an appropriate estimate of the amount of variable inflows if a transfer recipient has a large number of transactions with similar characteristics; or

    (b) The most likely amount—the most likely amount is the single most likely amount in a range of possible amounts (i.e., the single most likely outcome of the transaction). The most likely amount may be an appropriate estimate of the amount of variable inflows if the transaction has only two possible outcomes (for example, a transfer recipient either completes construction of infrastructure on schedule or not).

68. A transfer recipient shall apply one method consistently when estimating the effect of uncertainty on an amount of variable inflows which the transfer recipient expects to receive. In addition, a transfer recipient shall consider all the information (historical, current and forecast) that is reasonably available to it and shall identify a reasonable number of possible consideration amounts. The information that a transfer recipient uses to estimate the amount of variable inflows would typically be similar to the information that the transfer recipient's management uses to estimate the amount receivable.

Constraining Estimates of Variable Inflows

69. A transfer recipient shall measure the asset in a revenue transaction without performance obligations in accordance with paragraph 67 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 inflow is subsequently resolved.

70. In assessing whether it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur once the uncertainty related to the variable inflow is subsequently resolved, a transfer recipient 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 inflow is highly susceptible to factors outside the transfer recipient's influence. Those factors may include volatility in a market, the judgment or actions of third parties, weather conditions and a high risk of obsolescence of the inflow when it is non-cash.

    (b) The uncertainty about the amount of inflow is not expected to be resolved for a long period of time. This uncertainty may result from the amount being determined in a period subsequent to timing of the obligating event.

    (c) The transfer recipient's experience (or other evidence) with similar types of transactions is limited, or that experience (or other evidence) has limited predictive value.

    (d) The transaction has a large number and broad range of possible inflow amounts.

Reassessment of Variable Inflows

71. At the end of each reporting period, a transfer recipient shall update the estimated transaction price (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 Existence of a Significant Financing Component in the Binding Arrangement

72. In determining the transaction price, a transfer recipient shall adjust the amount of inflow for the effects of the time value of money if the timing of the inflows agreed to by the parties to the binding arrangement (either explicitly or implicitly) provides the transfer provider or the transfer recipient 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 arrangement or implied by the terms agreed to by the parties to the arrangement or applicable laws and/or regulations.

73. The objective when adjusting the promised amount of inflows for a significant financing component is for a transfer recipient to recognize an asset at an amount that reflects the price that a transfer provider would have received if the transfer provider had transferred cash (i.e., the cash price). A transfer recipient shall consider all relevant facts and circumstances in assessing whether an arrangement contains a financing component and whether that financing component is significant to the arrangement, including both of the following:

    (a) The difference, if any, between the amount of promised inflows and the cash price of the transfer; and

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

        (i) The expected length of time between when the transfer recipient satisfies the present obligation (if any) and when the transfer provider transfers the inflows; and

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

74. Notwithstanding the assessment in paragraph 73, a transaction with a transfer provider (or taxpayer) would not have a significant financing component if any of the following factors exist:

    (a) The transfer provider (or taxpayer) made the transfer in advance and the timing of when the present obligation is satisfied is at the discretion of the transfer provider.

    (b) A substantial amount of the inflow promised by the transfer provider is variable and the amount or timing of that inflow varies on the basis of the occurrence or non-occurrence of a future event that is not substantially within the control of the transfer provider or the transfer recipient.

    (c) The difference between the inflows and the cash price of the transfer (as described in paragraph 73) arises for reasons other than the provision of finance to either the transfer provider or the transfer recipient, and the difference between those amounts is proportional to the reason for the difference.

75. As a practical expedient, a transfer recipient need not adjust the inflows for the effects of a significant financing component if the transfer recipient expects, at the inception of the binding arrangement, that the period between when the transfer recipient satisfies the present obligation and when the transfer provider transfers the inflows will be one year or less.

76. To meet the objective in paragraph 73 when adjusting the inflows for a significant financing component, a transfer recipient shall use the discount rate that would be reflected in a separate

financing transaction between the transfer recipient and its transfer provider at the inception of the arrangement. That rate would reflect the credit characteristics of the party receiving financing in the arrangement, as well as any collateral or security provided by the transfer provider or the transfer recipient, including assets transferred in the arrangement. A transfer recipient may be able to determine that rate by identifying the rate that discounts the nominal amount of the inflows to the price that the transfer provider would transfer when (or as) the present obligation is satisfied (where applicable). After the inception of the arrangement, a transfer recipient shall not update the discount rate for changes in interest rates or other circumstances (such as a change in the assessment of the transfer provider's credit risk).

77. A transfer recipient shall present the effects of financing (interest revenue or interest expense) separately from revenue from binding arrangements with transfer providers in the statement of financial performance. Interest revenue or interest expense is recognized only to the extent that a binding arrangement asset (or receivable) or a binding arrangement liability is recognized in accounting for a binding arrangement with a transfer provider.

Non-Cash Transfers

78. **To determine the transaction price for assets in a form other than cash, a transfer recipient shall measure the non-cash inflow (or right to a non-cash inflow) at its fair value as at the time when the criteria for asset recognition is satisfied.**

79. The fair value of the non-cash inflow may vary because of the form of the inflow. If the fair value of the non-cash inflow promised by a transfer provider varies for reasons other than only the form of the inflow, a transfer recipient shall apply the requirements in paragraphs 69–70.

Allocating the Transaction Price to Present Obligations

80. **The objective when allocating the transaction price is for a transfer recipient to allocate the transaction price to each present obligation in the amount that depicts the amount of inflow to which the transfer recipient expects to be entitled in satisfying the present obligations.**

81. To meet the allocation objective, a transfer recipient shall allocate the transaction price to each present obligation identified in the arrangement. The amount of revenue recognized shall be a proportionate amount of the resource inflow recognized as an asset, based on the estimated percentage of the total enforceable obligations satisfied.

Liabilities on Initial Recognition

82. **The amount recognized as a liability shall be the best estimate of the amount required to settle the present obligation at the reporting date. For the purposes of this [draft] Standard, the best estimate of a liability on initial recognition is limited to the value of the associated asset recognized for the inflow of resources.**

83. The estimate takes account of the risks and uncertainties that surround the events causing the liability to be recognized. Where the time value of money is material, the liability will be measured at the present value of the amount expected to be required to settle the obligation. This requirement is in accordance with the principles established in IPSAS 19.

Subsequent Measurement of Receivables

84. After initial recognition, a transfer recipient shall subsequently measure a receivable:

(a) Within the scope of IPSAS 41 as a financial asset in accordance with IPSAS 41; or

(b) Not in the scope of IPSAS 41 on the same basis as a financial asset at amortized cost in accordance with IPSAS 41.

85. Where a receivable not in the scope of IPSAS 41 as described in paragraph 84(b) does not satisfy the requirements in paragraph 40 of IPSAS 41, it shall be subsequently measured at fair value. Changes in fair value are recognized in surplus or deficit.

Transfers without Present Obligations

Recognition of Revenue

86. **When a transfer recipient recognizes an inflow of resources as an asset for a transaction with no present obligation as set out in paragraphs 32-43, it recognizes revenue immediately.**

Measurement of Revenue

87. **Revenue from transactions without present obligations shall be measured at the amount of the increase in net assets recognized by the transfer recipient**.

88. When, as a result of a revenue transaction without a present obligation, a transfer recipient recognizes an asset, it also recognizes revenue equivalent to the amount of the asset measured in accordance with paragraph 59.

Taxes

89. **A transfer recipient 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.**

90. Resources arising from taxes satisfy the definition of an asset when the transfer recipient controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

91. Taxation revenue arises only for the government that imposes the tax, and not for other entities. For example, where the national government imposes a tax that is collected by its taxation agency, assets and revenue accrue to the government, not the taxation agency. Further, where a national government imposes a sales tax, the entire proceeds of which it passes to state governments, based on a continuing appropriation, the national government recognizes assets and revenue for the tax, and a decrease in assets and an expense for the transfer to state governments (transfer expense per [draft] IPSAS [X] (ED 72)). The state governments will recognize assets and revenue for the transfer. Where a single entity collects taxes on behalf of several other entities, it is acting as an agent for all of them. For example, where a state taxation agency collects income taxes for the state government and several city governments, it does not recognize revenue in respect of the

taxes collected–rather, the individual governments that impose the taxes recognize assets and revenue in respect of the taxes.

92. Taxes do not satisfy the definition of contributions from owners, because the payment of taxes does not give the taxpayers a right to receive (a) distributions of future economic benefits or service potential by the entity during its life, or (b) distribution of any excess of assets over liabilities in the event of the government being wound up. Nor does the payment of taxes provide taxpayers with an ownership right in the government that can be sold, exchanged, transferred, or redeemed.

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

The Taxable Event for Other Compulsory Contributions and Levies

94. Similar types of taxes are levied in many jurisdictions. The transfer recipient analyzes the taxation law in its own jurisdiction to determine what the taxable event is for the various taxes levied. Unless otherwise specified in laws and/or regulations, it is likely that the taxable event for:

    (a) Income tax is the earning of assessable income during the taxation period by the taxpayer;

    (b) Value-added tax is the undertaking of taxable activity during the taxation period by the taxpayer;

    (c) Goods and services tax is the purchase or sale of taxable goods and services during the taxation period;

    (d) Customs duty is the movement of dutiable goods or services across the customs boundary;

    (e) Death duty is the death of a person owning taxable property; and

    (f) Property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

95. Similar types of other compulsory contributions and levies occur in many jurisdictions. The transfer recipient 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

96. Consistent with the definitions of assets, liabilities, and the requirements of paragraph 89, resources for taxes and other compulsory contributions and levies received prior to the occurrence

of the taxable event for other compulsory contributions and levies are recognized as an asset and a liability (advance receipts), because (a) the event that gives rise to the transfer recipient's entitlement to the taxes or other compulsory contributions and levies has not occurred, and (b) the criteria for recognition of taxation revenue or revenue from other compulsory contributions and levies have not been satisfied (see paragraph 95), notwithstanding that the transfer recipient has already received an inflow of resources. Advance receipts in respect of taxes and other compulsory contributions and levies are not fundamentally different from other advance receipts, so a liability is recognized until the taxable event for other compulsory contributions and levies occurs. When the taxable event for other compulsory contributions and levies occurs, the liability is discharged and revenue is recognized.

Measurement of Assets Arising from Taxation Transactions

97. Similar to the measurement of assets for transfers with present obligations as required by paragraph 60, assets arising from taxation transactions are measured at their transaction price. Assets arising from taxation transactions are measured at the best estimate of the inflow of resources to the transfer recipient, which is consistent with most likely amount in paragraph 67. The accounting policies for estimating these assets will take account of both the probability that the resources arising from taxation transactions will flow to the government, and the fair value of the resultant assets.

98. Where there is a separation between the timing of the taxable event and the collection of taxes, public sector entities may measure assets arising from these transactions by using, for example, statistical models based on the history of collecting the particular tax, contribution or levy in prior periods. These models will include consideration of the timing of cash receipts from taxpayers, declarations made by taxpayers, and the relationship of taxation, contribution or levy receivable to other events in the economy. Measurement models will also take account of other factors such as:

(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.

99. Measuring assets and revenue arising from taxation transactions using statistical models may result in the actual amount of assets and revenue recognized being different from the amounts determined in subsequent reporting periods as being due from taxpayers in respect of the current reporting period. Revisions to estimates are made in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

100. In some cases, the assets arising from taxation transactions cannot be reliably measured until some time after the taxable event occurs. This may occur if a tax base is volatile and reliable estimation is not possible. In many cases, the assets and revenue may be recognized in the period subsequent to the occurrence of the taxable event . However, there are exceptional circumstances when several reporting periods will pass before a taxable event results in an inflow of resources embodying future economic benefits or service potential that meets the definition of an asset and satisfies the criteria for recognition as an asset. For example, it may take several years to determine and reliably measure the amount of death duty due in respect of a large deceased estate because it includes a number of valuable antiques and artworks, which require specialist valuations. Consequently, the recognition criteria may not be satisfied until payment is received or receivable.

Measurement of Taxes with Collection Uncertainty

101. The measurement of assets arising from taxation transactions is limited to the extent that it is highly probable that a significant reversal of the amount of cumulative revenue recognized will not occur in accordance with paragraphs 69-70.

Expenses Paid Through the Tax System and Tax Expenditures

102. **Taxation revenue shall be determined at a gross amount. It shall not be reduced for expenses paid through the tax system.**

103. In some jurisdictions, the government uses the tax system as a convenient method of paying to taxpayers benefits that would otherwise be paid using another payment method, such as writing a check, directly depositing the amount in a taxpayer's bank account, or settling another account on behalf of the taxpayer. For example, a government may pay part of residents' health insurance premiums, to encourage the uptake of such insurance, either by reducing the individual's tax liability, making a payment by check, or by paying an amount directly to the insurance company. In these cases, the amount is payable irrespective of whether the individual pays taxes. Consequently, this amount is an expense of the government and should be recognized separately in the statement of financial performance. Tax revenue should be increased for the amount of any of these expenses paid through the tax system.

104. **Taxation revenue shall not be grossed up for the amount of tax expenditures.**

105. 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.

106. The key distinction between expenses paid through the tax system and tax expenditures is that, for expenses paid through the tax system, the amount is available to recipients 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.

Application of Principles and Requirements to Specific Transfers

107. **Subject to paragraph 110, a transfer recipient 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

108. **An inflow of resources from a capital transfer that arises from a binding arrangement and is recognized as an asset shall be recognized as revenue, except to the extent that a liability is also recognized in respect of the same inflow.**

109. As a transfer recipient satisfies the present obligations as set out in the binding arrangement, it shall reduce the carrying amount of the liability recognized and recognize an amount of revenue equal to that reduction.

Services In-kind

110. **A transfer recipient may, but is not required to, recognize services in-kind as revenue and as an asset.**

111. Although recognition of services in-kind is not required by this [draft] Standard, transfer recipients are strongly encouraged to disclose services in-kind received particularly if they are integral to a transfer recipient's operations.

112. Services in-kind are services provided by individuals to public sector entities for no consideration. Some services in-kind meet the definition of an asset because the transfer recipient controls a resource from which future economic benefits or service potential are expected to flow to the transfer recipient. These assets are, however, immediately consumed, and a transaction of equal value is also recognized to reflect the consumption of these services in-kind. For example, a public school that receives volunteer services from teachers' aides, the fair value of which can be reliably measured, may recognize an increase in an asset and revenue, and a decrease in an asset and an expense. In many cases, the transfer recipient 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.

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

    (a) Technical assistance from other governments or international organizations;

    (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.

114. Some services in-kind do not meet the definition of an asset because the transfer recipient has insufficient control over the services provided. In other circumstances, the transfer recipient may

have control over the services in-kind, but may not be able to measure them reliably, and thus they fail to satisfy the criteria for recognition as an asset. Transfer recipients may, however, be able to measure the fair value of certain services in-kind, such as professional or other services in-kind that are otherwise readily available in the national or international marketplace. When determining the fair value of the types of services in-kind described in paragraph 113, the transfer recipient may conclude that the value of the services is not material. In many instances, services in-kind are rendered by persons with little or no training, and are fundamentally different from the services the transfer recipient would acquire if the services in-kind were not available.

115. Due to the many uncertainties surrounding services in-kind, including the ability to exercise control over the services, and measuring the fair value of the services, this [draft] Standard does not require the recognition of services in-kind. Paragraph 133, however, strongly encourages the disclosure of qualitative information on the nature and type of services in-kind received during the reporting period. As for all disclosures, disclosures relating to services in-kind are only made if they are material. For some public sector transfer recipients, the services provided by volunteers are not material in amount, but may be material by nature.

116. In developing an accounting policy addressing a class of services in-kind, various factors would be considered, including the effects of those services in-kind on the financial position, performance, and cash flows of the transfer recipient. The extent to which a transfer recipient is dependent on a class of services in-kind to meet its objectives, may influence the accounting policy a transfer recipient develops regarding the recognition of assets. For example, a transfer recipient 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

117. Pledges are unenforceable promises to transfer assets to the transfer recipient in the future. Pledges do not meet the definition of an asset, because the transfer recipient is unable to control the access of the transfer provider to the future economic benefits or service potential embodied in the item pledged. Transfer recipients do not recognize pledged items as assets or revenue. If the pledged item is subsequently transferred to the transfer recipient, it is recognized as a gift or donation, in accordance with paragraphs AG50–AG54. Pledges may warrant disclosure as contingent assets under the requirements of IPSAS 19.

Advance Receipts of Transfers

118. Where a transfer recipient receives resources before a transfer arrangement becomes binding, the resources are recognized as an asset when they meet the definition of an asset and satisfy the criteria for recognition as an asset. The transfer recipient 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, so a liability is recognized until the event that makes the transfer arrangement binding occurs, and all present obligations under the agreement are fulfilled. When (or as) that event occurs and all other conditions under the agreement are fulfilled, the liability is discharged and revenue is recognized.

Concessionary Loans

119. Concessionary loans are loans received by a transfer recipient at below market terms. The portion of the loan that is repayable, along with any interest payments, is accounted for in accordance with IPSAS 41. A transfer recipient considers whether any difference between the transaction price (loan proceeds) and the fair value of the loan on initial recognition (see IPSAS 41) is revenue without performance obligations that should be accounted for in accordance with this [draft] Standard.

120. Where a transfer recipient determines that the difference between the transaction price (loan proceeds) and the fair value of the loan on initial recognition is revenue without performance obligations, a transfer recipient recognizes the difference as revenue, except if a present obligation exists, for example, where specific requirements are imposed on the transferred assets by the transfer recipient result in a present obligation. Where a present obligation exists, it is recognized as a liability. As the transfer recipient satisfies the present obligation, the liability is reduced and an equal amount of revenue is recognized.

Presentation

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

122. If a transfer provider transfers cash or another asset, or a transfer recipient has a right to a transfer that is unconditional (i.e., a receivable), before the transfer recipient satisfies its present obligation, the transfer recipient shall present the binding arrangement as a transfer recipient's binding arrangement liability when the transfer is made or the transfer is due (whichever is earlier). A transfer recipient's binding arrangement liability is a transfer recipient's obligation to satisfy a present obligation for which the transfer recipient has received a transfer (or an amount of a transfer is due) from the transfer provider.

123. If a transfer recipient performs by satisfying a present obligation before the transfer is received or before the transfer is due, the transfer recipient shall present the binding arrangement as a transfer recipient's binding arrangement asset, excluding any amounts presented as a receivable. A transfer recipient's binding arrangement asset is a transfer recipient's right to a transfer to satisfy a present obligation. A transfer recipient shall assess a transfer recipient's binding arrangement asset for impairment in accordance with IPSAS 41. An impairment of a transfer recipient's binding arrangement asset shall be measured, presented and disclosed on the same basis as a financial asset that is within the scope of IPSAS 41 (see also paragraph 140(b)).

124. A receivable is a transfer recipient's right to a transfer that is unconditional. A right to a transfer is unconditional if only the passage of time is required before a transfer is due. For example, a transfer recipient 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. A transfer recipient shall account for a receivable in accordance with IPSAS 41. Upon initial recognition of a receivable from a binding arrangement, any difference between the measurement of the receivable in accordance with IPSAS 41 and the corresponding amount of revenue recognized shall be presented as an expense (for example, as an impairment loss).

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

Disclosures

126. **The objective of the disclosure requirements is for a transfer recipient 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 without performance obligations.**

127. **To achieve that objective, a transfer recipient shall disclose qualitative and quantitative information about all of the following:**

   (a) Its binding arrangements with present obligations (see paragraphs 140–150); and

   (b) The significant judgments, and changes in the judgments, made in applying this [draft] Standard to those binding arrangements (see paragraphs 151–154).

128. A transfer recipient shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. A transfer recipient shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have substantially different characteristics.

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

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

131. **A transfer recipient shall disclose either on the face of, or in the notes to, the general purpose financial statements:**

   (a) **The amount of revenue from transactions without performance obligations recognized during the period by major classes showing separately:**

      (i) **Taxes, showing separately major classes of taxes;**

      (ii) **Other compulsory contributions and levies, showing separately major classes of other compulsory contributions and levies; and**

      (iii) **Transfers, showing separately major classes of transfer revenue.**

   (b) **The amount of receivables recognized at reporting date in respect of revenue without performance obligations;**

   (c) **The amount of liabilities recognized at reporting date in respect of transferred assets subject to present obligations;**

(d) **The amount of liabilities recognized at reporting date in respect of concessionary loans that are subject to requirements on transferred assets;**

(e) **The existence and amounts of any advance receipts in respect of transactions without performance obligations; and**

(f) **The amount of any liabilities forgiven.**

132. **A transfer recipient shall disclose in the notes to the general purpose financial statements:**

(a) **The accounting policies adopted for the recognition of revenue from transactions without performance obligations;**

(b) **For major classes of revenue from transactions without performance obligations, the basis on which the transaction price of inflowing resources was measured;**

(c) **For major classes of taxation revenue and revenue from other compulsory contributions and levies that the transfer recipient 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;**

(d) **The nature and type of major classes of bequests, gifts, and donations, showing separately major classes of goods in-kind received; and**

(e) **Qualitative and quantitative information about services in-kind that have been recognized.**

133. Transfer recipients that do not recognize service in-kind on the face of the general purpose financial statements are strongly encouraged to disclose qualitative information about the nature and type of major classes of services in-kind received, particularly if those services in-kind received are integral to the operations of the transfer recipient. The extent to which a transfer recipient is dependent on a class of services in-kind will determine the disclosures it makes in respect of that class.

134. Present obligations impose limits on the use of assets, which impacts the operations of the transfer recipient. Disclosure of the amount of liabilities recognized in respect of present obligations assists users in making judgments about the ability of the transfer recipient to use its assets at its own discretion. Transfer recipients are encouraged to disaggregate by class the information required to be disclosed by paragraph 131(c).

135. Paragraph 131(e) requires transfer recipients to disclose the existence of advance receipts in respect of transactions without performance obligations. These liabilities carry the risk that the transfer recipient 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.

136. As noted in paragraph 98, in many cases a transfer recipient 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 a transfer recipient is unable to reliably measure the assets and revenue arising until one or more reporting periods has elapsed since the taxable event or equivalent event for other compulsory contributions and levies occurred. In these cases, the transfer recipient 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.

137. In the public sector, a transfer recipient may impose a cost on another party by way of constitutional authority, legally sanctioned process, or other mechanism, where the face value of the revenue without a performance obligation transaction may not always be collectible. This is common in transactions to collect taxes or fines, where the transfer recipient is aware it may not collect face value. The transfer recipient shall disclose the following:

(a) A description of the legislation or policy decision which compels the other party to satisfy the present obligation;

(b) The amount of revenue from these transactions that was recognized after application of paragraphs 41–43 of this [draft] Standard, or the amount of revenue recognized after consideration of an implicit negotiated concession; and

(c) The amount from these transactions that was not recognized as revenue, as the collection of consideration was not probable in accordance with paragraph 69, or as the amount from these transactions that was not recognized as revenue, as it was considered to be an implicit negotiated concession.

138. Paragraph 132(d) requires transfer recipients to make disclosures about the nature and type of major classes of gifts, donations, and bequests it has received. These inflows of resources are received at the discretion of the transfer provider, which exposes the transfer recipient to the risk that, in future periods, such sources of resources may change significantly.

139. Where services in-kind meet the definition of an asset and satisfy the criteria for recognition as an asset, transfer recipients may elect to recognize these services in-kind and measure them at their fair value. Paragraph 133 strongly encourages a transfer recipient 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 transfer recipient’s objectives during the reporting period, and (b) the transfer recipient’s dependence on such services for the achievement of its objectives in the future.

Binding Arrangements

140. A transfer recipient 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 transfers with present obligations, which the transfer recipient shall disclose separately from its other sources of revenue; and

(b) Any impairment losses recognized (in accordance with IPSAS 41) on any receivables or transfer recipient’s binding arrangement assets arising from a transfer recipient’s transfers with present obligations, which the transfer recipient shall disclose separately from impairment losses from other arrangements.

Disaggregation of Revenue

141. A transfer recipient shall disaggregate revenue recognized from binding arrangements with present obligations into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. A transfer recipient shall apply the guidance in paragraphs AG55–AG57 when selecting the categories to use to disaggregate revenue.

142. In addition, a transfer recipient shall disclose sufficient information to enable users of financial statements to understand the relationship between the disclosure of disaggregated revenue (in accordance with paragraph 141) and revenue information that is disclosed for each reportable segment, if the transfer recipient applies IPSAS 18, *Segment Reporting*.

Binding Arrangement Balances

143. A transfer recipient shall disclose all of the following:

(a) The opening and closing balances of receivables, transfer recipient's binding arrangement assets and transfer recipient's binding arrangement liabilities from transfers with present obligations, if not otherwise separately presented or disclosed;

(b) Revenue recognized in the reporting period that was included in the transfer recipient's binding arrangement liability balance at the beginning of the period; and

(c) Revenue recognized in the reporting period from present obligations satisfied (or partially satisfied) in previous periods (for example, changes in transaction price).

144. A transfer recipient shall explain how the timing of satisfaction of its present obligations (see paragraph 1(a)) relates to the typical timing of payment (see paragraph 1(b)) and the effect that those factors have on the transfer recipient's binding arrangement asset and the transfer recipient's binding arrangement liability balances. The explanation provided may use qualitative information.

145. A transfer recipient shall provide an explanation of the significant changes in the transfer recipient's binding arrangement asset and the transfer recipient's binding arrangement liability balances during the reporting period. The explanation shall include qualitative and quantitative information. Examples of changes in the transfer recipient's balances of transfer recipient's binding arrangement assets and transfer recipient's 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 transfer recipient's binding arrangement asset or transfer recipient's binding arrangement liability, including adjustments arising from a change in the measure of progress, a change in an estimate of the transaction price (including any changes in the assessment of whether an estimate of variable consideration is constrained) or a modification to a binding arrangement;

(c) Impairment of a transfer recipient's binding arrangement asset;

(d) A change in the time frame for a right to consideration to become unconditional (i.e., for a transfer recipient's binding arrangement asset to be reclassified to a receivable); and

(e) A change in the time frame for a present obligation to be satisfied (i.e., for the recognition of revenue arising from a transfer recipient's binding arrangement liability).

Present Obligations

146. A transfer recipient shall disclose information about its present obligations in transfers with present obligations, including a description of all of the following:

(a) When the transfer recipient typically satisfies its present obligations;

(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 67–70);

(c) The nature of the present obligations the transfer recipient has promised to satisfy, highlighting any present obligations to arrange for another party to incur present obligations (i.e., if the transfer recipient is acting as an agent); and

(d) Obligations for returns, refunds and other similar obligations.

147. Where a transfer recipient is entitled to revenue from taxation or fines, the counterparty may not have the ability or intention to pay. In addition to the information in paragraph 146, a transfer recipient shall disclose the following:

(a) The amount of revenue from these transactions that was recognized after application of paragraphs 41-43 of this [draft] Standard, or the amount of revenue recognized after consideration of an implicit price concession from the application of paragraph 66; and

(b) The amount from these transactions that was not recognized as revenue, as the collection of consideration was not probable, 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 66.

Transaction Price Allocated to the Remaining Present Obligations

148. A transfer recipient shall disclose the following information about its remaining present obligations:

(a) The aggregate amount of the transaction price allocated to the present obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period; and

(b) An explanation of when the transfer recipient expects to recognize as revenue the amount disclosed in accordance with paragraph 148(a), which the transfer recipient 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 present obligations; or

(ii) By using qualitative information.

149. As a practical expedient, a transfer recipient need not disclose the information in paragraph 148 for a present obligation if the present obligation is part of a binding arrangement that has an original expected duration of one year or less.

150. A transfer recipient shall explain qualitatively whether it is applying the practical expedient in paragraph 149 and whether any consideration from binding arrangements with present obligations is not included in the transaction price and, therefore, not included in the information disclosed in accordance with paragraph 148. For example, an estimate of the transaction price would not include any estimated amounts of variable consideration that are constrained (see paragraphs 69–70).

Significant Judgments in the Application of this [draft] Standard

151. A transfer recipient shall disclose the judgments, and changes in the judgments, made in applying this [draft] Standard that significantly affect the determination of the amount and timing of revenue from transfers with present obligations. In particular, a transfer recipient shall explain the judgments, and changes in the judgments, used in determining both of the following:

(a) The timing of satisfaction of present obligations (see paragraphs 152–153); and

(b) The transaction price and the amounts allocated to present obligations (see paragraph 154).

Determining the Timing of Satisfaction of Present Obligations

152. For present obligations that a transfer recipient satisfies over time, a transfer recipient shall disclose both of the following:

(a) The methods used to recognize revenue; and

(b) An explanation of why the methods used provide a faithful depiction of the transfer of goods or services.

153. For present obligations satisfied at a point in time, a transfer recipient shall disclose the significant judgments made in evaluating when a present obligation is satisfied.

Determining the Transaction Price and the Amounts Allocated to Present Obligations

154. A transfer recipient shall disclose information about the methods, inputs and assumptions used for all of the following:

(a) Determining the transaction price, 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 price, including 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.

Effective Date and Transition

Effective Date

155. **A transfer recipient shall apply this Standard for annual financial statements covering periods beginning on or after [DD/MM/YYYY]. Earlier application is encouraged. If a transfer recipient applies this Standard for periods beginning before [DD/MM/YYYY], it shall disclose that fact and apply [draft] IPSAS [X] ED 70 and [draft] IPSAS [X] ED 72 at the same time.**

156. When a transfer recipient adopts the accrual basis IPSASs 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 transfer recipient's annual financial statements covering periods beginning on or after the date of adoption of IPSASs.

Transition

157. For the purposes of the transition requirements in paragraphs 158–163:

(a) The date of initial application is the start of the reporting period in which a transfer recipient first applies this [draft] Standard; and

(b) A completed binding arrangement is a binding arrangement for which the transfer recipient has fulfilled all the conditions identified in accordance with IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.

158. A transfer recipient shall apply this [draft] Standard using one of the following two methods:

   (a) Retrospectively to each prior reporting period presented in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, subject to the expedients in paragraph 160; or

   (b) Retrospectively with the cumulative effect of initially applying this [draft] Standard recognized at the date of initial application in accordance with paragraphs 162–163.

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

160. A transfer recipient may use one or more of the following practical expedients when applying this [draft] Standard retrospectively in accordance with paragraph 158(a):

   (a) For completed binding arrangements, a transfer recipient 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, a transfer recipient may use the transaction price at the date the binding arrangement was completed rather than estimating variable consideration amounts in the comparative reporting periods.

   (c) For all reporting periods presented before the date of initial application, a transfer recipient needs not disclose the amount of the transaction price allocated to the remaining present obligations and an explanation of when the transfer recipient expects to recognize that amount as revenue

161. For any of the practical expedients in paragraph 160 that a transfer recipient uses, the transfer recipient shall apply that expedient consistently to all binding arrangements within all reporting periods presented. In addition, the transfer recipient 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.

162. If a transfer recipient elects to apply this [draft] Standard retrospectively in accordance with paragraph 158(b), the transfer recipient shall recognize the cumulative effect of initially applying this [draft] Standard as an adjustment to the opening balance of accumulated surplus (or other component of net assets/equity, as appropriate) of the annual reporting period that includes the date of initial application. Under this transition method, a transfer recipient may elect to apply this [draft] Standard retrospectively only to binding arrangements that are not completed binding arrangements at the date of initial application (for example, January 1, 20XX for a transfer recipient with a December 31 year-end).

163. For reporting periods that include the date of initial application, a transfer recipient shall provide both of the following additional disclosures if this [draft] Standard is applied retrospectively in accordance with paragraph 158(b):

(a) The amount by which each financial statement line item is affected in the current reporting period by the application of this [draft] Standard as compared to IPSAS 23; and

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

Withdrawal of IPSAS 23 (2006)

164. This [draft] Standard supersedes IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* issued in 2006. IPSAS 23 (2006) remains applicable until [draft] IPSAS [X] (ED 71) is applied or becomes effective, whichever is earlier.

Application Guidance

This Appendix is an integral part of [draft] IPSAS [X] (ED 71)

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

(a) Objective (paragraph AG2);

(b) Scope (paragraphs AG3−AG9);

(c) Definitions (paragraphs AG10–AG27);

(d) Revenue without Performance Obligations subject to Appropriations (paragraphs AG28–AG32);

(e) Determining the Transaction Price (paragraphs AG33)

(f) Other Transfers (paragraphs AG34-AG39)

(g) Measurement of Transferred Assets (paragraph AG40);

(h) Debt Forgiveness and Assumptions of Liabilities (paragraph AG41-AG44);

(i) Fines (paragraphs AG45-AG46);

(j) Bequests (paragraphs AG47-AG49);

(k) Gifts, Donations, including Goods In-kind (paragraphs AG50-AG54);

(l) Disclosure (paragraphs AG55-AG57); and

(m) Breach of Terms and Conditions of a Binding Arrangement (paragraphs AG58-AG60).

Objective (see paragraphs 1-2)

AG2. To meet the objective in paragraph 1, the core principle of this [draft] Standard is that a transfer recipient shall recognize an asset and associated revenue from transactions without performance obligations as follows:

(a) For transfers where the transfer recipient is required, by a binding arrangement, (see paragraphs AG10-AG15), to satisfy a present obligation, revenue is recognized when (or as) the present obligation is satisfied.

(b) For transfers that do not arise from a binding arrangement, revenue is recognized when the crtieria for the recognition of an asset are met.

Scope (see paragraphs 3–9)

AG3. The scope of this [draft] Standard is limited to revenue transactions without performance obligations.

AG4. Transactions without performance obligations may or may not arise from a binding arrangement. This [draft] Standard applies to both types of transactions. A binding arrangement without performance obligations may contain one or more present obligations, which could result in the recognition of a liability.

AG5. A performance obligation is defined at paragraph 7 of draft IPSAS [X] (ED 70), as a promise in a binding arrangement with a purchaser to transfer to the purchaser 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 and that have the same pattern of transfer to the purchaser or third-party beneficiaries.

AG6. The key distinction between a performance obligation in [draft] IPSAS [X] (ED 70) and a present obligation in this [draft] Standard is that a performance obligation requires a transfer recipient to transfer distinct goods or services to either a purchaser (transfer provider) or a third-party beneficiary. A present obligation in this [draft] Standard does not have this requirement.

AG7. In practice, a transfer recipient will consider whether it maintains control of the resources provided by the transfer provider. If the resources provided by the transfer provider to the transfer recipient are converted into a good and/or service and are required to be transferred to the transfer provider, or to a third-party beneficiary, the transaction is accounted for under the requirements of [draft] IPSAS [X] (ED 70). Where there is no requirement to transfer any good or service to the transfer provider or a third-party beneficiary, or the transfer recipient directs the use of the economic benefit or service potential of the good or service, the requirements of this [draft] Standard apply.

AG8. For example, where a government entity (the transfer recipient) receives cash or another asset from an international financial institution (transfer provider) to provide training services on the transfer recipient's own accounting practices, the arrangement is accounted for within the scope of this [draft] Standard when the transfer recipient is able to determine who will receive the training services. Often arrangements of this nature that will be within the scope of the [draft] Standard will specify that the training services are provided internally to the transfer recipient. This is because the transfer recipient receives the benefit of the good or service. If the transfer recipient can decide to provide the training services to parties outside the entity (such as the international financial institution), the transfer recipient also receives the benefit of the good or service but directs the use of the benefit to other parties. Such arrangements are within the scope of the [draft] Standard. However, if the international financial institution requires the training services be delivered to the staff of the international financial institution, the arrangement would be within the scope of [draft] IPSAS [X] ED 70 as the benefit from the good or service is required to be transferred to the transfer provider.

AG9. While taxation is the major source of revenue for many governments, other public sector entities rely on transfers (sometimes known as grants) and other sources of funding. Therefore this [draft] Standard addresses accounting for:

(a) Taxes;

(b) Capital transfers; and

(c) Other transfers, including debt forgiveness, fines, bequests, gifts, donations, goods in-kind, services in-kind, and the off-market portion of concessionary loans received.

Definitions (see paragraphs 10–30)

Binding Arrangement

AG10. A binding arrangement is defined in [draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*, as an arrangement that confers both enforceable rights and obligations on both parties to the arrangement. To be considered a binding arrangement for the purposes this [draft] Standard, the rights and obligations in these arrangements must be enforceable by legal or equivalent means, as discussed in paragraphs AG16-AG23. Some transactions within the scope of this [draft] Standard may be enforceable, but only create rights or obligations for one party. These transactions do not satisfy the requirements of a binding arrangement because of the lack of two-way enforceability.

AG11. In the public sector, an arrangement is enforceable when the transfer recipient and the transfer provider are able to enforce the rights and obligations through legal or equivalent means.

AG12. There are jurisdictions where public sector entities cannot enter into legal obligations, because they are not permitted to contract in their own name, but where there are alternative processes with equivalent effect to legal arrangements (described as enforceable through equivalent means).

AG13. For an arrangement to be enforceable through 'equivalent means', a mechanism outside the legal systems is required to establish the right of the transfer provider to obligate the transfer recipient to complete the agreed present obligation or be subject to remedies for non-performance. Similarly, a mechanism outside the legal systems is required to establish the right of the transfer recipient to obligate the transfer provider to pay the agreed consideration.

AG14. A transfer recipient considers the substance rather than the legal form of an arrangement in determining whether it is enforceable. An arrangement is enforceable by another party through legal or equivalent means if the agreement includes:

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

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

AG15. 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 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.

Enforceability

AG16. A key characteristic of a binding arrangement is the ability of both parties to enforce the rights and obligations of the arrangement. That is, the transfer recipient receiving the consideration (the transfer recipient) must be able to enforce the promise to receive funding (consideration). Similarly, the transfer recipient providing the funding (the transfer provider) must be able to enforce fulfillment of the obligations assumed by the transfer recipient.

AG17. Legal enforceability arises from the compulsion by a legal system, comprising the courts in a jurisdiction, to comply with the terms of the binding arrangement. Compliance with a binding arrangement is determined based on the principles set out in the laws and/or regulations of a jurisdiction, which includes legislation, executive authority or ministerial directives, as well as judicial rulings and case law precedence.

AG18. Executive authority (sometimes called an executive order) is an authority given to a member or selected members of a government administration to create legislation without ratification by the full parliament. This may be considered a valid enforcement mechanism if such an order was issued directing a transfer recipient to complete a present obligation.

AG19. Sovereign rights is an authority to make, amend and repeal legal provisions. On its own, this authority does not establish enforceable rights and obligations for the purposes of applying this [draft] Standard. However, if the use of sovereign rights were detailed in the binding arrangement as a means of enforcing the satisfaction of specified activities or to use funding on eligible expenses by a transfer recipient, this may result in a valid enforcement mechanism.

AG20. Other forms of enforceability by 'equivalent means' may also exist in the public sector and may be jurisdictionally specific. Cabinet and ministerial directives may create an enforcement mechanism between different government departments or different levels of government of the same government structure. For example, a directive given by a minister or government department to a transfer recipient controlled by the government to complete specified activities may be enforceable. Similarly, a directive given by a minister or government department to a transfer provider controlled by the government to transfer the promised consideration may be enforceable. The key determining factor is that each party must be able to enforce the promises made in the binding arrangement. Each party must have the ability and authority to compel the other party to fulfil the promises established within the arrangement or to seek redress should these promises not be fulfilled.

AG21. A transfer recipient may feel compelled to deliver on the obligations in a binding arrangement because of the risk that it might not receive future funding from the other entity (the transfer provider). In general, the transfer provider's ability to reduce or withhold future funding to which the transfer recipient is not presently entitled would not be considered a valid enforcement mechanism in the context of this [draft] Standard because there is no present obligation on the transfer provider to provide such funding. However, if the transfer recipient was presently entitled to funding in the future through another binding arrangement, and the terms of this other binding arrangement specifically allow for a reduction in the funding if other binding arrangements are breached, then the potential reduction in current funding could be considered a valid enforcement mechanism.

AG22. When determining if a reduction of future funding would be an enforcement mechanism, the transfer recipient shall apply judgment based on the facts and circumstances. Key factors that may indicate the transfer provider would reduce future funding in the event of a breach of promises made in a binding arrangement are the transfer provider's ability to reduce future finding and its past history of doing so.

AG23. A statement of intent or public announcement by a transfer provider such as a government promise to spend money or deliver goods and services in a certain way is not, in and of itself, an enforceable arrangement for the purposes of this [draft] Standard. Such a declaration is general in nature and does not create a binding arrangement between a transfer provider and a transfer recipient. A transfer recipient would need to consider whether such a public announcement gives rise to a non-legally binding (constructive) obligation under IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*.

Capital Transfer

AG24. This [draft] Standard defines a capital transfer as a transaction, that arises from a binding arrangement, where a transfer provider 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 does not impose a performance obligation (as defined by [draft] IPSAS [X] (ED 70)) on the transfer recipient because there is no requirement to transfer the non-financial asset acquired under the binding arrangement to either the transfer provider or a third-party beneficiary and therefore it does not meet the requirements of a performance obligation.

Eligible Expenditure

AG25. This [draft] Standard defines eligible expenditure as an outflow of resources incurred in accordance with the requirements set out in a binding arrangement. A transfer, that arises from a binding arrangement may be provided with the requirement that the transfer recipient use the resources in furthering the transfer recipient's objectives, but the requirement does not meet the requirements to be classified as a performance obligation as defined in [draft] IPSAS [X] (ED 70) or as a 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. Revenue would be recognized as these eligible expenditures are incurred.

AG26. The transfer provider needs to be able to confirm that all expenditure incurred was eligible and therefore the transfer recipient needs to keep appropriate documentation to show that the expenditure was incurred by the transfer recipient and for the purpose intended.

Specified Activity

AG27. This [draft] Standard defines a specified activity as an action specified in a binding arrangement that must be completed by a transfer recipient. A specified activity differs from a performance obligation because there is no requirement to transfer any good or service to the transfer provider or a third-party beneficiary. For example, a transfer provider provides funding to a government science agency (transfer recipient) to conduct research and development into a plant-based meat substitute. Any intellectual property developed by the government science agency remains the property of that agency. The funding is provided on the basis of a detailed project plan (with the individual stages of research and development identified) provided by the government science agency and the transfer provider requires the government science agency to report back at each stage. Each of these stages constitutes an specified activity and revenue would be recognized when (or as) they are completed and for the amount incurred in completing that specified action.

Revenue without Performance Obligations Subject to Appropriations (see paragraphs 36-37)

AG28. An appropriation is defined in IPSAS 24, *Presentation of Budget Information in Financial Statements*, as an authorization granted by a legislative body to allocate funds for purposes specified by the legislature or similar authority. In some jurisdictions, a binding arrangement for a transaction without performance obligations may specify that any future transfer is subject to the appropriation being authorized.

AG29. In accordance with paragraphs 36-37, a transfer provider may be prohibited from transferring the promised resources until the appropriation is authorized. In such circumstances, the transfer recipient considers substance over form in determining whether the transfer recipient has control of those resources prior to the appropriation being authorized.

AG30. 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 transfer provider;

(b) The exercise of that authority has occurred. In essence, a decision has been made by the transfer provider under the approved enabling authority that clearly demonstrates that it has lost its discretion to avoid proceeding with the transfer, for example through entering into a binding arrangement; and

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

AG31. The enabling authority together with the exercise of that authority may be sufficient for a transfer recipient to conclude that it has an enforceable right to resources prior to the authorization of the appropriation. In such a circumstance, the limitation (that the future transfer is subject to the appropriation being authorized) does not have substance, and the transfer recipient recognizes an asset prior to the appropriation being authorized.

AG32. In other cases, the authorization of the appropriation may need to be considered in establishing when a transfer provider has lost its discretion to avoid proceeding. In such a circumstance, the limitation (that the future transfer is subject to the appropriation being authorized) has substance, and the transfer recipient shall not recognize an asset prior to the appropriation being authorized.

Determining the Transaction Price (paragraphs 60-71)

AG33. A transfer recipient shall apply the requirements in paragraphs 60-71 (including the requirements for constraining measurement in paragraphs 69-70) to determine the amount of revenue to which the transfer recipient expects to be entitled. For any revenue for which a transfer recipient does not believe it is highly probable that a significant reversal in the amount will not occur, the transfer recipient shall not recognize revenue. Subsequently, at the end of each reporting period, the transfer recipient shall update its assessment of amounts for which it expects to be entitled in order to determine whether the threshold for measurement has been achieved.

Other Transfers (paragraphs 107-120)

AG34. Transfers include debt forgiveness, fines, bequests, gifts, donations, and goods and services in-kind. All these items have the common attribute that they transfer resources from one entity to another without requiring a transfer of distinct goods or services to the transfer provider or a third-party beneficiary in return, and are not taxes as defined in this [draft] Standard.

AG35. Transfers satisfy the definition of an asset when the transfer recipient controls the resources as a result of a past event, and expects to receive future economic benefits or service potential from those resources. Transfers satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur, and their transaction price can be reliably measured. In certain circumstances, such as when a creditor forgives a liability, a decrease in the carrying amount of a previously recognized liability may arise. In these cases, instead of recognizing an asset as a result of the transfer, the transfer recipient decreases the carrying amount of the liability.

AG36. A transfer recipient obtains control of transferred resources either when the resources have been transferred to the transfer recipient, or the transfer recipient has an enforceable claim against the transferor provider. Many arrangements to transfer resources become binding on all parties before the transfer of resources takes place. However, sometimes one transfer recipient promises to transfer resources, but fails to do so. Consequently, only when (a) a claim is enforceable, and (b) the transfer recipient assesses that it is probable that the inflow of resources will occur, will assets, liabilities, and/or revenue be recognized. Until that time, the transfer recipient cannot exclude or regulate the access of third parties to the benefits of the resources proposed for transfer.

AG37. Transfers of resources that satisfy the definition of contributions from owners will not give rise to revenue. Agreements (a) that specify that the entity providing resources is entitled to distributions of future economic benefits or service potential during the recipient entity's life, or distribution of any excess of assets over liabilities in the event that the recipient entity is wound up, or (b) that specify that the entity providing resources acquires a financial interest in the recipient entity that can be sold, exchanged, transferred, or redeemed, are, in substance, agreements to make a contribution from owners.

AG38. Transfers satisfy the definition of a transaction without performance obligations because the transfer provider provides resources to the transfer recipient without requiring the transfer recipient to transfer distinct goods or services to the transfer provider or a third-party beneficiary. If an agreement requires that the transfer recipient transfer distinct goods or services to the transfer provider or a third-party beneficiary, the agreement does not give rise to a transaction without a performance obligation, but a binding arrangement with performance obligations that should be accounted for under [draft] IPSAS [X] (ED 70).

AG39. A transfer recipient analyzes all requirements contained in an agreement to determine if it incurs a present obligation when it accepts transferred resources.

Measurement of Transferred Assets (see paragraph 59)

AG40. As required by paragraph 59, transferred assets are measured at their transaction price as at the date of recognition. Inventories, property, plant, equipment, or investment property acquired through transactions without performance obligations are to be initially measured at their fair value as at the date of acquisition, in accordance with the requirements of paragraph 78. Financial instruments, including cash and transfers receivable that satisfy the definition of a financial instrument, and other assets, will also be measured at their transaction price as at the date of acquisition in accordance with paragraph 60 and the appropriate accounting policy.

Debt Forgiveness and Assumption of Liabilities

AG41. Lenders will sometimes waive their right to collect a debt owed by a public sector entity, effectively canceling the debt. For example, a national government may cancel a loan owed by a local government. In such circumstances, the local government recognizes an increase in net assets because a liability it previously recognized is extinguished.

AG42. Entities recognize revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

AG43. Where a controlling entity forgives debt owed by a wholly owned controlled entity, or assumes its liabilities, the transaction may be a contribution from owners, as described in paragraphs 7–8.

AG44. Revenue arising from debt forgiveness is measured at the carrying amount of the debt forgiven.

Fines

AG45. Fines are economic benefits or service potential received or receivable by a public sector transfer recipient, from an individual or other entity, as determined by a court or other law enforcement body, as a consequence of the individual or other entity breaching the requirements of laws and/or regulations. In some jurisdictions, law enforcement officials are able to impose fines on individuals considered to have breached the law. In these cases, the individual will normally have the choice of paying the fine, or going to court to defend the matter. Where a defendant reaches an agreement with a prosecutor that includes the payment of a penalty instead of being tried in court, the payment is recognized as a fine.

AG46. Fines normally require an entity to transfer a fixed amount of cash to the government, and do not impose on the government any obligations which may be recognized as a liability. As such, fines are recognized as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset set out in paragraph 33. As noted in paragraph 12, where a transfer recipient collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity. Assets arising from fines are measured at the best estimate of the inflow of resources to the transfer recipient.

Bequests

AG47. A bequest is a transfer of resources made according to the provisions of a deceased person's will. The past event giving rise to the control of resources embodying future economic benefits or service potential for a bequest occurs when the transfer recipient 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.

AG48. Bequests that satisfy the definition of an asset are recognized as assets and revenue when it is probable that the future economic benefits or service potential will flow to the transfer recipient, and the transaction price of the assets can be measured reliably. Determining the probability of an inflow of future economic benefits or service potential may be problematic if a period of time elapses between the death of the testator and the transfer recipient receiving any assets. The transfer recipient will need to determine if the deceased person's estate is sufficient to meet all claims on it, and satisfy all bequests. If the will is disputed, this will also affect the probability of assets flowing to the transfer recipient.

AG49. The transaction price of bequeathed assets is determined in the same manner as for gifts and donations, as is described in paragraph AG52. In jurisdictions where deceased estates are subject to taxation, the tax authority may already have determined the transaction price of the asset bequeathed to the transfer recipient, and this amount may be available to the transfer recipient. Bequests are measured at the transaction price of the resources received or receivable.

Gifts and Donations, including Goods In-kind

AG50. Gifts and donations are voluntary transfers of assets, including cash or other monetary assets, goods in-kind, and services in-kind that one entity makes to another, normally free from requirements. The transfer provider may be an entity or an individual. For gifts and donations of cash or other monetary assets and goods in-kind, the past event giving rise to the control of resources embodying future economic benefits or service potential is normally the receipt of the gift or donation. Recognition of gifts or donations of services in-kind are addressed in paragraphs 110-116.

AG51. Goods in-kind are tangible assets transferred to a transfer recipient in a transaction without performance obligations, but may be subject to specified activities. External assistance provided by multilateral or bilateral development organizations often includes a component of goods in-kind.

AG52. Gifts and donations (other than services in-kind) are recognized as assets and revenue when it is probable that the future economic benefits or service potential will flow to the transfer recipient and the transaction price of the assets can be measured reliably. With gifts and donations, the making of the gift or donation and the transfer of legal title are often simultaneous; in such circumstances, there is no doubt as to the future economic benefits flowing to the transfer recipient.

AG53. Goods in-kind are recognized as assets when the goods are received, or there is a binding arrangement to receive the goods. If goods in-kind are received with no binding arrangement, revenue is recognized immediately. If specified activities are required under the binding arrangement, a liability is recognized, which is reduced and revenue recognized, as the specified activities are completed.

AG54. On initial recognition, gifts and donations including goods in-kind are measured at their transaction price, being its fair value, as at the date of acquisition, which may be ascertained by reference to an active market, or by appraisal. An appraisal of the value of an asset is normally undertaken by a member of the valuation profession who holds a recognized and relevant professional qualification. For many assets, the transaction price will be readily ascertainable by reference to quoted prices in an active and liquid market. For example, current market prices can usually be obtained for land, non-specialized buildings, motor vehicles and many types of plant and equipment.

Disclosure (see paragraphs 126-154)

Disclosure of Disaggregated Revenue

AG55. Paragraph 141 requires a transfer recipient to disaggregate revenue from binding arrangements with present obligations 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 a transfer recipient's revenue is disaggregated for the purposes of this disclosure depends on the facts and circumstances that pertain to the transfer recipient's binding arrangements with present obligations. Some entities may need to use more than one type of category to meet the objective in paragraph 141 for disaggregating revenue. Other entities may meet the objective by using only one type of category to disaggregate revenue.

AG56. When selecting the type of category (or categories) to use to disaggregate revenue, a transfer recipient shall consider how information about the transfer recipient's revenue has been presented for other purposes, including all of the following:

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

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

(c) Other information that is similar to the types of information identified in paragraph AG56(a) and (b) and that is used by the transfer recipient or users of the transfer recipient's financial statements to evaluate the transfer recipient's financial performance or make resource allocation decisions.

AG57. Examples of categories that might be appropriate include, but are not limited to, all of the following:

(a) Type of present obligations (for example, incurring eligible expenditure or undertaking specified activities);

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

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

(d) Type of binding arrangement (for example, fixed-price and time-and-materials binding arrangements); and

(e) Duration of the binding arrangement (for example, short-term and long-term binding arrangements).

Breach of the Terms and Conditions of a Binding Arrangement

AG58. The accounting treatment of a breach of the terms and conditions of a binding arrangement depends on:

(a) Whether the arrangement gave rise to a present obligation or not;

(b) When the breach occurred—i.e., whether it was in the period in which the breach is discovered or in a prior period; and

(c) The reason for the breach.

AG59. If the breach occurs in the current period and is identified before the authorization of the financial statements for issue, the transfer recipient will recognize a liability for the amount to be refunded to the transfer provider and derecognize any revenue recognized during the reporting period.

AG60. Where the breach is determined to have occurred in a prior period, the accounting treatment will be decided by assessing whether the breach has resulted in a:

(a) Change in accounting estimate as defined in IPSAS 3, *Accounting Policies, Changes in Accounting Estimates, and Errors.* Accounting estimates are used where items in financial statements cannot be measured with precision and judgement may be required in measuring those items as described in IPSAS 3;

(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.

Amendments to Other IPSAS

Amendments to IPSAS 1, Presentation of Financial Statements

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

…

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:**

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

    (b) **Investment property;**

    (c) **Intangible assets;**

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

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

    (f) **Inventories;**

    (g) **Recoverables from ~~non-exchange~~ revenue transactions without performance obligations ~~(taxes and transfers)~~**

    …

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.

    (a) Items of property, plant, and equipment are disaggregated into classes in accordance with IPSAS 17;

    (b) Receivables are disaggregated into amounts receivable from user charges, taxes and other ~~non-exchange~~ revenue transactions without performance obligations, 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 without performance obligations. 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

…

153P. Paragraphs 88, 94 and 135 were amended by [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations* issued in [Month] [Year]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendment for a period beginning before [Month], [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 71) at the same time.

…

Amendments to IPSAS 12, Inventories

Paragraphs 16 and 31 are amended and paragraph 51F is added. New text is underlined, and deleted text is struck through.

…

Measurement of Inventories

…

16. **Where inventories are acquired through a ~~non-exchange~~ revenue transaction without performance obligations, their cost shall be measured at their fair value as at the date of acquisition.**

…

Techniques for the Measurement of Cost

…

31. Inventories may be transferred to the entity by means of a ~~non-exchange~~ revenue transaction without performance obligations. For example, an international aid agency may donate medical supplies to a public hospital in the aftermath of a natural disaster. Under such circumstances, the cost of inventory is its fair value as at the date it is acquired.

…

Effective Date

…

51F. Paragraphs 16 and 31 were amended by [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations* issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendments for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 71) at the same time.

…

Comparison with IAS 2

IPSAS 12, *Inventories* is drawn primarily from IAS 2, *Inventories* (Revised 2003). The main differences between IPSAS 12 and IAS 2 are as follows:

…

- IPSAS 12 requires that where inventories are acquired through a ~~non-exchange~~ revenue transaction without performance obligations, their cost is their fair value as at the date of acquisition.

…

…

Amendments to IPSAS 16, *Investment Property*

Paragraphs 27 and 32 are amended and paragraph 101H is added. New text is underlined, and deleted text is struck through.

…

Measurement at Recognition

…

27. **Where an investment property is acquired through a ~~non-exchange~~ revenue transaction without performance obligations, its cost shall be measured at its fair value as at the date of acquisition.**

…

32. An investment property may be acquired through a ~~non-exchange~~ revenue transaction without performance obligations. For example, a national government may transfer at no charge a surplus office building to a local government entity, which then lets it out at market rent. An investment property may also be acquired through a ~~non-exchange~~ revenue transaction without performance obligations by the exercise of powers of sequestration. In these circumstances, the cost of the property is its fair value as at the date it is acquired.

…

Effective Date

…

101H. Paragraphs 27 and 32 were amended by [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations* issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendments for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 71) at the same time.

Comparison with IAS 40

IPSAS 16 is drawn primarily from IAS 40 (2003), *Investment Property* and includes amendments made to IAS 40 as part of the *Improvements to IFRSs* issued in May 2008. At the time of issuing this Standard, the IPSASB has not considered the applicability of IFRS 4, *Insurance Contracts*, and IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, to public sector entities; therefore IPSAS 16 does not reflect amendments made to IAS 40 consequent upon the issue of those IFRSs. The main differences between IPSAS 16 and IAS 40 are as follows:

- IPSAS 16 requires that investment property initially be measured at cost and specifies that where an asset is acquired through a revenue transaction without performance obligations~~for no cost or for a nominal cost~~, its cost is its fair value as at the date of acquisition. IAS 40 requires investment property to be initially measured at cost.

…

Amendments to IPSAS 17, Property, Plant, and Equipment

Paragraphs 27 and 28 are amended and paragraph 107P is added. New text is underlined, and deleted text is struck through.

…

Measurement at Recognition

…

27. **Where an asset is acquired through a ~~non-exchange~~ revenue transaction without performance obligations, its cost shall be measured as its fair value as at the date of acquisition.**

28. An item of property, plant and equipment may be acquired through a revenue ~~non-exchange~~ transaction without performance obligations. For example, land may be contributed to a local government by a developer at no or nominal consideration, to enable the local government to develop parks, roads, and paths in the development. An asset may also be acquired through a ~~non-exchange~~ revenue transaction without performance obligations by the exercise of powers of sequestration. Under these circumstances, the cost of the item is its fair value as at the date it is acquired.

…

Effective Date

…

107P. Paragraphs 27 and 28 were amended by [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations* issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendments for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 71) at the same time.

…

Comparison with IAS 16

IPSAS 17 is drawn primarily from IAS 16 (2003), *Property, Plant and Equipment* and includes amendments made to IAS 16 as part of the *Improvements to IFRSs* issued in May 2008. At the time of issuing this Standard, the IPSASB has not considered the applicability of IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* to public sector entities; therefore, IPSAS 17 does not reflect amendments made to IAS 16 consequent upon the issue of IFRS 5. The main differences between IPSAS 17 and IAS 16 (2003) are as follows:

…

- IAS 16 requires items of property, plant, and equipment to be initially measured at cost. IPSAS 17 states that where an item is acquired through a revenue transaction without performance obligations~~at no cost, or for a nominal cost~~, its cost is its fair value as at the date it is acquired. IAS 16 requires, where an enterprise adopts the revaluation model and carries items of property, plant, and equipment at revalued amounts, the equivalent historical cost amounts to be disclosed. This requirement is not included in IPSAS 17.

…

…

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

Paragraph 107 is amended and paragraph 111J is added. New text is underlined, and deleted text is struck through.

…

Disclosure

…

107. The disclosure requirement in paragraph 105 encompass contingent assets from both ~~exchange and non-exchange~~ transactions with performance obligations and those without performance obligations. 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 [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*.

…

Effective Date

…

111J. Paragraph 107 was amended by [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations* issued in [Month] [Year]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendment for a period beginning

before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 71) at the same time.

…

Amendments to IPSAS 27, *Agriculture*

Paragraphs 17 and 48, are amended and paragraph 56G is added. New text is underlined and deleted text is struck through.

…

Recognition and Measurement

…

17. **Where an entity acquires a biological asset through a ~~non-exchange~~ revenue transaction without performance obligations, the biological asset is measured on initial recognition and at each reporting date in accordance with paragraph 16.**

…

Disclosure

…

48. **An entity shall present a reconciliation of changes in the carrying amount of biological assets between the beginning and the end of the current period. The reconciliation shall include:**

    (a) **The gain or loss arising from changes in fair value less costs to sell, disclosed separately for bearer biological assets and consumable biological assets;**

    (b) **Increases due to purchases;**

    (c) **Increases due to assets acquired through a ~~non-exchange~~ revenue transaction without performance obligations;**

    (d) …

…

Effective Date

…

56G. Paragraphs 17 and 48 were amended by [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations* issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendments for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 71) at the same time.

…

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 date of acquisition. 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) Approach 1: Measure all biological assets and agricultural produce acquired in a non-exchange transaction using IPSAS 23 (i.e., exclude all biological assets and agricultural produce acquired in a non-exchange transaction from the measurement requirements of this Standard);

(b) Approach 2: Measure all biological assets and agricultural produce acquired in a non-exchange transaction using this Standard (i.e., exclude all biological assets and agricultural produce from the measurement requirements of IPSAS 23); and

(c) Approach 3: Use both IPSAS 23 and this Standard to measure biological assets and agricultural produce acquired in a non-exchange transaction.

BC8. The IPSASB rejected approach 1 because biological assets and agricultural produce acquired in exchange and non-exchange transactions would be measured differently. The IPSASB agreed that there is no reason to measure biological assets and agricultural produce acquired in a non-exchange transaction differently from those acquired in an exchange transaction because the assets are the same.

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:

- The definition of "agricultural activity" includes transactions for the distribution of biological assets at no charge or for a nominal charge. IAS 41 does not deal with such transactions.
- The scope section clarifies that biological assets held for the provision or supply of services are not addressed in this Standard. IAS 41 does not include such a clarification.
- 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)*~~ [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations* provides requirements and guidance related to government grants in revenue ~~non-exchange~~ transactions without performance obligations.
- IPSAS 27 contains requirements for the measurement at initial recognition, and at each reporting date, of biological assets acquired through a non-exchange transaction.
- This Standard contains an additional disclosure requirement for biological assets for which the entity's use or capacity to sell are subject to restrictions.
- This Standard contains a requirement to distinguish between consumable and bearer biological assets and between biological assets held for sale and those held for distribution at no charge or for a nominal charge. Such disclosures would take the form of a quantified description that may be accompanied by a narrative description. IAS 41 encourages, but does not require, entities to provide a quantified description of each group of biological assets, distinguishing between consumable and bearer biological assets, or between mature and immature biological assets, as appropriate.
- This Standard contains transitional provisions on the first-time adoption of accrual accounting. IAS 41 does not include such transitional provisions.
- IPSAS 27 uses different terminology, in certain instances, from IAS 41. The most significant examples are the use of the terms future economic benefits and service potential, surplus or deficit, and statement of financial performance in IPSAS 27. The equivalent terms in IAS 41 are future economic benefits, profit or loss, and statement of comprehensive income.

Amendments to IPSAS 28, *Financial Instruments: Presentation*

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

…

Effective Date

…

60G. Paragraphs AG21 and AG22 were amended by [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations* issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendments for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 71) at the same time.

…

Application Guidance

…

Scope

…

AG21. In the public sector, it is possible that contractual and non-contractual arrangements have~~are non-exchange~~ no performance obligations ~~in nature~~. Assets and liabilities arising from ~~non-exchange~~ revenue transactions without performance obligations are accounted for in accordance with ~~IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*~~ [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations.* If ~~non-exchange~~ revenue transactions without performance obligations 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 AG70-AG71 of this Standard. An entity uses the guidance in this Standard and ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71) in assessing whether a ~~non-exchange~~ revenue transaction without performance obligations 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 without performance obligations is in substance a liability or an equity instrument.

…

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 Transfer*s) ~~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:

- The arrangement is contractual in nature; and
- The arrangement gives rise to a contractual right or obligation to receive or deliver cash or another financial asset, or exchange financial assets under favorable or unfavorable conditions.

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~~s~~ 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 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, ~~T~~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 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. 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.

…

Comparison with IAS 32

IPSAS 28, *Financial Instruments: Presentation* is drawn primarily from IAS 32, *Financial Instruments: Presentation* (issued originally in 2003, including amendments up to December 31, 2008). The main differences between IPSAS 28 and IAS 32 are as follows:

- IAS 32 allows entities to treat financial guarantee contracts as insurance contracts where entities have previously asserted that such contracts are insurance contracts. IPSAS 28 allows a similar election, except that entities need not have explicitly asserted that financial guarantees are insurance contracts.
- In certain instances, IPSAS 28 uses different terminology from IAS 32. The most significant examples are the use of the terms "statement of financial performance" and "net assets/equity." The equivalent terms in IAS 32 are "statement of comprehensive income or separate income statement (if presented)" and "equity."
- IPSAS 28 does not distinguish between "revenue" and "income." IAS 32 distinguishes between "revenue" and "income," with "income" having a broader meaning than the term "revenue."
- IPSAS 28 contains additional Application Guidance dealing with the identification of arrangements that are, in substance, contractual.
- IPSAS 28 contains additional Application Guidance on when assets and liabilities arising from ~~non-exchange~~ revenue transactions without performance obligations are financial assets or financial liabilities.
- Principles from IFRIC 2, *Members' Shares in Co-operative Entities and Similar Instruments* have been included as an Appendix in IPSAS 28.
- The transitional provisions in IPSAS 28 differ from those in IAS 32. This is because IPSAS 28 provides transitional provisions for those entities applying this Standard for the first time or those applying accrual accounting for the first time.

Amendments to IPSAS 30, *Financial Instruments: Disclosures*

Paragraphs 5A, 42A, 42H, 42M, 42N, are amended and paragraph 52G 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 transactions with performance obligations that are within the scope of ~~IPSAS 9~~[draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations* and ~~non-exchange~~ revenue transactions without performance obligations within the scope of ~~IPSAS 23~~[draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations* 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 with performance obligations that are within the scope of ~~IPSAS 9~~ [draft] IPSAS [X] (ED 70) and ~~non-exchange~~ revenue transactions without performance obligations within the scope of ~~IPSAS 23~~[draft] IPSAS [X] (ED 71) 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:

(a) The loss allowance measured at an amount equal to 12-month expected credit losses;

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

(i) Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets;

(ii) Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired); and

(iii) Receivables that result from ~~exchange~~ revenue transactions with performance obligations that are within the scope of ~~IPSAS 9~~ [draft] IPSAS [X] (ED 70) or ~~non-exchange~~ revenue transactions without performance obligations that are within the scope of ~~IPSAS 23~~[draft] IPSAS [X] (ED 71~~)~~ 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:

(a) For which the loss allowance is measured at an amount equal to 12-month expected credit losses;

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

(i) Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets;

(ii) Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired); and

(iii) Receivables that result from ~~exchange~~ revenue transactions with performance obligations that are within the scope of ~~IPSAS 9~~ [draft] IPSAS [X] (ED 70) or ~~non-exchange~~ revenue transactions without performance obligations that are within the scope of ~~IPSAS 23~~[draft] IPSAS [X] (ED 71) or lease receivables for which the loss allowances are measured in accordance with paragraph 87 of IPSAS 41.

(c) That are purchased or originated credit-impaired financial assets.

42N. For receivables that result from ~~exchange~~ revenue transactions with performance obligations that are within the scope of ~~IPSAS 9~~ [draft] IPSAS [X] (ED 70) or ~~non-exchange~~ revenue transactions without performance obligations that are within the scope of ~~IPSAS 23~~[draft] IPSAS [X] (ED 71) 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

…

52G. Paragraphs 5A, 42A, 42H, 42M and 42N were amended by [draft] IPSAS [X] (ED 71) issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendments for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 71) at the same time.

…

Amendments to IPSAS 31, *Intangible Assets*

New text is underlined and deleted text is struck through.

…

Recognition and Measurement

…

31. An intangible asset shall be measured initially at cost in accordance with paragraph 32-43. Where an intangible asset is acquired through ~~a non-exchange transaction~~ a revenue transaction without performance obligations, its initial cost at the date of acquisition, shall be measured at its fair value as at that date.

…

Basis for Conclusions

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

Background

…

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.

…

Comparison with IAS 38

IPSAS 31, *Intangible Assets* is drawn primarily from IAS 38, *Intangible Assets* (as at December 31, 2008). The main differences between IPSAS 31 and IAS 38 are as follows:

…

- IAS 38 contains guidance on intangible assets acquired by way of a government grant. Paragraphs 31 of IPSAS 31 modifies this guidance to refer to intangible assets acquired through a revenue ~~non-exchange~~ transaction without performance obligations. IPSAS 31 states that where an intangible asset is acquired through a revenue ~~non-exchange~~ transaction without performance obligations, the cost is its fair value as at the date it is acquired.

…

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

Paragraph AG64 is amended and paragraph 36E is added. New text is underlined and deleted text is struck through.

…

Effective Date

…

36E. Paragraph AG64 was amended by [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations* issued in [Month] [Year]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendment for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 71) at the same time.

Application Guidance

…

Other Revenues (see paragraph 30)

…

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)*~~ draft IPSAS [X] (ED 71), *Revenue without Performance Obligations*.

….

Basis for Conclusions

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

…

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~~ 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

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

Paragraphs 32, 41, 42 and its related heading, 43, 71 and its related heading are amended and paragraph 154D is added. Amended 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 without performance obligations. 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 Period of Transition

…

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)*~~ [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*.**

…

Recognition and/or Measurement of ~~Non-Exchange~~ Revenue without Performance Obligations

42. **A first-time adopter is not required to change its accounting policy in respect of the recognition and measurement of ~~non-exchange~~ revenue without performance obligations 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 without performance obligations 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 without performance obligations in accordance with ~~IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*~~ [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations* 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 without performance obligations that do not comply with the provisions of ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71). The transitional provision in paragraph 42 allows a first-time adopter to apply ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71) incrementally to different classes of revenue from ~~non-exchange~~ transactions without performance obligations. For example, a first-time adopter may be able to recognize and measure property taxes and some other classes of transfers in accordance with

~~IPSAS 23~~ [draft] IPSAS [X] (ED 71) from the date of adoption of IPSASs, but may require three years to fully develop a reliable model for reorganizing and measuring income tax revenue.

…

Using Deemed Cost to Measure Assets Acquired Through a ~~Non-Exchange~~ Revenue Transaction without Performance Obligations

71. **A first-time adopter may elect to measure an asset acquired through a ~~non-exchange~~ revenue transaction without performance obligations at its fair value when reliable cost information about the asset is not available, and use that fair value as its deemed cost.**

…

Effective Date

…

154D Paragraphs 32, 41, 42 and its related heading, 43, 71 and its related heading were amended by [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations* issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendments for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 71) at the same time.

….

Basis for Conclusions

*This Basis for Conclusions accompanie*s, 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)*

BC64. When this Standard was developed, ~~The~~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.

…

Implementation Guidance

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

…

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.

		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 23, *Revenue from Non-Exchange Transactions*~~ [Draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*			√ All ~~non-exchange~~ revenue transactions without performance obligations not recognized under previous basis of accounting	√ All ~~non-exchange~~ revenue transactions without performance obligations recognized under previous basis of accounting	√ To extent that 3 year relief period was adopted for assets and/or liabilities			

…

Amendments to IPSAS 35, *Consolidated Financial Statements*

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

…

Effective Date

…

<u>**79D Paragraph AG13 was amended by [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations* issued in [Month] [Year]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendment for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 71) at the same time.**</u>

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:

(a) Using and incurring liabilities to provide services to service recipients;

(b) Distributing funds to specified individuals or groups;

(c) Collecting revenue through ~~non-exchange~~ transactions <u>without performance obligations</u>;

(d) …

Amendments to IPSAS 36, *Investments in Associates and Joint Ventures*

Paragraph 5 is amended and paragraph 51D is added. New text is underlined and deleted text is struck through.

…

Scope

…

5. Some contributions made by public sector entities may be referred to as an "investment," but may not give rise to an ownership interest. For example, a public sector entity may make a substantial investment in the development of a hospital that is owned and operated by a charity. While such contributions are ~~non-exchange~~ <u>revenue without performance obligations</u> in nature, they allow the public sector entity to participate in the operation of the hospital, and the charity is accountable to the public sector entity for its use of public monies. However, the contributions made by the public sector entity do not constitute an ownership interest, as the charity could seek alternative funding and thereby prevent the public sector entity from participating in the operation of the hospital. Accordingly, the public sector entity is not exposed to the risks, nor does it enjoy the rewards, that are incidental to an ownership interest.

…

Effective Date

…

<u>**51J Paragraph 5 was amended by [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations* issued in [Month] [Year]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendment for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 71) at the same time.**</u>

…

Amendments to IPSAS 40, *Public Sector Combinations*

Paragraph 34, 79, AG58, and AG86, are amended, and paragraph 126A 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)*~~ [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*.

…

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~~ [draft] IPSAS [X] (ED 71).

…

Effective Date

…

126A Paragraphs 34, 79, AG58, and AG86 were amended by [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations* issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendments for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 71) at the same time.

…

Application Guidance

…

Accounting for Amalgamation

…

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)*~~ [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*.

…

Accounting for Acquisition

…

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~~ [draft] IPSAS [X] (ED 71).

…

Illustrative Examples

…

Accounting for Amalgamation

…

Eliminating Transactions between the Combining Operations – Transfers

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

…

IE164. The ~~grant~~ transfer was subject to a ~~condition~~ present obligation that the ~~grant~~ transfer would be returned proportionately to the number of training courses not delivered. At the amalgamation date, COB had delivered half of the agreed number of courses, and recognized a liability of CU350 in respect of its ~~performance~~ present obligation, in accordance with ~~IPSAS 23,~~ ~~*Revenue from Non-Exchange Transactions (Taxes and Transfers)*~~ [draft] IPSAS [X] (ED 71) *Revenue without Performance Obligations*. 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~~ [draft] IPSAS [X] (ED 71), and would recognize an adjustment for the tax forgiven.

…

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~~ [draft] IPSAS [X] (ED 71), 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 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.

IE264. The ~~grant~~ transfer was subject to a ~~condition~~ present obligation~~s~~ that the ~~grant~~ transfer would be returned proportionately to the number of training courses not delivered. At 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~~ present obligation, in accordance with ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71). 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, 87, AG6, AG33, AG43, AG44, AG114 and its related heading, AG117, AG122, AG124, AG125, and AG129 and its related heading, are amended, and paragraph 156A 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)*~~ [draft] IPSAS [X] (ED 71) *Revenue without Performance Obligations* applies; except as described in AG6.**

…

3. **The impairment requirements of this Standard shall be applied to those rights arising from IPSAS 9, *Revenue from Exchange Transactions* and ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71) 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~~ revenue transaction without performance obligations, an entity applies ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71).**

…

Measurement

…

Impairment

…

Simplified Approach for Receivables

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 that result from exchange transactions that are within the scope of IPSAS 9 and ~~non-exchange~~ revenue transactions without performance obligations within the scope of ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71).**

…

Effective Date

…

156B Paragraphs 2, 3, 37, 87, AG6, AG33, AG43, AG44, AG114 and its related heading, AG117, AG122, AG124, AG125, AG129 and its related heading were amended by [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations* issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendments for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 71) at the same time.

…

Application Guidance

Scope

…

AG6. Rights and obligations (assets and liabilities) may arise from ~~non-exchange~~ revenue transactions without performance obligations.~~,~~ F~~f~~or example, an entity may receive cash from a multi-lateral agency to perform certain specified activities. Where the performance of those specified 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~~ [draft] IPSAS [X] (ED 71), and initially measured in accordance with ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71) 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~~ [draft] IPSAS [X] (ED 71). After initial recognition, if circumstances indicate that recognition of a liability in accordance with ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71) 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 without performance obligations 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~~[draft] IPSAS [X] (ED 71)). 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.

…

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~~ AG43-AG46 of ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71).

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~~ revenue transaction without performance obligations it applies the derecognition requirements of this Standard as well as paragraphs ~~84–87~~ AG43-AG46 of ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71).

…

Measurement

~~Non-Exchange~~ Revenue Transactions without Performance Obligations

AG114. The initial recognition and measurement of assets and liabilities resulting from ~~non-exchange~~ revenue transactions without performance obligations is dealt with in ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71). Assets resulting from ~~non-exchange~~ revenue transactions without performance obligations 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~~ [draft] IPSAS [X] (ED 71);

(b) Initially measured:

(i) At ~~fair value~~ the transaction price using the principles in ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71); 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)

…

AG117. The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. If an entity determines that the fair value at initial recognition differs from the transaction price as mentioned in paragraph 58, the entity shall account for that instrument at that date as follows:

(a) At the measurement required by paragraph 57 if that fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) or based on a valuation technique that uses only data from observable markets. An entity shall recognize the difference between the fair value at initial recognition and the transaction price as a gain or loss.

(b) In all other cases, at the measurement required by paragraph 57, adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the entity shall recognize that deferred difference as a gain or loss only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

The requirements of this paragraph do not apply to concessionary loans or equity instruments arising from ~~non-exchange~~ revenue transactions without performance obligations as outlined in paragraphs AG118 to AG130.

Concessionary Loans

…

AG122. Whether a loan is concessionary or originated credit-impaired depends on its substance. An intention to incorporate a ~~non-exchange~~ revenue without performance obligations component into the transaction, such as a transfer of resources, indicates the loan is concessionary. The ~~non-exchange~~ revenue without performance obligations component is incorporated into the transaction by granting the loan at below market terms. By contrast, originated credit-impaired loans are loans where one or more events, that have a detrimental impact on the estimated future cash flows of the financial asset, have occurred.

…

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~~ 119-120 of ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71). 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~~ [draft] IPSAS [X] (ED 71).

(b) Where the loan is granted by an entity, the difference is treated as an expense in surplus or deficit at initial recognition, except where the loan is a transaction with owners, in their capacity as owners. Where the loan is a transaction with owners in their capacity as owners, for example, where a controlling entity provides a concessionary loan to a controlled entity, the difference may represent a capital contribution, i.e., an investment in an entity, rather than an expense.

Illustrative Examples are provided in paragraph IE61 of ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71) as well as paragraphs IE153 to IE161 accompanying this Standard.

…

Equity Instruments Arising from ~~Non-Exchange~~ Revenue Transactions without Performance Obligations

…

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~~ revenue transaction without performance obligations. To the extent that the transaction, or component of the transaction, is a ~~non-exchange~~ revenue transaction without performance obligations, any assets or revenues arising from the transaction are accounted for in accordance with ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71). The entity providing the resources shall recognize the amount as an expense in surplus or deficit at initial recognition.

…

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 41.

…

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 the asset using IPSAS 23; and
- Initially measures 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~~T~~he 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, ~~The IPSASB~~ it was 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, 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~~ defined an equity instrument and ~~explains~~ explained 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~~ [draft] IPSAS [X] (ED 71) *Revenue without Performance Obligations*.

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 non-exchange revenue		784,550

Recognition of the receipt of the loan at fair value

~~IPSAS 23~~ [Draft] IPSAS [X] (ED 71) is considered in recognizing either a liability or revenue for the off-market portion of the loan. Paragraph IE54 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

This guidance accompanies, but is not part of, IPSAS 41.

…

Section G Concessionary Loans and ~~Non-Exchange~~ Equity Transactions without Performance Obligations

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 119-120~~42–58~~ of ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*. 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.

...

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of [draft] IPSAS X (ED 71), Revenue without Performance Obligations.

Objective

BC1. This Basis for Conclusions summarizes the IPSASB's considerations in reaching the conclusions in [draft] IPSAS [X] (ED 71, *Revenue without Performance Obligations*). In forming their views, the IPSASB considered the views of respondents to Consultation Paper, *Accounting for Revenue and Non-Exchange Expenses* (issued August 2017) (the CP).

BC2. Governments and many other public sector entities derive the majority of their revenue from transactions without performance obligations. These transactions include, principally, taxation, but also transfers. This [draft] IPSAS addresses these types of transactions.

BC3. This [draft] Standard establishes broad principles for the recognition of revenue from transactions without performance obligations, and provides guidance on the application of those principles to the major sources of revenue for governments and other public sector entities. In developing this [draft] Standard, the IPSASB considered whether to adopt an approach that focused on the development of requirements for accounting for revenue arising from a range of specific types of transactions without performance obligations. However, the IPSASB noted that such an approach brings with it consequential risks that the resultant [draft] Standard would not provide comprehensive guidance for all revenue from transactions without performance obligations. The IPSASB is of the view that the approach adopted in this [draft] Standard ensures that appropriate broad principles for the recognition of revenue from transactions without performance obligations are established and can be applied to all revenue from transactions without performance obligations.

Background

BC4. 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).

BC5. 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.

BC6. In May 2014 the IASB issued IFRS 15, *Revenue from Contracts with Customers,* which superseded IAS 11 and IAS 18. In discussing the possibility of superseding IPSAS 9 and IPSAS 11 with an IPSAS aligned with IFRS 15 the IPSASB considered that this may provide an opportunity to address some of the application issues with IPSAS 23. Consequently, the IPSASB issued thein August 2017 which outlined its proposals for developing and IPSAS to align with IFRS 15 and also updating IPSAS 23.

BC7. Respondents to the CP agreed with the proposals which led to the development of two revenue [draft] standards to replace the existing three: an IPSAS aligned with IFRS 15, updated for public sector specific issues, using a performance obligation approach, and an updated IPSAS 23 applicable to the majority of revenue transactions common to the public sector. Therefore, [draft] IPSAS [X] (ED 70) addresses revenue transactions with performance obligations and this [draft] Standard addresses revenue transactions without performance obligations (the updated IPSAS 23).

BC8. This Basis for Conclusions explains the IPSASB decisions regarding the changes made to IPSAS 23 in the development of this [draft] Standard. The IPSASB decided that all necessary authoritative text from IPSAS 23 should be incorporated into this [draft] Standard and therefore the Basis for Conclusion paragraphs from IPSAS 23 that relate to remaining IPSAS 23 text have been retained.

Scope

BC9. The IPSASB decided to change the approach for classification of revenue transaction from an exchange/non-exchange approach to that of whether or not the transaction had a performance obligation, as defined in [draft] IPSAS [X] (ED 70). Revenue transactions with performance obligations are accounted for under [draft] IPSAS [X] (ED 70) and revenue transactions without performance obligations are accounted for in this [draft] Standard. This [draft] Standard provides the accounting for:

(a) Revenue transactions from binding arrangements without performance obligations but with present obligations (see paragraphs BC12-BC14); and

(b) Revenue transactions which do not arise from a binding arrangement, including but not limited to:

i. Taxes;

ii. Bequests;

iii. Fines; and

iv. Certain donations

While these transactions may not arise from bindings arrangements, they may be a result of another arrangement such as legislation.

Unenforceable transactions

BC10. The IPSASB discussed how to account for transactions that do not arise from a binding arrangement but have an implied requirement for how those resources are to be used (for example, limitations on the use of property taxes). The IPSASB concluded that an implied requirement needs to be enforceable by the transfer provider. For example, taxpayers do not normally have enforceable rights, so the implied requirements will not give rise to present obligations of the resource recipient.

BC11. 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.

Enforceable transactions

BC12. The IPSASB considered whether it is possible to have an enforceable transaction with a present obligation that was not a performance obligation, as defined in [draft] IPSAS [X] (ED 70). The IPSASB concluded that a present obligation that is not a performance obligation can exist. The present obligation gives rise to a liability because the past event occurs when the transfer provider and transfer recipient enter into a binding arrangement creating enforceable rights and obligations. Further such an arrangement leads to an outflow of resources because the transfer recipient cannot avoid using those resources either to fulfill the requirements in the binding arrangement or in the event of a breach of a binding arrangement, repaying the resources to the transfer provider or incurring some other form of penalty.

BC13. The IPSASB decided that the present obligations in enforceable transactions would either be a:

(a) Specified activity; or

(b) Requirement to incur eligible expenditure.

The transfer recipient would recognize an asset and a liability when it had control of or right to the transfer and the revenue would be recognized (and the liability decreased) when (or as) the present obligation was satisfied.

BC14. The IPSASB noted that a specified activity or the requirement to incur eligible expenditure differs from a performance obligation in [draft] IPSAS [X] (ED 70) because there is no requirement for the transfer recipient to transfer a good or service to either the transfer provider or a third-party beneficiary.

Appropriations

BC15. The IPSASB noted that, in some jurisdictions, a binding arrangement for a revenue transaction without performance obligations 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 transfer recipient 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.

Determining the Transaction Price

BC16. 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.

BC17. Constituents noted that there are a number of revenue transactions within the scope of draft IPSAS [X] ED (71) 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.

BC18. The IPSASB agreed these transactions presented measurement challenges. Incorporating a constraint limiting measurement to when it is highly probably 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.

Capital Transfers

BC19. 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. Therefore, this [draft] Standard includes guidance on accounting for capital transfers. However, the IPSASB noted that the accounting for capital transfers would be the same as for any other transfer in that if the transfer of resources arose outside of a binding arrangement revenue would be recognized by the transfer recipient when it controlled of had a right to those resources, and that revenue from capital transfers from binding arrangements would be recognized as the present obligations are satisfied.

BC20. 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".

BC21. 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.

BC22. The IPSASB agreed that this approach did not provide useful or representationally faithful information for users and therefore decided to develop an accounting approach for capital transfers which recognized that transfer in revenue as the non-financial asset (capital) asset is either procured or constructed.

BC23. The IPSASB considered that some capital transfers may include multiple present obligations, one being the procurement 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 present obligation should be considered separately in accordance with the nature of each obligation.

Monetary and Non-monetary Assets

BC24. This [draft] Standard 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.

Transactions with both Performance Obligation and No Performance Obligation Components (Hybrid transactions)

BC25. This [draft] Standard notes that a single transaction can have two components, one that includes a performance obligation and one that does not have a performance obligation. In these cases, the IPSASB is of the view that the transaction's component parts should be distinguished and recognized separately. Distinguishing the component parts enhances the transparency of financial statements. However, if the components cannot be separated, the whole transaction should be accounted for under [draft] IPSAS [X] (ED 70).

Contributions from Owners

BC26. This [draft] Standard identifies examples of some types of documentation that may evidence contributions from owners in the public sector (paragraph 7). Many public sector entities receive inflows of resources from entities that control them, own them, or are members of them. In certain circumstances, the inflow of resources will be designated as a contribution from owners. Notwithstanding the documentation that evidences the form of the inflow of resources or its designation by a controlling entity, this [draft] Standard reflects the view that for an inflow of resources to be classified as a contribution from owners, the substance of the transaction must be consistent with that classification.

Measurement of Assets

BC27. This [draft] Standard requires that assets acquired through transactions without performance obligations be initially measured at their transaction price as at the date of acquisition. The IPSASB is of the view that this is appropriate to reflect the substance of the transaction and its consequences for the recipient. In a transaction with performance obligations, the cost of acquisition is a measure of the fair value of the asset acquired. However, in a transaction without performance obligations the consideration provided for the acquisition of an asset may not be equal to the fair value of the asset acquired. Transaction price most faithfully represents the actual value the public sector transfer recipient accrues as a result of the transaction. Initial measurement of non-monetary assets acquired through transactions without performance obligations at their transaction price, which is fair value for non-monetary assets, is consistent with the approach taken in IPSAS 16, *Investment Property*, and IPSAS 17, *Property, Plant, and Equipment*, for assets acquired at no cost or for a nominal cost. The IPSASB has made consequential amendments to IPSAS 12, *Inventories*, and IPSAS 16 and IPSAS 17 to fully align those IPSAS with the requirements of this [draft] Standard.

Entity Bank Accounts

BC28. This [draft] Standard assumes the requirement that all money deposited in a bank account of a transfer recipient satisfies the definition of an asset and meets the criteria for recognition of an asset of the transfer recipient. The IPSASB established this principle in paragraphs 1.2.6 and

1.2.7 of the Cash Basis IPSAS, *Financial Reporting under the Cash Basis of Accounting*. The [draft] Standard also requires the recognition of a liability in respect of any amount the transfer recipient has collected and deposited in its own bank account while acting as an agent of another entity.

Measurement of Liabilities

BC29. This [draft] Standard requires that where a transfer recipient recognizes a liability in respect of an inflow of resources, that liability will initially be measured as the best estimate of the amount required to settle the obligation at the reporting date. This measurement basis is consistent with IPSAS 19. The IPSASB is also cognizant of the amendments proposed for IAS 37 (to be retitled *Non-financial Liabilities*), on which IPSAS 19 is based, and will monitor, and in due course consider, its response to any developments in IAS 37.

Taxable Event

BC30. This [draft] Standard defines a taxable event as the past event that the government, legislature, or other authority has determined to be subject to taxation. The [draft] Standard notes that this is the earliest possible time to recognize assets and revenue arising from a taxation transaction, and is the point at which the past event that gives rise to control of the asset occurs. The IPSASB considered an alternative view that an entity only gains control of resources arising from taxation when those resources are received. While recognizing that there can be difficulties in reliably measuring certain taxation streams, the IPSASB rejected such an approach as inappropriate for the accrual basis of financial reporting.

Advance Receipts

BC31. This [draft] Standard requires a transfer recipient that receives resources in advance of the taxable event, or of a transfer arrangement becoming enforceable, to recognize an asset and a liability of an equivalent amount. This is consistent with the principles of accrual accounting to recognize revenue in the period in which the underlying event that gives rise to the revenue occurs. In the event that the taxable event did not occur, or the transfer arrangement did not become enforceable, the transfer recipient 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, a transfer recipient should only recognize a liability where it considers it probable that there will be a subsequent outflow of resources. The IPSASB supports the view that revenue should not be recognized until the taxable event occurs, and extends the principle to transfers, so that where resources are received prior to a transfer arrangement becoming binding, the transfer recipient recognizes an asset and a liability for the advance receipt.

Expenses Paid Through the Tax System and Tax Expenditures

BC32. This [draft] Standard requires that expenses paid through the tax system be distinguished from tax expenditures, and that the former should be recognized separately from revenue in the general purpose financial statements. This is because, as defined in this [draft] Standard, expenses paid through the tax system satisfy the definition of expenses and, according to the principles established in IPSAS 1, offsetting of expenses against revenue is generally not permitted. As defined in this [draft] Standard, tax expenditures are one of the many factors used to determine the amount of tax revenue received or receivable and are not recognized separately from revenue. The IPSASB is of the view that this treatment is consistent with the principles established in this [draft] Standard.

BC33. The treatment prescribed in this [draft] Standard for expenses paid through the tax system is different to that currently prescribed by the Organization for Economic Co-operation and Development (OECD) for member country statistical returns. The OECD currently requires tax revenue to be shown net of expenses paid through the tax system (or non-wastable tax credits) to the extent that an individual taxpayer's liability for tax is reduced to zero, payments to a taxpayer are shown as expenses.[1] The IPSASB is of the view that the current OECD treatment does not conform to the conceptual principles underpinning the IPSASs and the IPSAS 1 requirement not to offset items of revenue and expense.

The Tax Gap

BC34. For some taxes, transfer recipients will be aware that the amount the government is entitled to collect under the tax law is higher than the amount that will be collected, but will not be able to reliably measure the amount of this difference. The amount collected is lower due to the underground economy (or black market), fraud, evasion, noncompliance with the tax law, and error. The difference between what is legally due under the law and what the government will be able to collect is referred to as the tax gap. Amounts previously included in tax revenue that are determined as not collectible do not constitute part of the tax gap.

BC35. The IPSASB is of the view that the tax gap does not meet the definition of an asset, as it is not expected that resources will flow to the government in respect of these amounts. Consequently, assets, liabilities, revenue, or expenses will not be recognized in respect of the tax gap.

Services In-kind

BC36. This [draft] Standard permits, but does not require, recognition of services in kind. This [draft] Standard takes the view that many services in-kind do meet the definition of an asset and should, in principle, be recognized. In such cases there may, however, be difficulties in obtaining reliable measurements. In other cases, services in-kind do not meet the definition of an asset because the transfer recipient 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.

BC37. 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 transfer recipient.

Compulsory Contributions and Levies to Social Security and Other Schemes

BC38. There is a variety of different arrangements for funding social security schemes across jurisdictions. Constituents had commented to the IPSASB that IPSAS 23 did not address the accounting for these funding arrangements. The IPSASB considered the issue in developing IPSAS 42, *Social Benefits*.

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

BC39. The IPSASB concluded that such contributions are transactions without performance obligations, and should be accounted for in accordance with this [draft] Standard. The one exception to this is where an entity elects to account for a social benefit scheme using the insurance approach in IPSAS 42. The insurance approach takes into account both cash inflows and cash outflows, and hence contributions to a social benefit scheme accounted for under the insurance approach are not accounted for as revenue under this [draft] Standard.

BC40. In developing IPSAS 42, the IPSASB also noted that some government programs that do not meet the definition of a social benefit in that Standard (for example, healthcare benefits in some jurisdictions) may also involve compulsory contributions or levies. The IPSASB concluded that the same principles of revenue recognition applied to these transactions as applied to contributions for social benefits and to taxation. The IPSASB agreed to extend the requirement for recognizing taxation revenue to cover other compulsory contributions and levies, whether arising from social benefits or other government programs. The amended requirements were incorporated into this [draft] Standard.

Breach of the terms and conditions of a binding arrangement

BC41. The IPSASB considered the accounting consequences arising from the breach of the terms and conditions of a binding arrangement. The IPSASB concluded that the guidance in IPSAS 3, *Accounting Policies, Changes in Accounting Estimates, and Errors,* should be considered to determine whether the breach resulted in an error as defined in IPSAS 3. Where the circumstances of the breach are such that the guidance in IPSAS 3 is not applicable, guidance included in this [draft] Standard should be applied.

Subsequent Measurement of Receivables

BC42. [Draft] IPSAS [X] (ED 71) applies to binding arrangements without performance obligations, which are broader than contractual agreements. It is therefore possible for receivables to fall outside the scope of IPSAS 41, *Financial Instruments*. Applying the measurement requirements of [draft] IPSAS [X] (ED 71) to such receivables would result in their initial measurement at the transaction price, as required by paragraphs 57-60 and AG115-AG117 of IPSAS 41. To address the lack of guidance for subsequent measurement of these receivables, the IPSASB added paragraphs 84-85, which are based on the subsequent measurement guidance in IPSAS 41.

Illustrative Examples

This guidance accompanies, but is not part of, [draft] Standard X [ED 71]

Scope

Example 1—Scope (paragraphs 3–9)

IE1. Municipality X received CU10 million from the federal government to support the public transit in the region.

Case A–Arrangement is within the Scope of this [draft] Standard

IE2. The transfer agreement requires funds be used by the municipality to enhance the transit experience in the region. Municipality X chooses to use the funds to reduce the fares due from ridership for the next fiscal year.

IE3. The municipality concludes the transfer received should be accounted for in accordance with the requirements of this [draft] Standard. As there is no requirement to deliver a good or service to the federal government, or a third-party beneficiary, no performance obligation exists.

Case B–Arrangement is within the Scope of [draft] IPSAS [X], ED 70, *Revenue with Performance Obligations* (Delivery of Goods to Purchaser)

IE4. The agreement requires funds be used as consideration for annual transit passes for all federal government employees living within the municipality.

IE5. The municipality concludes the consideration received should be accounted for in accordance with the requirements of [draft] IPSAS [X], ED 70. The requirement to deliver annual transit passes to the federal government in exchange for the consideration represents a performance obligation.

Case C–Arrangement is within the Scope of [draft] IPSAS [X], ED 70, *Revenue with Performance Obligations* (Delivery of Goods to Third-Party Beneficiary)

IE6. The transfer agreement requires funds be used to reduce the fares due from ridership over the age of 65 for the next fiscal year.

IE7. The municipality concludes the transfer received should be accounted for in accordance with the requirements of [draft] IPSAS [X], ED 70. The requirement to deliver a good or service to a third-party beneficiary, in this case, ridership over the age of 65, is a performance obligation.

Example 2—Income Tax (paragraph 94)

IE8. A national government (transfer recipient) imposes a 25 percent tax on personal income earned within the country. Employers are required to withhold taxes from payroll and remit withholdings on a monthly basis. Individuals with significant non-salary (for example, investment) income are required to make estimated tax payments on a quarterly basis. In addition, individuals must file a tax return with the taxation department by April 15 of the year following the tax year (calendar year), and must pay the remaining tax owed (or claim a refund) at that time. The government's reporting period ends on June 30.

IE9. The government controls a resource – income tax receivable – when the taxable event occurs, which is the earning of assessable income by taxpayers. At the end of the reporting period, the government recognizes assets and revenue in respect of personal income tax on the income earned during the reporting period, to the extent that it can reliably measure it. Assets and revenue will also be recognized in respect of income taxes on income earned in prior periods, but which did not meet the definition of, or satisfy the criteria for recognition as, an asset until the current reporting period.

Example 3—Measurement of Taxation Revenue (paragraphs 97–100)

IE10. A national government (transfer recipient) levies income tax on the personal income of all persons earning income within its jurisdiction. The tax was first levied some seventy years before the current reporting period, and taxation statistics are available for the entire seventy-year period. The tax year and the reporting period are January 1 to December 31. Taxpayers have until April 30 each year to file their tax return, and until June 30 to pay any outstanding taxes. The government is required by legislation to present audited consolidated general purpose financial statements to the legislature no later than March 31.

IE11. Income tax revenue should be recognized in the reporting period in which the taxable event occurred, that is, the earning of taxable income. As the tax administration system does not enable the government to directly measure income tax receivable until after its general purpose financial statements are issued, the government develops a model to indirectly measure income taxation revenue receivable. The government uses the income tax collection history it has in the taxation statistics, which it compares to other observable phenomena, such as current and forecast information, to develop a reliable model. Other phenomena can include other economic statistics, such as gross domestic product, financial phenomena such as income tax installments deducted by employers, sales tax collections (if it levies such a tax), and banking statistics collected by the central bank. This government may enlist the assistance of econometricians in developing the model, and the external auditor tests the validity of the model in accordance with international and national auditing standards.

IE12. The model enables the transfer recipient to reliably measure the assets and revenue accruing to it during the reporting period, which are then recognized and disclosed in the general purpose financial statements. The notes to the general purpose financial statements disclose the accounting policies, including the basis of measurement of income tax revenue. In these circumstances, estimates of tax revenue for one 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*.

Example 4—Value Added Tax (paragraph 94)[1]

IE13. A national government (the transfer recipient) imposes a value-added tax (VAT) on all businesses. The tax is 15 percent of the value added and is collected by merchants from customers (taxpayers) at the time of sale. Large and medium-sized businesses are required to submit VAT returns electronically to the tax department on a weekly basis; however, small businesses are permitted to submit VAT returns manually on a quarterly basis.

IE14. The government controls a resource – VAT receivable – when the taxable event occurs, which is the undertaking of taxable activity, that is, the sale of value-added goods or services, during the reporting period. The government recognizes assets and revenue in the general purpose financial statements of the reporting period in which the taxable activity takes place, or later, as soon as it can reliably measure the tax receivable. In many circumstances, the taxation return period will not coincide with the reporting period. In these circumstances, 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.

Example 5—Goods and Services Tax (paragraph 94)

IE15. A national government (transfer recipient) imposes a goods and services tax (GST) on sales of goods and services. The tax is 10 percent of the value of goods and services sold. Most sellers of goods and services are required to electronically submit GST returns to the tax department on a

[1] Some jurisdictions use the terms Value Added Tax (VAT) and Goods and Services Tax (GST) interchangeably.

weekly basis. However, small businesses are permitted to manually submit GST returns on a quarterly basis.

IE16. The government controls a resource – GST receivable – when the taxable event occurs, which is the sale of taxable goods and services during the reporting period. The government recognizes assets and revenue in the general purpose financial statements of the reporting period in which the sales and purchases take place or, if the tax receivable cannot be reliably measured as at the end of the reporting period, later, as soon as it can reliably measure the tax receivable. In many circumstances, the taxation return period will not coincide with the reporting period. In these circumstances, 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.

Example 6—Customs Duty (paragraph 94)

IE17. A national government (transfer recipient) imposes customs duty on all imports of goods. The duties vary depending on the type of goods imported, and are set at levels to ensure that domestically produced goods are cheaper in the retail market. Imported goods are held in bonded warehouses until the importer pays the duty. Importers are required to make import declarations to the customs department and pay the duty immediately. Most importers submit these declarations electronically before the goods arrive, and make electronic funds transfers to the customs department when the goods are unloaded from ships or aircraft, or as trains or trucks pass the customs boundary.

IE18. The government controls a resource – duty receivable – when the taxable event occurs, which is the movement of goods across the customs boundary. The government recognizes assets and revenue in the general purpose financial statements of the reporting period in which the goods move across the boundary, or later, as soon as it can reliably measure the duty receivable.

Example 7—Death Duties (paragraph 94)

IE19. A national government (transfer recipient) imposes death duties of 40 percent on all estates valued at more than 500,000 currency units (CU). Medical practitioners and funeral directors are required to notify the tax department of all deaths. An assessor then makes an interim valuation of the estate to determine whether duty will be payable. Executors of estates are required to file an inventory of the estate with the tax department, which values the estate and determines the duty due from the estate. Probate cannot be granted until all duty is paid. Due to complexities in testamentary law and frequent appeals of valuations, it takes on average four years to settle estates and collect the duty due.

IE20. The government controls a resource – death duties receivable – when the taxable event occurs, which is the death of a person owning taxable property. The government recognizes assets and revenue in the general purpose financial statements of the reporting period in which the person dies, or later, as soon as it can reliably measure the assets.

Example 8—Property Tax (paragraph 94)

IE21. A local government (transfer recipient) levies a tax of one percent of the assessed value of all property within its jurisdiction. The government's reporting period is July 1 to June 30. The tax is levied on July 31, with notices of assessment being sent to property owners in July, and payment due by August 31. If taxes are unpaid on that date, property owners incur penalty interest rate payments of three percent per month of the amount outstanding. The tax law permits the government to seize and sell a property to collect outstanding taxes.

IE22. The government controls a resource – property taxes receivable – when the taxable event occurs, which is the passing of the date on which the taxes are levied, July 31. The government recognizes assets and revenue in the general purpose financial statements of the reporting period in which that date occurs.

Example 9—Advance Receipts of Income Tax (paragraph 96)

IE23. Government A (transfer recipient) 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.

IE24. The resources received from self-employed taxpayers by December 24 are advance receipts against taxes due for the following year. The taxable event is the earning of income during the taxation period, which has not commenced. The transfer recipient recognizes an increase in an asset (cash in bank) and an increase in a liability (advance receipts).

Example 10—Transfer of resources to Another Level of Government for General Purposes – not binding (paragraphs 53, 107 and AG2(b))

IE25. The national government (transfer provider) makes a transfer of CU10 million to a local government (transfer recipient) in a socioeconomically deprived area. The local government (transfer recipient) is required under its constitution to undertake various social programs; however, it has insufficient resources to undertake all of these programs without assistance. There are no present obligations attached to the transfer. All local governments are required to prepare and present audited general purpose financial statements.

IE26. Because, the arrangement is not binding, there is no present obligation, so the transfer is recognized as an asset and revenue in the general purpose financial statements of the reporting period in which it is controlled by the local government.

Example 11—Transfer of resources with a present obligation (paragraphs 14−26)

IE27. A national government (transfer provider) makes a cash transfer of CU50 million to a state government social housing transfer recipient, specifying that the recipient increases the stock of social housing by an additional 1,000 units over a 5-year period. There is no requirement in the arrangement for the state government housing transfer recipient to transfer ownership of the units to the national government upon their completion. If the 1,000 units are not completed within the stated timeline, the transfer recipient must return any remaining funds to the national government.

IE28. The state government social housing transfer recipient recognizes an increase in an asset (cash) and a liability in the amount of CU50 million when the transfer recipient has control of the transfer. The requirements in the agreement meet the requirements for a present obligation therefore a liability exists.

IE29. As the resources are used to increase the social housing stock, the transfer recipient will recognize revenue and decrease the liability as the housing stock is increased (i.e., as new stock is acquired or constructed).

Example 12—Transfer to a Public Sector University – unenforceable transaction (paragraph 53)

IE30. The national government (transfer provider) transfers 200 hectares of land in a major city to a university (transfer recipient) for the establishment of a university campus. The agreement 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 redress.

IE31. 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 land should be recognized at its fair value in accordance with IPSAS 17. The obligation is not enforceable therefore does not meet the definition of a liability or satisfy the criteria for recognition as a liability. Therefore, the university recognizes revenue in respect of the land in the statement of financial performance of the reporting period in which the land is recognized as an asset.

Example 13—Transfer to Another Level of Government with Present Obligations (paragraphs 45-46)

IE32. The national government (transfer provider) provides CU10 million to a provincial government (transfer recipient) 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 new railroad or tramway systems, and 20 percent for to purchase rolling stock. Under the terms of the agreement, the money can only be used as specified, and the provincial government (transfer recipient) is required to include a note in its audited general purpose financial statements detailing how the transfer was spent. The agreement requires the transfer to be spent as specified in the current year or be returned to the national government.

IE33. The provincial government recognizes the transfer as an asset. The provincial government also recognizes a liability in respect of the present obligations attached to the transfer. The binding arrangement contains three separate present obligations;

(a) The obligation to use CU4 million for modernizing the existing railroad and tramway system;

(b) The obligation to use CU4 million for new railroad or tramway systems; and

(c) The obligation to use CU2 million for purchasing rolling stock.

IE34. As the province satisfies the present obligations, it reduces the liability and recognizes revenue in the statement of financial performance of the reporting period in which the liability is discharged.

Example 14—Research Grant (in Substance a Transaction with a performance obligation) (paragraph AG7)

IE35. A large corporation that makes cleaning products (transfer provider) gives money to a public university (transfer recipient) to conduct research on the effectiveness of a certain chemical compound in quickly removing graffiti. The corporation specifies that the research results are to be shared with it before being announced to the public, and that it has the right to apply for a patent on the compound.

IE36. This is a revenue transaction with performance obligations because the transfer recipient is required to transfer the research results to the transfer provider (purchase), in return for the transfer. Therefore, the university provides research services and an intangible asset, the right (a future economic benefit) to profit from the research results. [Draft] IPSAS [X] (ED 70) *Revenue with Performance Obligations* and IPSAS 31, *Intangible Assets* apply to this transaction.

Example 15—Debt Forgiveness (paragraphs AG41-AG44)

IE37. The national government (transfer provider) lent a local government (transfer recipient) CU20 million to enable the local government to build a water treatment plant. After a change in policy, the national government decides to forgive the loan. There are no present obligations attached to the forgiveness of the loan. The national government writes to the local government and advises it of its decision; it also encloses the loan documentation, which has been annotated to the effect that the loan has been waived.

IE38. When it receives the letter and documentation from the national government, which communicates this decision, the local government derecognizes the liability for the loan and recognizes revenue in the statement of financial performance of the reporting period in which the liability is derecognized.

Example 16—Proposed Bequest (paragraphs AG47-AG49)

IE39. A 25-year old recent graduate (transfer provider) of a public university names the university (transfer recipient) 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.

IE40. The public university does not recognize any asset or revenue in its general purpose financial statements for the period in which the will is made. The past event for a bequest is the death of the testator (transfer provider), which has not occurred.

Example 17—Pledge – Television Appeal for Public Hospital (paragraph 117)

IE41. On the evening of June 30, 20X5, a local television station conducts a fundraising appeal for a public hospital (recipient). The annual reporting date of the public 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.

IE42. The public hospital does not recognize any amount in its general purpose financial statements in respect of the pledges. The transfer recipient does not control the resources related to the pledge, because it cannot exclude or regulate the access of the prospective transferors 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.

Example 18—Fine (paragraphs 64-70 and 137)

IE43. A major corporation is found guilty of polluting a river. As a penalty, it is required to clean up the pollution and to pay a fine of CU50 million. The company is in sound financial condition and is capable of paying the fine but the company has announced that it will appeal the case. Historically, appeals of similar cases have resulted in the collection of approximately 75% of the initial amount of the fine.

IE44. The government (transfer recipient) recognizes a receivable and revenue of CU37.5 million in the general purpose financial statements of the reporting period in which the fine is imposed. If the transaction is material, the government also discloses: the legislation or regulation that the corporation violated to incur the fine; the fact that only CU37.5 million of that fine was recognized as revenue; and the fact that CU12.5 million of the fine was not recognized as its collection was not probable.

Example 19—External Assistance Recognized (paragraphs 107, AG50-AG54)

IE45. National Government A (transfer recipient) enters into an external assistance agreement with National Government B (transfer provider), which provides National Government A with development assistance to support National Government A’s health objectives over a two-year period. The external assistance agreement is binding on both parties. The agreement specifies the details of the development assistance receivable by National Government A and the types or items or expenses the transfer can be spent on to further its health objectives. National Government A measures the transaction price of the development assistance at CU5 million. Any funding not used over the two-year period is to be returned to the National Government B.

IE46. When the external assistance agreement becomes binding, National Government A recognizes an asset (a receivable) for the amount of CU5 million, and a liability of the same amount. The resources meet the definition of an asset and satisfy the recognition criteria when the agreement becomes binding. There is a requirement to satisfy a present obligation attached to this agreement therefore revenue is recognized and the liability decreased as that present obligation is satisfied.

Example 20—Revenue of Aid Agency (paragraphs 107, AG50–AG54)

IE47. Green-Aid Agency (transfer recipient) relies on funding from a group of governments (transfer providers). The governments have signed a binding arrangement, which determines the percentage of Green-Aid Agency's approved budget that each government will fund. Green-Aid Agency can only use the funds to meet the agreed expenses of the budget year for which the funds are provided. Green-Aid Agency's financial year begins on January 1. Green-Aid Agency's budget is approved in the preceding October, and the invoices are mailed out to the individual governments ten days after the budget is approved. Some governments pay before the start of the financial year and some during the financial year. However, based on past experience, some governments are very unlikely to pay what they owe, either during the financial year or at any future time. Any funding not used in the budget year is refundable to the governments in the same proportion as the transfers were received.

IE48. For the budget year 20X8, the profile of amounts and timing of payments was as follows:

	(CU Million)
Budget approved October 24, 20X7	55
Amount invoiced November 4, 20X7	55
Transfers received as at December 31, 20X7	15
Transfers received during 20X8	38
Amount not received by December 31, 20X8 and unlikely to be received	2

IE49. In 20X7, Green-Aid Agency recognizes an asset of CU15 million for the amount of transfers received before the start of 20X8, because it has control over an asset when the transfer is received and deposited in its bank account. An equivalent CU15 Million liability, revenue received in advance, is recognized.

IE50. In 20X8, Green Aid Agency recognizes a further CU38 million as an asset and liability (as and when the funding is received) and then a total of CU53 million of revenue when the present obligation is satisfied. In the notes to its general purpose financial statements, it discloses that CU55 Million was invoiced and an allowance for doubtful debts of CU2 Million was established.

Example 21 —Goods in-kind received as Revenue (paragraph AG50 - AG54)

IE51. A Defense Force Agency of Government A (transfer provider) agrees to provide an Aid Agency of Government B (transfer recipient) with its obsolete canvas tents for use as emergency relief housing after a natural disaster. Government A purchased the tents for CU100 per unit two years prior to transferring them to Government B. The agreement states that the tents are valued at CU100 per unit.

IE52. Upon receipt, Government B determines that the market price for this version of tent is CU50. Therefore, Government B recognizes revenue at the value of CU50 per unit received instead of the CU100 as per the agreement.

Example 22—Disclosure of Services In-kind not Recognized (paragraphs 110–115, 133)

IE53. A public hospital's (transfer recipient'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.

IE54. 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 to satisfy the definition of control of an asset. The hospital also concludes 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. The hospital discloses the number of hours of service provided by volunteers during the reporting period and a description of the services provided.

Example 23—Contribution from Owners (paragraphs 7−8)

IE55. In 20X0 the neighboring cities of Altonae, Berolini and Cadomi form the Tri-Cities Electricity Generating Service (TCEGS) (entity). The charter establishing TCEGS is binding on the city governments and provides for equal ownership, which can only be changed by agreement. The cities contribute CU25 million each to establish TCEGS. These contributions satisfy the definition of a contribution from owners, which the entity recognizes as such. The charter also provides for the cities to purchase the output of the TCEGS in proportion to their ownership. The purchase price is equal to the full costs of production. In 20X9, the city of Berolini gives approval for the construction of an aluminum smelter within the city, which will result in a doubling of the city's electricity demand. The three cities agree to amend the charter of TCEGS to permit Berolini to make a contribution from owners to enable the construction of additional generating capacity. After an independent valuation of TCEGS, the cities agree that Berolini may make a CU50 million contribution from owners and increase its ownership share to 49.9%, with Altonae and Cadomi retaining 25.05% each.

IE56. When the amendment to the charter becomes binding, TCEGS will recognize an increase in assets of CU50 million (cash or contribution from owners receivable) and a contribution from owners of CU50 million.

Example 24—Transfer from Binding Arrangement not Requiring Recognition of a Liability (paragraph 24)

IE57. National Park Department (transfer recipient) of Country A receives a transfer of CU500,000 from the bilateral aid agency of Country B (transfer provider). The binding arrangement specifies that the transfer is required to be used to rehabilitate deforested areas of Country A's existing wilderness reserves, but if the money is not used for the stated purpose, it must be returned to Country B. 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 National Park Department has received a transfer of this type from the same transfer provider. In prior years, the transfer has not been used as specified, but has been used to acquire additional land adjacent to national parks for incorporation into the parks. National Park Department has not conducted any rehabilitation of deforested areas in the past thirteen years. Country B's bilateral aid agency is aware of the breach of the agreement term.

IE58. National Park Department analyzes the transaction and concludes that, although the terms of the agreement are enforceable, because the bilateral aid agency has not enforced the requirements in the past, and given no indication that it ever would, the arrangement has the form of an enforceable arrangement, but not the substance. Therefore, National Park Department recognizes an increase in an asset (cash in bank) and revenue; it does not recognize a liability.

Example 25—Disclosures Made in the Financial Statements of Government A (paragraphs 126–133)

IE59. 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:

Statement of Financial Performance		
	20X2	20X1
	(CU',000)	(CU',000)
Revenue from Transactions without Performance Obligations		
Taxation Revenue		
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
Transfer Revenue		
Transfers from Other Governments (note 7)	XXX	XXX
Gifts, Donations, Goods In-kind (note 13)	X	X
Services In-kind (notes 15 and 16)	X	X
Statement of Financial Position		
Current Assets		
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
Noncurrent Assets		
Land (note 11)	XXX	XXX
Plant and Equipment (notes 12 and 14)	XX	XX
Current Liabilities		
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 Performance Obligations

1. Assets and revenue arising from taxation transactions are recognized in accordance with the requirements of [draft] IPSAS [X] (ED 71, *Revenue without Performance* Obligations). However, the Government takes advantage of the transitional provisions in that Standard 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).

2. Assets and revenue arising from transfer transactions are recognized in the period in which the transfer arrangement becomes binding, 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 a present obligation, if unfulfilled, requires the return of the transferred resources, the Government recognizes a liability until the requirements are fulfilled.

Basis of Measurement of Major Classes of Revenue Transactions without Performance Obligations

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 price of assets accruing to the Government during the reporting period, principally cash, 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. Estate tax of 40% 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 price as at the date of acquisition 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 price 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 price, which is fair value, which is determined by reference to observable market values or by independent appraisal by a member of the valuation profession. Receivables are recognized when a binding transfer arrangement is in place, 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 [draft] IPSAS [X] (ED 71, *Revenue without Performance Obligations*), 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 noncompliance 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 Requirements

11. Land with a fair value of CUXX,000 was donated during 20X2, subject to the requirement that it be used for public health purposes and not be sold for 50 years. The land was acquired by the

transferor at a public auction immediately prior to its transfer, and the auction price is the fair value.

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, and subject to the requirement that it not be sold 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 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 condition that it 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 markets 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 26—Concessionary Loans (paragraphs 119 to 120)

IE60. An transfer recipient receives CU6 million funding from a multi-lateral development agency to build 10 schools over the next 5 years. The funding is provided on the following conditions:

- CU1 million of the funding need not be repaid, provided that the schools are built.
- CU5 million of the funding is to be repaid as follows:

  Year 1: no capital to be repaid

  Year 2: 10% of the capital to be repaid

  Year 3: 20% of the capital to be repaid

  Year 4: 30% of the capital to be repaid

  Year 5: 40% of the capital to be repaid
- Interest is charged at 5% 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%.
- 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).

- The transfer recipient built the following schools over the period of the loan:

  Year 1: 1 school completed

  Year 2: 3 schools completed

  Year 3: 5 schools completed

  Year 4: 10 schools completed

Analysis

The transfer recipient has effectively received a transfer of CU1 million and a loan of CU5 million (Note: A transfer recipient would consider whether the substance of the CU1 million is a contribution from owners or revenue; assume for purposes of this example that the CU1 million is revenue). It has also received 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%).

The transfer of CU1 million + CU784,550 is accounted for in accordance with this [draft] Standard and, the loan with its related contractual interest and capital payments, in accordance with IPSAS 41.

1. On initial recognition, the transfer recipient will recognize the following:				
Dr		Bank	CU6,000,000	
	Cr	Loan		CU4,215,450
	Cr	Liability		CU1,784,550

2. Year 1: the transfer recipient will recognize the following:				
Dr		Liability	CU178,455	
	Cr	Revenue without Performance Obligations		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 transfer recipient will recognize the following (assuming that the transfer recipient subsequently measures the concessionary loan at amortized cost):				
Dr		Liability	CU356,910	
	Cr	Revenue without Performance Obligations		CU356,910
(3/10 schools built X CU1,784,500 – CU178,455 already recognized)				

4. Year 3: the transfer recipient will recognize the following:				
Dr		Liability	CU356,910	
	Cr	Revenue without Performance Obligations		CU356,910
(5/10 schools built X CU1,784,550 – CU535,365 already recognized)				

5. Year 4: the transfer recipient will recognize the following:				
Dr		Liability	CU892,275	
	Cr	Revenue without Performance Obligations		CU892,275
(All schools built, CU1,784,550 – CU892,275) If the concessionary loan was granted with no conditions, the transfer recipient would recognize the following on initial recognition:				
Dr		Bank	CU6,000,000	
	Cr	Loan		CU4,215,450
	Cr	Revenue without Performance Obligations		CU1,784,550

Example 27—Interaction Between Measurement Requirements of [draft] IPSAS [X] (ED 71) Revenue without Performance Obligations) and IPSAS 41

Background

IE61. An individual donates shares in listed Entity X to public sector Entity A on January 1, 20X8. At that date, the shares in Entity X have a fair value of CU1,000,000. At December 31, 20X8, the fair value of the shares is CU900,000. As part of the arrangement, Entity A incurs the transfer duty to have the shares transferred into its name. These costs amount to CU10,000.

IE62. Entity A measures investments in shares at fair value through net assets/equity when the shares are not held for trading. Assume that the arrangement is a contractual arrangement, no present obligations arise from the donation and that Entity A's reporting period ends on December 31, 20X8.

Analysis

IE63. As Entity A received the shares as a donation, it used [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations)* to initially recognize the shares acquired and the related revenue without performance obligations. However, because Entity A has acquired a financial asset, it considers the initial measurement requirements of [draft] IPSAS [X] (ED 71) and IPSAS 41.

IE64. [Draft] IPSAS [X] (ED 71) prescribes that assets acquired as part of a revenue transaction without performance obligations are initially measured at fair value, while IPSAS 41 prescribes that financial assets are initially measured at fair value and, depending on their classification, transaction costs may or may not be included. As Entity A has a policy of measuring investments in shares at fair value through net assets/equity, the transaction costs of CU10,000 are added to the value of the shares of CU1,000,000 on initial measurement.

IE65. The subsequent measurement and derecognition of the shares is addressed in IPSAS 41. Entity A measures investments in shares at fair value through net assets/equity which means that the shares are measured at a fair value with any subsequent changes in fair value recognized in net assets/equity. Dividends are however recognized in surplus or deficit

The journal entries at initial acquisition and at the reporting dates are as follows:

1.	Acquisition of shares through donation			
Dr		Investment in Entity X	CU1,010,000	
	Cr	Revenue without Performance Obligations		CU1,000,000
	Cr	Bank (Transfer costs paid)		CU10,000
2.	Subsequent measurement at December 31, 20X8			
Dr		Net assets/equity (fair value adjustment of investment)	CU110,000	
	Cr	Investment in Entity X		CU110,000
Dr				
	Cr			

Example 28—Transaction with one component which is within the scope of [draft] IPSAS (ED 70) *Revenue with Performance Obligations*, and another component which is within the scope of [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations* (Paragraph 9)

IE66. A hospital foundation is raising funds by selling tickets to a networking dinner. The price of each ticket is CU300, and each ticket clearly states that if the networking dinner is cancelled, the foundation will only return CU100 to each ticket holder. Each ticket also clearly states that the remaining CU200 of consideration is non-refundable. Other than the networking dinner, the foundation is not obliged to provide any other good or service to the ticketholders.

IE67. The foundation applies paragraph 9 of [draft] IPSAS [X] (ED 71) and concludes that the disclosed cancellation terms provide evidence that each ticket consist of two components:

(a) CU100 of the transaction price relates to the promise to provide admission at the networking dinner to each ticket holder; and

(b) The remaining CU200, which is non-refundable, is considered a donation to the foundation, as the foundation is not obliged to provide any good or service in exchange for this amount.

IE68. Accordingly, CU100 of the consideration received for each ticket is within the scope of [draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*, while the remaining CU200 per ticket is accounted for in accordance with [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*.

Example 29—Capital Transfers – Single Present Obligation (paragraph 108)

IE69. A National Government and a Local Authority enter into a binding arrangement which states that the National Government will provide CU22 million funding to the Local Authority to build a multipurpose community center. The cost of construction is estimated at CU20 million and a 10% margin has been included in the transfer to cover indirect overhead costs. Once constructed, the community center will remain the property of the Local Authority. The center is not intended to have any one specific use but would be available to local community groups (i.e., youth groups, childcare, health and fitness groups) to use for a small fee to be paid to the Local Authority. The National Government will provide all the funding prior to the construction period but requires the Local Authority to provide a detailed progress report at each significant stage of construction (i.e., clearing the site, foundations, framing, lock up, first fit out/fixing, second fit out/fixing, completion). Each progress report must include details of the actual costs incurred in each stage. If the Local Authority fails to construct the community center or fails to provide the National Government with an appropriate progress report, any funds not used on the construction of the community center is to be returned to the National Government.

IE70. The Local Authority (transfer recipient) recognizes an increase in assets (either cash or accounts receivable) and a liability in the amount of CU22 million when it has obtained control of the resources. The requirement to construct the community center represents a present obligation, and therefore, a liability exists. This agreement does not meet the requirements for there to be a performance obligation (and is therefore not accounted for under [draft] IPSAS [X], (ED 70), *Revenue with Performance Obligations*) because there is no transfer of goods or services to the National Government (purchaser) or any third-party beneficiary.

IE71. As each stage of completion, the Local Authority provides a progress report to the National Government and reduces the liability by the amount spent on each stage, plus a 10% margin for overheads, and revenue is recognized for the same amount.

IE72. Once the community center has been constructed any funding that has not been used on the construction of the community center (including the 10% margin) is returned to the National Government. The remaining liability is debited and either a liability (accounts payable) is created for the repayment or cash is credited when the repayment is made.

Example 30—Capital Transfers – Multiple Present Obligations (paragraph 108)

IE73. Using the same facts as Example 27 above, except that the total funding has been increased to CU25 million and the binding arrangement states that the community center must be used as a child-care center for the first 10 years after completion of the building. For each year that the community center is not used as a child-care center, the Local Authority must repay CU300,000 to the National Government. The binding arrangement specifies certain high-level criteria that must be met for the building to qualify as a child-care center. However, these criteria do not specifically require the provision of child-care services to the National Government or third-party beneficiaries. The binding arrangement also sets out the mechanisms for the Local Authority to report whether it has met the criteria.

IE74. When assessing how to account for the transfer, the Local Authority must assess whether the binding arrangement has one or more present obligations, or a combination of present obligations and performance obligations, and shall account for each present obligation or performance obligation accordingly. Based on the refund requirement of CU300,000 per year for each year that the center is not used as a child-care center, the Local Authority concludes that CU3 million of the funding relates to the operation of the child-care center. As the binding arrangement does not require the provision of goods or services to the National Government or third-party beneficiaries, the Local Authority also concludes that both the obligation to construct the building and to operate it as a child-care center are not performance obligations. Accordingly, CU22 million of the funding relates to the construction of the building and is accounted as a capital transfer, similar to Example 27. The Local Authority assesses whether the requirement to operate the building as a child-care center for 10 years is enforceable by considering factors such as the National Government's ability to demand a refund or its ability to monitor compliance with the binding arrangement. If the requirement to operate the building as a child-care center is not enforceable, the remaining CU3 million is recognized as revenue immediately upon completion of the building. If the requirement is enforceable, revenue is recognized as the present obligation is satisfied.

Example 31—Transfers Subject to Authorization of Appropriations

IE75. A national government and local government both have a financial year end of December 31. On March 15, 20X2, the national government (the transfer provider) enters into a binding arrangement with the local government (the transfer recipient) to transfer CU15 million (CU10 million in 20X2 and CU5 million in 20X3) to the local government, to be used to reduce air pollution, in accordance with the national government's policy.

IE76. The binding arrangement includes a term that it is subject to an appropriation being authorized. In determining the effect of the term that the binding arrangement is subject to an appropriation being authorized, the national government considers substance over form, in accordance with paragraphs 36-37 and AG29-AG33.

IE77. Parliament authorizes the appropriation for CU10 million on March 31, 20X2. The appropriation for CU5 is not authorized in March 20X2 but is considered at a later date, as part of the appropriation process for 20X3.

Case A – Appropriation is in Substance a Limitation

IE78. The reduction in air pollution is a local government responsibility, and there is no authorizing legislation that requires the national government to fund such initiatives. The binding arrangement is clear that the funding is subject to the appropriation being authorized, which is not certain, and that the amount may be reduced.

IE79. The local government concludes that it does not have an enforceable right to the CU15 million prior to the appropriations being authorized. Consequently, the limitation (that the transfer is subject to the appropriations being authorized) has substance and, in accordance with paragraphs 36-37 and AG29-AG33, the local government recognizes an asset of CU10 million as at December 31 20X2, but it does not recognize an asset for the CU5 million, as the appropriation has not been authorized, and the local government considers whether to disclose the binding arrangement as a contingent asset.

IE80. On March 31, 20X3, the Parliament authorizes the appropriation. At this date, the local government applies paragraphs 31-42 to determine when to recognize an asset.

Case B – Appropriation is not in Substance a Limitation

IE81. Authorizing legislation requires the national government to invest in measures to reduce air pollution, and the binding arrangement is a firm commitment by the national government to meet its legislative obligations by investing in specific measures, set out in the binding arrangement, to be undertaken by the local government.

IE82. The local government concludes that it has an enforceable right to the CU15 million prior to the appropriation being authorized. Consequently, the limitation (that the transfer is subject to the appropriation being authorized) does not have substance. As at March 15, 20X2, the local government applies paragraphs 32-43 in determining when to recognize an asset

Example 32—Disclosure of a Transfer Subject to Appropriations

IE83. The facts are the same as in Case A of Example 30. 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, *Provisions, Contingent Liabilities and Contingent Assets*.

IE84. 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 an appropriation being authorized, 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 for this amount had not been authorized and therefore the local government does not have an enforceable right to the funds.

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