

**Meeting:** International Public Sector Accounting Standards Board  
**Meeting Location:** Washington D.C., USA  
**Meeting Date:** March 12–15, 2019  
**From:** Paul Mason

# Agenda Item 10

**For:**  
 Approval  
 Discussion  
 Information

## NON-EXCHANGE EXPENSES (GRANTS, CONTRIBUTIONS AND OTHER TRANSFERS)

<b>Project summary</b>	The aim of the project is to develop a standard(s) that provides recognition and measurement requirements applicable to providers of non-exchange transactions, except for social benefits.	
<b>Meeting objectives</b>	<b>Topic</b>	<b>Agenda Item</b>
<b>Project management</b>	Decisions up to December 2018 Meeting	10.1.1
	Instructions up to December 2018 Meeting	10.1.2
	Non-Exchange Expenses Road Map	10.1.3
<b>Decisions required at this meeting</b>	Objective and Scope	10.2.1
	Definitions	10.2.2
	Public Sector Performance Obligation Approach	10.2.3
	Recognition and Measurement of Grants and Other Transfers	10.2.4
	Presentation	10.2.5
	Effective Date and Transition	10.2.6
<b>Other supporting items</b>	Draft Exposure Draft xx, <i>Grants, Contributions and Other Transfers</i>	10.3

### DECISIONS UP TO DECEMBER 2018 MEETING

#### Non-Exchange Expenses

Date of Decision	Decision
December 2018	Consult on ED 67 for the standard four month period, with the consultation period ending on May 31, 2019.
December 2018	Agree the Specific Matters for Comments (SMCs) proposed by staff in the final draft of ED 67, with minor amendments.
December 2018	Approve ED 67, Collective and Individual Services and Emergency Relief (17 members voted in favor, with one absent).
September 2018	The term “individual services” should be adopted, rather than the term “universally accessible services.”
September 2018	Include definitions of “collective services” and “individual services” in the core text of IPSAS 19, <i>Provisions, Contingent Liabilities and Contingent Assets</i> , based on the descriptions in the first sentences in paragraphs AG2 and AG4 of the draft ED.
September 2018	The revised section of the draft ED should refer to emergency relief rather than disaster relief.
September 2018	The Public Sector Performance Obligation Approach (PSPOA) could be applied to some non-exchange expenses.
September 2018	Where the PSPOA is applied, this may involve the recognition of an asset for the right to have goods and services transferred to a third party.
June 2018	No additional disclosure requirements for collective services are required.
June 2018	Guidance on collective services will be provided as Application Guidance to IPSAS 19, <i>Provisions, Contingent Liabilities and Contingent Assets</i> .
June 2018	The IPSASB confirmed its view that there is no obligating event related to non-exchange transactions for collective services.
June 2018	Additional guidance on disaster relief (which remains outside of the scope of social benefits following the decision to retain the reference to “social risks” in the definition of social benefits) should be provided in IPSAS 19, <i>Provisions, Contingent Liabilities and Contingent Assets</i> .
June 2017	All decisions up to the June 2017 meeting were reflected in the Consultation Paper, <i>Accounting for Revenue and Non-Exchange Expenses</i> .

## INSTRUCTIONS UP TO DECEMBER 2018 MEETING

### Non-Exchange Expenses

Meeting	Instruction	Actioned
December 2018	Later on Day Four, the IPSASB considered a further revised draft ED and instructed staff to make further minor amendments in finalizing ED 67.	
December 2018	Staff were instructed to work with the Chair's Technical Advisor to further restructure and simplify the requirements and Basis for Conclusions relating to emergency relief.	
December 2018	Delete the paragraphs relating to the recognition and measurement of an expense and a liability for collective and individual services.	
December 2018	Restructure and simplify the guidance on the scope of collective and individual services.	
December 2018	Amend the definition of individual services to refer to "individuals and/or households."	
December 2018	Include a consequential amendment to IPSAS 42 to provide a cross-reference to the guidance on collective and individual services and emergency relief when this guidance has been included in IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets.	
December 2018	Include additional guidance on the application of IPSAS 1 to Emergency Relief.	
December 2018	Staff were instructed to work with a small group of members to improve the drafting of paragraphs AG25-AG32 dealing with emergency relief, in particular the distinction between ongoing emergency relief and other emergency relief. This wording was to be presented on the morning of Day Four.	
December 2018	Include additional guidance on the application of IPSAS 1 to Collective and Individual Services.	
December 2018	Include a cross-reference to IPSAS 3 where there is no specific IPSAS addressing a transaction.	
December 2018	Include additional guidance that financial liabilities are accounted for in accordance with IPSAS 41.	
December 2018	Staff should work with a small group of members to improve the drafting of paragraphs AG10-AG16 dealing with the rationale why no provision is required. This wording was to be presented on the morning of Day Four.	
December 2018	Give greater prominence to emergency relief in paragraph AG7.	

Non-Exchange Expenses (Instructions up to December 2018 meeting)  
IPSASB Meeting (March 2019)

Meeting	Instruction	Actioned
December 2018	Amend the definition of collective services to include “to address the needs of society.”	
September 2018	Redraft the <i>Collective and Individual Services and Emergency Relief</i> ED to discuss collective services and individual services separately; the IPSASB agreed that the accounting may be the same but considered the rationale for that accounting to be different.	
September 2018	Add additional guidance related to the table in paragraph AG6, to explain the sequence as it applied to collective and individual services.	
September 2018	Draft a Basis for Conclusions paragraph discussing the coverage of other standards.	
September 2018	Provide a revised draft of the disaster relief section of the draft ED on Day 4 that focused on when a provision should be recognized over and above any liability to suppliers. This should cover cash transfers, goods and services and refer to the requirements on provisions in IPSAS 19.	
September 2018	Include a reference to emergency relief in the core text of IPSAS 19.	
September 2018	Add “By contrast” at the beginning of paragraph AG20.	
September 2018	Reconsider the reference to emergency relief not being ongoing expenditure, particularly in the context of some jurisdictions having relief agencies.	
September 2018	Consider whether a government announcement or government action gives rise to a provision or contingent liability.	
September 2018	Include a cross-reference to the guidance in IPSAS 19 on measurement uncertainty.	
September 2018	Under the PSPOA, give further consideration to when a liability should be recognized (specifically whether this should be when a binding arrangement is entered into, or when the performance obligation has been satisfied).	See <a href="#">Agenda Item 10.2.3</a>
September 2018	Develop guidance on enforceability to reflect the subsequent discussions on the PSPOA in the context of the Revenue project.	To be developed once the IPSASB has discussed the guidance in the Revenue project.
September 2018	Develop examples to illustrate the operation of the PSPOA.	To be discussed at a future meeting.
June 2018	The IPSASB instructed staff to incorporate descriptions of collective services and universally accessible services (or another, more appropriate term for these transactions) in the Application Guidance. Definitions are not required.	

Non-Exchange Expenses (Instructions up to December 2018 meeting)  
 IPSASB Meeting (March 2019)

Meeting	Instruction	Actioned
June 2018	The IPSASB instructed staff to consider amending the draft guidance in respect of collective services to refer to “resources” rather than “assets”.	
June 2018	The IPSASB instructed staff to amend the draft guidance in respect of collective services to clarify that liabilities only arise in respect of the purchase of goods and services.	
June 2018	In respect of collective services, the IPSASB instructed staff to include a lead-in to the Application Guidance, and Basis for Conclusion paragraphs that provide the context for including the guidance in IPSAS 19.	
June 2018	The IPSASB instructed staff to consider practical examples alongside the conceptual analysis of the PSPOA.	
June 2018	The IPSASB instructed staff to further develop the conceptual basis for applying the PSPOA to non-exchange expenses, focusing on the possible existence and nature of an asset. Staff should also provide options for the IPSASB to consider if it decides that the resource provider does not have an asset for the service potential represented by the goods or services to be transferred by the resource recipient.	
June 2018	The IPSASB instructed staff to ensure that the further development of Step 1 (identify the binding arrangement) and Step 2 (identify performance obligations) for revenue transactions were equally appropriate for non-exchange expense transactions.	
June 2018	With regards to the additional guidance on disaster relief, the IPSASB instructed staff to consider the application of emergency relief provided in some jurisdictions.	
March 2018	The IPSASB instructed staff to review the responses regarding the public sector performance obligation approach (PSPOA) again once the IPSASB has agreed a future direction, to see whether this direction addresses some of the concerns raised.	
March 2018	The IPSASB instructed staff to develop the non-exchange expenses side of the revenue examples relating to the PSPOA.	

Non-Exchange Expenses (Instructions up to December 2018 meeting)  
 IPSASB Meeting (March 2019)

Meeting	Instruction	Actioned
March 2018	The IPSASB instructed staff to: <ul style="list-style-type: none"> <li>• Develop clear definitions of collective services and universally accessible services, taking into account the responses to ED 63.</li> <li>• Develop clear descriptions of how the three way relationships (resource provider, resource recipient and beneficiaries) give rise to assets, liabilities, revenue and expenses for collective services and universally accessible services. The IPSASB considered that collective services should be more straightforward, and should be addressed first. This should include draft paragraphs for an ED.</li> <li>• Review the previous papers to draw on previous work and examples dealing with these issues.</li> </ul>	
December 2017	As part of the review of the Work Plan, the IPSASB instructed staff to consider non-exchange expenses as two separate streams, <i>Collective and Individual Services</i> , and <i>Grants and Other Transfers</i> .	
December 2017	The IPSASB requested staff consider how the Specific Matters for Comment and Preliminary Views relate to the different revenue and non-exchange expenses project streams.	
June 2017	All instructions up to the June 2017 meeting were reflected in the Consultation Paper, <i>Accounting for Revenue and Non-Exchange Expenses</i> .	

## NON-EXCHANGE EXPENSES ROAD MAP

Meeting	Objective: IPSASB to consider:	
	Collective and Individual Services	Grants and Other Transfers
March 2019	Consultation Period	<ol style="list-style-type: none"> <li>1. Discussion of issues</li> <li>2. Review first draft of proposed ED (core text only)</li> </ol>
June 2019		<ol style="list-style-type: none"> <li>1. Discussion of issues</li> <li>2. Review of first draft of complete ED</li> </ol>
September 2019	<ol style="list-style-type: none"> <li>1. Review of responses</li> <li>2. Initial discussion on issues raised</li> <li>3. Review first draft of proposed IPSAS</li> </ol>	<ol style="list-style-type: none"> <li>1. Review of draft ED</li> <li>2. Approval of ED</li> </ol>
December 2019	<ol style="list-style-type: none"> <li>1. Review of draft IPSAS</li> <li>2. Approval of IPSAS</li> </ol>	Consultation Period
March 2020		
June 2020		<ol style="list-style-type: none"> <li>1. Review of Responses</li> </ol>
September 2020		<ol style="list-style-type: none"> <li>1. Initial discussion of issues raised</li> </ol>
December 2020		<ol style="list-style-type: none"> <li>1. Further discussion of issues raised</li> </ol>
March 2021		<ol style="list-style-type: none"> <li>1. Review first draft of proposed IPSAS</li> </ol>
June 2021		<ol style="list-style-type: none"> <li>1. Review of draft IPSAS</li> <li>2. Approval of IPSAS</li> </ol>

## Objective and Scope

### Questions

1. The IPSASB is asked to agree the objective and scope of the Exposure Draft (ED), *Grants, Contributions and Other Transfers*.

### Detail

#### *Objective*

2. The objective of the ED is set out in [paragraphs 1–4](#) of the draft ED. These paragraphs mirror the equivalent paragraphs in the draft ED, *Revenue from Binding Arrangements with Purchasers*, with minor adaptations to reflect the purchaser's perspective and to reflect the fact that, unlike the *Revenue* ED, this ED also addresses transactions which do not impose a performance obligation on the resource recipient or beneficiary.

#### *Scope*

3. The proposed ED forms part of the IPSASB's non-exchange project. This implies that the scope of the ED should be limited to non-exchange expenses.
4. However, the related *Revenue* project is proposing that the distinction between exchange transactions and non-exchange transactions would not be used in determining the choice of accounting policy. Instead, the IPSASB tentatively agreed that the accounting policy would be determined by considering whether the transaction includes an appropriate performance obligation. As a consequence, non-exchange revenue transactions that include a performance obligation will be accounted for in the same way as exchange revenue transactions, and the draft *Revenue* ED covers both types of transactions.
5. This ED is drafted on the basis that this approach will be applied to expenses in the same way as for revenue (see [paragraphs 5–8](#) of the draft ED). The accounting policy choice for expenses, as currently drafted, is determined by considering whether the transaction includes an appropriate performance obligation. In the expenses context, this involves consideration of whether a performance obligation is imposed on the beneficiary or resource recipient (seller).
6. The effect of applying this approach, which is a logical consequence of applying the same principles to both the revenue and expenses sides of a transaction, will be to bring some exchange expense transactions (those not covered by other Standards) into the scope of the ED.
7. The exchange expenses covered by this scope would be purchases of goods and services that are consumed immediately and not treated as inventory, nor included in other assets. This would typically cover consumables, utilities such as electricity, and services.
8. Purchases of inventory, property, plant and equipment, remuneration of staff, and the recognition of provisions are examples of transactions that are covered by other IPSAS and would therefore be outside of the scope of this draft ED.

9. Staff considers that this scope has two advantages:
  - (a) Consistency with the proposals in the *Revenue* project; and
  - (b) Avoiding problems in determining whether a transaction is an exchange or non-exchange transaction.
10. The IPSASB's views are sought on including some exchange transactions within the scope of this ED.

**Decisions required**

11. The IPSASB is asked to support the staff recommendation that the scope of the ED include those exchange transactions not covered by other Standards; or to provide guidance to staff on the desired scope of the ED.
12. Does the IPSASB have any additional comments on the proposed objective and scope of the draft ED (see [paragraphs 1–8](#) of the draft ED)?

## Definitions

### Questions

1. The IPSASB is asked to agree which definitions should be included in the draft ED, and provide guidance to staff on the wording of those definitions.

### Detail

#### *Expense*

2. "Expenses" is currently defined in IPSAS 1, *Presentation of Financial Statements*, as follows:  
*Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets/equity, other than those relating to distributions to owners.*
3. Staff is proposing a revised definition of expense, which is currently included in the ED (see [paragraph 9](#) of the draft ED):  
*Expense is the gross outflow of economic benefits or service potential during the reporting period when those outflows result in a decrease in net assets/equity, other than decreases relating to distributions to owners.*
4. This revised definition would mirror the definition of revenue being proposed in the related *Revenue* project, and would be consistent with the definition in the *Conceptual Framework*. The definition of revenue proposed in the *Revenue* project is as follows:  
*Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners.*
5. The IPSASB is asked to decide on the location of the expense definition, which could be in this draft ED, IPSAS 1 or both. A similar decision will be required for the definition of revenue (discussed in the revenue project). Staff consider the location of these definitions should be consistent.
6. In considering the location of these definitions, it may be helpful to note that, to date, IPSAS and IFRS have taken different approaches to the location of these definitions. IPSAS 1 includes definitions of revenue and expenses. The IASB's definition of revenue is included in IFRS 15, *Revenue from Contracts with Customers*, having previously been located in IAS 18, *Revenue*. Unlike IPSAS 1, IAS 1, *Presentation of Financial Statements*, does not include the definitions of revenue and expenses (indeed, expenses is not a defined term in IFRS Standards, although it is defined in the IASB's *Conceptual Framework*).

#### *Grants, Contributions and Other Transfers*

7. The IPSASB's working title for the ED is *Grants, Contributions and other Transfers*. Consequently, staff have sought to develop definitions for each element (see [paragraph 9](#) of the draft ED). Staff have therefore divided the transactions within the proposed scope of the ED as follows:

Item	Coverage	Rationale
Other Transfers	Transfers between different levels of government or public sector entities that do not include performance obligations.	The term “transfers” is often used to refer to flows of resources from one level of government to another, and that sense is retained in the draft ED.
Grant	Transfers (other than between different levels of government or public sector entities) that do not include performance obligations.	The term “grant” is sometimes used to mean a transfer of resources for which nothing is received in return; this does not apply to a performance obligation.
Contribution	Transfers that include performance obligations.	Residual category.

8. Staff acknowledge that different distinctions could be drawn, and that alternative terms could be used. Staff also acknowledge that, depending on the accounting arrangements that the IPSASB decides to include in the ED, there may be no differences between grants and other transfers. Consequently, the two groups could be combined.
9. If the IPSASB wishes to retain the current working title of the ED, *Grants, Contributions and Other Transfers*, staff recommend that the proposed definitions are retained as working definitions, and reviewed once the IPSASB has finalized the accounting requirements.
10. The three terms are defined in the draft ED as follows:
 

*For the purposes of this [draft] Standard, a contribution is transfer of resources under a binding arrangement, or part of a binding arrangement, whereby a purchaser provides consideration to a resource recipient in exchange for the resource recipient satisfying a performance obligation.*

*For the purposes of this [draft] Standard, a grant is a transfer of resources by a resource provider to a beneficiary or resource recipient, and which is neither a contribution nor an other transfer.*

*For the purposes of this [draft] Standard, an other transfer is a transfer of resources by a resource provider to a beneficiary or resource recipient, other than a contribution, and where both the resource provider and resource recipient are public sector entities that operate in the geographical area to which the transfer of resources relates.*
11. Alternatively, the IPSASB may wish to review the title of the ED, and adjust the terminology accordingly. In these circumstances, staff would recommend calling the ED “Expenses” and referring to “expenses from transactions with performance obligations of recipients” and “expenses from transactions without performance obligations of recipients.” This approach may be preferable if the IPSASB agrees with the scope recommended in [Agenda Item 10.2.1](#), which would include some exchange transactions.
12. Staff also note that confusion might arise between the terms contributions and contributions from owners (or ownership contributions). The IPSAS 1 definition of contributions from owners, and the equivalent *Conceptual Framework* definition of ownership contributions, refer to inflows of resources to an entity, contributed by external parties in their capacity as owners.

13. Ownership contributions are similar to revenue in that they are inflows of resources to the entity. Ownership distributions (*Conceptual Framework*) / distributions to owners (IPSAS 1) are outflows of resources from the entity, and are therefore similar to expenses.
14. Accounting for contributions from owners and distributions to owners is covered in IPSAS 1 (see paragraphs 95 and 118 of IPSAS 1). Staff consider that, if the IPSASB decides that more guidance is required on accounting for these transactions, this should be developed as consequential amendments to IPSAS 1 (either in this ED or in the *Revenue* ED) with cross references from this ED to that guidance, if required, to clarify the distinction between contributions and ownership contributions.

#### *Contribution Consideration*

15. The Consultation Paper (CP), *Accounting for Revenue and Non-Exchange Expenses*, proposed extending the Public Sector Performance Obligation Approach (PSPOA) to expenses. As noted in [Agenda Item 10.2.1](#) above, the relevant performance obligation is the one imposed on the counterparty. The CP proposed using the term “consideration” for the amount that the purchaser would transfer in exchange for the counterparty satisfying its performance obligations.
16. Staff note that consideration is used throughout IPSAS (without being a defined term) and may in some cases have a wider meaning.
17. Staff also note that IFRS 15, *Revenue from Contracts with Customers*, adopts the term transaction price (which is not used elsewhere) but also makes extensive use of the term consideration, for example in describing a performance obligation. This is also true of the *Revenue* ED, which is based on IFRS 15.
18. As a result, staff considers that retaining the term consideration to mean that amount the purchaser would transfer in exchange for the counterparty satisfying its performance obligations would be problematic. Staff therefore propose adopting the term “contribution consideration.”
19. Staff have included a definition of contribution consideration in the draft ED, based on the definition of transaction price in IFRS 15 and the *Revenue* ED (see [paragraph 9](#) of the draft ED), as follows:  
*Contribution consideration (for a binding arrangement for a contribution) is the value of the resources that the purchaser expects to transfer to the resource recipient, in exchange for resource recipient transferring the promised goods or services, either to the purchaser or to a beneficiary.*
20. The IPSASB’s views on the approach to be taken in the ED are sought.

#### *Beneficiary, Resource Provider and Resource Recipient*

21. The CP referred to beneficiaries, resource providers and resource recipients. Staff have retained these terms in the draft ED, and, unlike the CP, have included definitions (see [paragraph 9](#) of the draft ED).
22. The term “purchaser” is used in the PSPOA; “resource provider” has been used to describe the equivalent role where the PSPOA does not apply.
23. Staff notes that the term “beneficiary” is used in a small number of other Standards (for example, IPSAS 2, *Cash Flow Statements*, IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* and IPSAS 42, *Social Benefits*) without being defined. Staff therefore recommends

that, if the ED is to include a definition of “beneficiary”, the application of the definition should be limited to this Standard; alternatively, a different term could be used.

24. The term “resource provider” is used extensively in the Conceptual Framework but not elsewhere, while the term “resource recipient” is not used elsewhere in the IPSASB’s literature.
25. The three terms are defined in the draft ED as follows:

*For the purposes of this [draft] Standard, a beneficiary is a third party that receives cash, goods or services, either directly from a resource provider or, in a tripartite arrangement, from a resource recipient.*

*For the purpose of this [draft] Standard, a resource provider is an entity that provides resources through a grant or other transfer to a beneficiary or, in a tripartite arrangement, a resource recipient.*

*For the purpose of this [draft] Standard, a resource recipient is an entity that receives resources through a grant, contribution or other transfer and provides goods and/or services to either the purchaser or a beneficiary.*

26. The IPSASB is asked for its views as to whether it is necessary to define these terms.

#### *Stand-Alone Purchase Price*

27. The *Revenue* ED, following IFRS 15, uses the stand-alone selling price as the primary basis for allocating the total transaction price to individual performance obligations. Consequently, if the same approach is to be applied to expenses where there are performance obligations, a similar allocation basis will be required.
28. Staff is therefore proposing (see [paragraph 9](#) of the draft ED) to include the following definition of stand-alone purchase price, which mirrors the definition of stand-alone selling price adopted in the *Revenue* project:

*Stand-alone purchase price (of a good or service) is the price at which an entity would purchase a promised good or service separately from a resource recipient.*

#### *Binding Arrangement Asset and Binding Arrangement Liability*

29. The draft *Revenue* ED includes definitions of binding arrangement asset and binding arrangement liability. Because these take the perspective of the seller, the perspective of the purchaser is required for an expenses ED.
30. Staff has therefore included the following definitions in the draft ED (see [paragraph 9](#)), which mirror the definitions in the *Revenue* ED.:

*For the purposes of this [draft] Standard, a binding arrangement asset is an entity’s right to have goods or services transferred (either to the entity or to a beneficiary) in exchange for consideration. A binding arrangement asset includes a contract asset.*

*For the purposes of this [draft] Standard, a binding arrangement liability is an entity’s obligation to pay consideration in exchange for goods or services that the resource recipient has transferred to the entity or a beneficiary when that obligation is conditioned on something other than the passage of time (for example, the resource recipient’s future performance). A binding arrangement liability includes a contract liability.*

31. Alternatively, different terms could be used, and the IPSASB's views are sought.

*Terms Defined in the draft Revenue ED*

32. A number of terms used in the draft *Revenue* ED will be relevant to this ED; for example, "binding arrangement." Staff propose reproducing these terms in this ED, noting that the terms are defined in the *Revenue* ED (see [paragraph 10](#) of the draft ED).
33. Staff note that the definition of purchaser included in the draft *Revenue* ED has previously been agreed by the IPSASB. The definition is as follows:
- A purchaser is a party that acquires goods or services that are an output of an entity under a binding arrangement. A purchaser includes customer.*
34. The draft *Revenue* ED also includes Application Guidance that explains that "the purchaser is the party that pays consideration for the goods and services agreed to within a binding arrangement, but is not necessarily the party that receives those goods and services."
35. The IPSASB is asked to consider whether the definition of purchaser used in the draft *Revenue* ED, along with the Application Guidance, is appropriate for an *Expenses* ED. This question is being raised because other drafting in the ED is explicit that the goods or services may be transferred to either the purchaser or a third-party beneficiary. If the IPSASB considers that this should be clear from the definition of purchaser in the *Expenses* ED, staff would propose the following modification:
- A purchaser is a party that ~~acquires~~ pays for goods or services that are an output of an entity under a binding arrangement, either for its own consumption or for transfer to a third-party beneficiary. A purchaser includes a customer.*
36. The IPSASB's views on which definition of purchaser to include are sought.

**Decisions required**

37. The IPSASB is asked:
- (a) Whether it supports the revised definition of expense, and if not to provide alternative wording; and
  - (b) To decide on the location of the definition of expense.
38. Does the IPSASB wish to retain the working title of the ED as *Grants, Contributions and Other Transfers*?
- (a) If so, does the IPSASB support the staff proposal to retain the working definitions of grants, contributions and other transfers?
  - (b) If not, does the IPSASB wish to adopt *Expenses* as the title of the ED, and refer to "expenses from transactions with performance obligations of recipients" and "expenses from transactions without performance obligations of recipients"?
39. Does the IPSASB support the staff proposal to include a definition of "contribution consideration" in the ED? If not, what term does the IPSASB propose?
40. Does the IPSASB wish to include definitions of beneficiary, resource provider and resource recipient in the ED?

41. Does the IPSASB support the proposed definition of stand-alone purchase price?
42. Does the IPSASB support the inclusion of definitions of binding arrangement asset and binding arrangement liability in the ED? If not, what terms should be used?
43. Does the IPSASB support the staff proposal to reproduce relevant definitions from the *Revenue* ED in this ED, noting that the terms are defined in the *Revenue* ED?
44. Does the IPSASB wish to retain the definition of purchaser included in the *Revenue* ED, or include a modified version in the *Expenses* ED?
45. Does the IPSASB have any additional comments on the proposed definitions (see [paragraphs 9–10](#) of the draft ED)?

**Public Sector Performance Obligation Approach****Questions**

1. The IPSASB is asked to provide guidance to staff on the development of the Public Sector Performance Obligation Approach (PSPOA) requirements in the draft ED.

**Detail**

2. At its September 2018 meeting, the IPSASB tentatively agreed that the PSPOA could be applied to some non-exchange expenses. In coming to this decision, the IPSASB noted that this would involve the recognition of an asset for the right to have goods and/or services<sup>1</sup> transferred to a third party.
3. The draft ED therefore includes requirements for expense transactions which impose performance obligations on the resource recipient. As noted in [Agenda Item 10.2.1](#), this section of the ED as drafted would apply to all such expense transactions not addressed in other Standards, not just non-exchange transactions.
4. These requirements have been developed to mirror the requirements for recognizing revenue under the PSPOA in the core text of the draft ED, *Revenue from Binding Arrangements with Purchasers*. Additional Application Guidance is being considered for the *Revenue* project in Agenda Items 8 and 9. Once the IPSASB has agreed this Application Guidance, it will be adapted for the expenses perspective and incorporated into this draft ED. As such, the ED, as currently drafted, includes some placeholders for additional guidance to be included, based on the decisions to be taken in the *Revenue* project.
5. Developing requirements that mirror those in the draft *Revenue* ED will help to ensure that the principles that underpin the revenue and exchange sides of a transaction are accounted for using the same principles. However, this does not mean that the resulting accounting will be symmetrical in all cases. Examples of where symmetrical accounting may not occur include:
  - (a) Non-cash consideration. The resource recipient will recognize revenue based on the fair value of the non-cash consideration, whereas the purchaser will recognize an expense based on the carrying amount of the item transferred. The two values may be different.
  - (b) Recognition criteria satisfied at different times. In the early stages of a binding arrangement, a resource recipient may not be able to reasonably measure the outcome of a performance obligation, but would recognize revenue, albeit only to the extent of the costs incurred where it expected to be able to recover those costs. For the purchaser, it is unlikely that they would have sufficient information to be able to reliably measure the expense, and hence the transaction would not satisfy the recognition criteria at that point.
6. The key differences in drafting between the PSPOA section of this draft ED and the draft *Revenue* ED, including the two examples above, are summarized below:

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<sup>1</sup> Elsewhere in this Agenda Item, the term “services” is used; this term incorporates goods as well as services.

- (a) Because the PSPOA can involve services being transferred to a third-party beneficiary rather than the purchaser, the draft ED includes additional guidance that the purchaser can receive service potential from the services transferred to a beneficiary where the transfer of the services to the beneficiary contributes to the purchaser achieving its service objectives.
- (b) Similarly, the references to services transferred to the purchaser, or to a purchaser gaining control of the services, have been extended to refer to a purchaser or beneficiary.
- (c) When assessing the extent to which a performance obligation has been satisfied under the draft *Revenue* ED, input methods may be used. This draft ED notes that these methods (which reflect the resource recipient's perspective) can only be used where the information is available to the purchaser and where they provide relevant information to assess an expense.
- (d) As noted above, a purchaser will not recognize an expense prior to being able to measure the progress a resource recipient is making towards satisfying a performance obligation, whereas the resource recipient may recognize revenue to the extent that it expects to be able to recover the costs it has incurred.
- (e) This ED does not include requirements in respect of refund liabilities, as these relate to the resource recipient.
- (f) This ED does not include references to the purchaser's credit risk, as this is not relevant to recognizing an expense.
- (g) As noted above, where non-cash consideration is transferred, the purchaser would recognize an expense based on the carrying amount, the resource recipient would recognize revenue based on fair value.
- (h) This draft ED includes additional requirements ([paragraphs 75–76](#) in the draft ED) requiring an entity to treat a premium – i.e., the amount of consideration in excess of the fair value of the services to be transferred – as a grant or other transfer. This is intended to cover the scenario where an entity purchases services from a not-for-profit organization, or another public sector entity, at above market prices, in order to support the organization. This treatment would be similar to the treatment of onerous contracts in IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*. The IPSASB is asked for its views on these additional requirements.
- (i) The draft *Revenue* ED allocates revenue based on stand-alone selling prices. This draft ED adapts this principle, and allocates expenses based on stand-alone purchase prices. This requires a change in focus from the seller to the purchaser. The expected cost approach, where the seller estimates their expected costs and margin, has been omitted as purchasers will generally not have access to this information.
- (j) The draft *Revenue* ED includes a section on binding arrangement costs. There is no equivalent in this draft ED.
- (k) In the presentation section, the draft *Revenue* ED refers to impairment in accordance with IPSAS 41, *Financial Instruments*. As the purchaser is paying for goods or services, the reference to impairment in this draft ED is in accordance with IPSAS 21, *Impairment of Non-Cash-Generating Assets* or IPSAS 26, *Impairment of Cash-Generating Assets*.

**Decisions required**

7. Does the IPSASB support the staff proposals for recognizing expenses under the PSPOA?
8. Does the IPSASB support the staff proposals in respect of a premium?
9. Does the IPSASB have any further comments on the drafting of the PSPOA ([paragraphs 11–94](#))?

**Recognition and Measurement of Grants and Other Transfers****Questions**

1. The IPSASB is asked to agree the approach to be adopted for recognizing and measuring grants and other transfers.

**Detail***Background*

2. The draft ED includes proposed requirements for recognizing and measuring grants and other transfers, that is, transactions whereby an entity transfers resources to a counterparty without that counterparty having to satisfy a performance obligation (as defined in the *Revenue* project). The IPSASB has previously agreed that a performance obligation should be restricted to the transfer of specific goods and/or services to a third party.
3. The ED envisions two scenarios for such transfers of resources:
  - (a) The entity enters into a binding arrangement to transfer the resources. The binding arrangement may impose obligations on the counterparty; for example, a capital grant may require the counterparty to construct or purchase an asset. This would not constitute a performance obligation, as the construction or purchase of an asset for the counterparty's own use does not involve the transfer of goods or services to a third party.
  - (b) The entity transfers the resources without entering into a binding arrangement.

*Recognition*

4. The draft definition of an expense refers to an outflow of economic benefits or service potential resulting in a decrease in net assets/equity. In both scenarios described in paragraph 3, there would be an outflow of economic benefits or service potential, with no corresponding increase in assets or revenue. Consequently, there would be a decrease in net assets/equity.
5. The draft ED, therefore, proposes (see [paragraph 96](#) of the draft ED) that an expense should be recognized at the earlier of the following dates:
  - (a) When the entity has a present obligation to transfer resources to a beneficiary or resource recipient. In such cases, the entity would recognize a liability representing its obligation to transfer the resources; and
  - (b) When the entity ceases to control the resources (which, in most cases, will be cash); this will usually be the date at which it transfers the resources to the beneficiary or resource recipient. In such cases, the entity would derecognize the resources it ceases to control.
6. Staff note that there may be cases where:
  - (a) There is a binding arrangement that requires the counterparty to undertake some activities;
  - (b) The counterparty has not performed those activities; and

- (c) The entity has an enforceable right to the return of the resources in the case of non-performance.
- 7. The IPSASB is asked whether, in such cases, the ED should include a requirement for the entity to recognize an asset for a payment in advance.
- 8. Some transfers may include a series of payments. The draft ED includes a requirement to assess whether a present obligation exists for each payment separately. This assessment will take account of guidance on enforceability to be included in the ED (based on the enforceability guidance being developed for the *Revenue* project) (see [paragraph 99](#) of the draft ED).

#### *Measurement*

- 9. The draft ED includes two approaches to measuring the expense:
  - (a) Where an entity recognizes an expense (and a liability) prior to transferring the resources, the expense is measured at the best estimate of the costs that the entity will incur in settling the liability (see [paragraph 100](#) of the draft ED); and
  - (b) Where an entity recognizes an expense at the date it transfers the resources, the expense is measured at the carrying amount of the resources (which will usually be cash) transferred (see [paragraph 101](#) of the draft ED).
- 10. Where a liability is recognized, the draft ED includes guidance (see [paragraphs 102–108](#) of the draft ED) on when to discount the liability and on estimating variable costs (for example, where a capital grant is given to cover the constructions costs – or a proportion of them – and the final costs are not known).
- 11. Where the transfer of resources is in respect of a non-cash asset (for example, a donated asset), the draft ED proposes that expense is measured at the carrying amount of the asset transferred, with no revaluation (see [paragraph 109](#) of the draft ED). This is consistent with other IPSAS.

#### **Decisions required**

- 12. Does the IPSASB support the staff proposals for recognizing expenses in respect of grants and other transfers?
- 13. Does the IPSASB consider that, in the circumstances described in paragraph 6 above, the ED should include a requirement for the entity to recognize an asset for a payment in advance?
- 14. Does the IPSASB support the proposals in respect of transfers involving a series of payments? If so, does the IPSASB consider that any further guidance is required?
- 15. Does the IPSASB support staff proposals for measuring expenses in respect of grants and other transfers?
- 16. Does the IPSASB have any additional comments on the proposed requirements for the recognition and measurement of grants and other transfers ([paragraphs 95–112](#) of the draft ED)?

**Presentation****Questions**

1. The IPSASB is asked to provide guidance to staff on the development of the presentation and disclosure requirements in the draft ED.

**Detail***Terminology*

2. Under the *Conceptual Framework*, presentation covers information selection, information location and information organization. Information may be selected for display or disclosure; information selected for display communicates key messages, while information selected for disclosure makes displayed information more useful by providing detail that will help users to understand the displayed information.
3. The *Conceptual Framework* takes a wide view of presentation, and refers to information being displayed or disclosed. However, the terminology in individual IPSAS has not been updated to be consistent with the *Conceptual Framework* terminology. The draft ED, *Revenue from Binding Arrangements with Purchasers*, following IFRS 15, *Revenue from Contracts with Customers*, uses the term presentation to mean information displayed on the face of the financial statements, whereas supporting information in the notes is referred to as disclosure. This terminology is also used in most other IPSAS.
4. For consistency with other IPSAS, and in particular the draft *Revenue* ED, this draft ED also refers to presentation and disclosure. However, in developing this ED, staff have applied the *Conceptual Framework* principles of information selection, information location and information organization.

*Expenses*

5. Expenses from grants, contributions and other transfers may be presented separately in the statement of financial performance, or disclosed in the notes to the financial statements (see [paragraph 127](#) of the draft ED). This approach is consistent with the approach taken in the *Revenue* ED.

*Public Sector Performance Obligation Approach*

6. In developing the presentation and disclosure requirements for the public sector performance obligation approach, staff has sought to mirror, where appropriate, the disclosure requirements in the draft *Revenue* ED.
7. In doing so, staff note the following differences:
  - (a) The disclosures are adjusted to reflect the purchaser's perspective;
  - (b) As noted in [Agenda Item 10.2.3](#) above, the presentation of impairment is in accordance with IPSAS 21, *Impairment of Non-Cash-Generating Assets* or IPSAS 26, *Impairment of Cash-Generating Assets*, not in accordance with IPSAS 41, *Financial Instruments*; and

- (c) No disclosures are required in respect of binding arrangement costs.

*Grants and Other Transfers*

8. At its December 2018 meeting the IPSASB tentatively decided that revenue transactions that are not enforceable but which have intentions/expectations are to be recognized when the revenue is receivable, and the intentions/expectations communicated via enhanced display/disclosure.
9. Staff consider that, if this approach is to be adopted for revenue, it would be appropriate to also adopt this approach for expenses. The recognition and measurement requirements, discussed in [Agenda Item 10.2.4](#), are consistent with that approach. Staff is therefore proposing enhanced display/disclosure requirements as follows:
- (a) Amounts of grants and other transfers that are expected to have been applied in the current reporting period are reported as such in the statement of financial performance (or in the notes to the financial statements), and also presented as part of accumulated surplus or deficit.
- (b) Amounts of grants and other transfers that are expected to be applied in future reporting periods are reported separately in the statement of financial performance (or in the notes), and are also presented as a separate component of net assets/equity – tentatively called “restricted accumulated surplus or deficit” – until such time as the entity expects the amounts to have been applied.
- (c) In presenting (or disclosing) the amounts of grants and other transfers expected to be applied in different reporting periods, an entity should rely on information from the counterparty to allocate the amounts across periods in those cases where it has such information. Where it does not have such information, the presentation (or disclosure) will assume a straight-line basis “unless another systematic basis is representative of the time pattern of the grant or other transfer’s expected application.”
- As an example, where an entity provides a grant at the start of a reporting period that it expects to be used over three years, and where it does not receive any information from the counterparty about how that grant is being applied, it would present (or disclose) one third of the grant as an expense relating to the current reporting period, and two thirds of the grant as expenses relating to future reporting periods. See [paragraphs 118–123](#) of the draft ED for the presentation requirements.
- (d) A reconciliation of the movements of restricted unaccumulated surplus or deficit is required (see [paragraph 145](#) of the draft ED).
10. Staff note that Agenda Item 11 discusses the possibility of recognizing revenue on a straight-line basis where it is the intention that grants are given for more than one reporting period. This approach was also proposed in the [EFRAG Non-Exchange Transfers Discussion Paper](#) issued in November 2018 (this paper is discussed in more detail in Agenda Item 11). If the IPSASB decided to adopt this approach for revenue, it may also wish to consider adopting the approach for the corresponding expenses. Staff note that, because the grantor would not be receiving any goods or services, such an approach may, in staff’s opinion, require the inclusion of “other resources” on the statement of financial position. This issue was discussed in detail at the IPSASB’s September 2018 meeting (see [Agenda Item 6.2.3](#) of that meeting).

11. The remaining disclosure requirements mirror, where appropriate, the disclosure requirements under the public sector performance obligation approach. These requirements cover:
  - (a) Binding arrangements for grants and other transfers ([paragraphs 142–143](#) of the draft ED); and
  - (b) Significant judgements in applying the requirements to binding arrangements for grants and other transfers ([paragraph 144](#) of the draft ED).

**Decisions required**

12. The IPSASB is asked whether:
  - (a) It supports the proposed requirements for the presentation or disclosure of expenses from grants, contributions and other transfers;
  - (b) It supports the proposed requirements for the Public Sector Performance Obligation Approach;
  - (c) It supports the enhanced disclosure requirements for grants and other transfers that are intended to be applied over more than the current reporting period; and if not, whether such grants and other transfers should be recognized in the statement of financial position on a straight-line basis;
  - (d) It supports the other disclosure requirements for grants and other transfers; and
  - (e) It has any other comments on the drafting of the presentation and disclosure sections of the ED ([paragraphs 113–146](#) of the draft ED).

**Effective Date and Transition****Questions**

1. The IPSASB is asked to provide guidance to staff on the development of the presentation and disclosure requirements in the draft ED.

**Detail***Effective Date*

2. The effective date for an IPSAS based on this draft ED will be determined when the IPSASB approves the final pronouncement.
3. This draft ED proposes an approach to determining the accounting policy for accounting for expenses based on the existence of a performance obligation. The *Revenue* project is making a similar proposal for revenue transactions. Staff therefore propose that the effective date of this ED, the draft ED, *Revenue from Binding Arrangements with Purchasers*, and an updated IPSAS 23, *Revenue from Non-Exchange Transactions*, should be the same. Staff also propose that, where an entity elects to early adopt one of these Standards, it should be required to apply all three at the same time (see [paragraph 147](#) of the draft ED).

*Transition Arrangements–Public Sector Performance Obligation Approach*

4. Staff has included transition arrangements for the Public Sector Performance Obligation Approach that are intended to mirror the transition arrangements in the draft *Revenue* ED (see [paragraphs 150–156](#) of the draft ED)

*Transition Arrangements–Grants and Other Transfers*

5. Staff has included transition arrangements for grants and other transfers that require entities to recognize grants and other transfers retrospectively, with the cumulative effect of initially applying the ED recognized at the date of initial application (see [paragraphs 157–159](#) of the draft ED).

**Decisions Required**

6. The IPSASB is asked whether it supports the staff proposals for:
  - (a) Linking the effective date of this ED, the draft *Revenue* ED and an updated IPSAS 23;
  - (b) The transition arrangements for the Public Sector Performance Obligation Approach; and
  - (c) The transition arrangements for grants and other transfers.
7. The IPSASB is asked if it has any other comments on the drafting of the effective date and transition section of the ED ([paragraphs 147–159](#) of the draft ED).

Exposure Draft xx  
[Month] [Year]  
*Comments due: [Date]*

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## Grants, Contributions and Other Transfers

IPSASB

International Public  
Sector Accounting  
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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.

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## REQUEST FOR COMMENTS

This Exposure Draft, *Grants, Contributions and Other Transfers*, 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 [Date].**

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

**This Exposure Draft forms part of the IPSASB’s project on Non-Exchange Expenses.**

### 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 collective services, individual services and emergency relief.

### 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:

[To be added]

# GRANTS, CONTRIBUTIONS AND OTHER TRANSFERS

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## ED XX—GRANTS, CONTRIBUTIONS AND OTHER TRANSFERS

## Objective

1. **The objective of this [draft] Standard is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of expenditure and cash flows arising from grants, contributions and other transfers.**

## Meeting the Objective

2. To meet the objective in paragraph 1, the core principle of this [draft] Standard is that an entity shall recognize expenses as follows:
  - (a) For contributions (i.e., where the resource recipient is required to satisfy performance obligations by transferring goods or services to a purchaser or beneficiary), to depict the transfer of resources in an amount that reflects the consideration which the entity expects to be obligated to pay in exchange for those goods or services; and
  - (b) For grants and other transfers (i.e., where the beneficiary or resource recipient is not required to satisfy performance obligations), at the earlier of the date at which the entity has a present obligation to transfer resources to a beneficiary or resource recipient, and the date when the entity ceases to control the resources (i.e., when it transfers those resources to the beneficiary or resource recipient).
3. An entity shall consider the terms of the grant, contribution or other transfer, and all relevant facts and circumstances, when applying this [draft] Standard. An entity shall apply this [draft] Standard, including the use of any practical expedients, consistently to grants, contributions and other transfers with similar characteristics and in similar circumstances.
4. This [draft] Standard specifies the accounting for an individual grant, contribution or other transfer. However, as a practical expedient, an entity may apply this [draft] Standard to a portfolio of grants, contributions or other transfers with similar characteristics if the entity reasonably expects that the effects on the financial statements of applying this [draft] Standard to the portfolio would not differ materially from applying this [draft] Standard to the individual grants, contributions and other transfers within that portfolio. When accounting for a portfolio, an entity shall use estimates and assumptions that reflect the size and composition of the portfolio.

## Scope

5. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this [draft] Standard in accounting for grants, contributions and other transfers (as defined in this [draft] Standard).**
6. **An entity shall apply this [draft] Standard to expenses and liabilities arising from grants, contributions or other transfers (as defined in this [draft] Standard). An entity shall not apply this [draft] Standard to expenses within the scope of other Standards, including international or national accounting standards dealing with:**
  - (a) **Income taxes;**
  - (b) **Share-based payment;**
  - (c) **Exploration for and evaluation of mineral resources;**

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- (d) **Regulatory deferral accounts; and**
  - (e) **Insurance contracts.**
7. An entity shall not apply this [draft] Standard to a binding arrangement if the counterparty has entered into a binding arrangement with the entity to participate in an activity or process in which the parties to the binding arrangement share in the risks and benefits or service potential that result from the activity or process (such as developing an asset in a collaboration arrangement).
  8. A binding arrangement may be partially within the scope of this [draft] Standard and partially within the scope of other Standards.
    - (a) If the other Standards specify how to separate and/or initially measure one or more parts of the binding arrangement, then an entity shall first apply the separation and/or measurement requirements in those Standards. An entity shall exclude from the contribution consideration or other transfer of resources the amount of the part (or parts) of the binding arrangement that are initially measured in accordance with other Standards and shall apply paragraphs 77–90 (contributions) or paragraphs 100–109 (grants and other transfers) to account for the amount of the contribution consideration or other transfer or resources that remains (if any).
    - (b) If the other Standards do not specify how to separate and/or initially measure one or more parts of the binding arrangement, then the entity shall apply this [draft] Standard to separate and/or initially measure the part (or parts) of the binding arrangement.

## Definitions

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

**For the purposes of this [draft] Standard, a beneficiary is a third party that receives cash, goods or services, either directly from a resource provider or, in a tripartite arrangement, from a resource recipient.**

**For the purposes of this [draft] Standard, a binding arrangement asset is an entity's right to have goods or services transferred (either to the entity or to a beneficiary) in exchange for consideration. A binding arrangement asset includes a contract asset.**

**For the purposes of this [draft] Standard, a binding arrangement liability is an entity's obligation to pay consideration in exchange for goods or services that the resource recipient has transferred to the entity or a beneficiary when that obligation is conditioned on something other than the passage of time (for example, the resource recipient's future performance). A binding arrangement liability includes a contract liability.**

**For the purposes of this [draft] Standard, a contribution is transfer of resources under a binding arrangement, or part of a binding arrangement, whereby a purchaser provides consideration to a resource recipient in exchange for the resource recipient satisfying a performance obligation.**

**Contribution consideration (for a binding arrangement for a contribution) is the value of the resources that the purchaser expects to transfer to the resource recipient, in exchange for resource recipient transferring the promised goods or services, either to the purchaser or to a beneficiary.**

## ED XX—GRANTS, CONTRIBUTIONS AND OTHER TRANSFERS

**Expense** is the gross outflow of economic benefits or service potential during the reporting period when those outflows result in a decrease in net assets/equity, other than decreases relating to distributions to owners.

For the purposes of this [draft] Standard, a **grant** is a transfer of resources by a resource provider to a beneficiary or resource recipient, and which is neither a contribution nor an other transfer.

For the purposes of this [draft] Standard, an **other transfer** is a transfer of resources by a resource provider to a beneficiary or resource recipient, other than a contribution, and where both the resource provider and resource recipient are public sector entities that operate in the geographical area to which the transfer of resources relates.

For the purpose of this [draft] Standard, a **resource provider** is an entity that provides resources through a grant or other transfer to a beneficiary or, in a tripartite arrangement, a resource recipient.

For the purpose of this [draft] Standard, a **resource recipient** is an entity that receives resources through a grant, contribution or other transfer and provides goods and/or services to either the purchaser or a beneficiary.

**Stand-alone purchase price (of a good or service)** is the price at which an entity would purchase a promised good or service separately from a resource recipient.

10. The following terms are defined in [draft] IPSAS [X] (ED xx), *Revenue from Binding Arrangements with Purchasers*, and are used in this [draft] Standard with the same meaning as in [draft] IPSAS xx (ED xx):

A **binding arrangement** [defined as per *Revenue* project]

A **contract** [defined as per *Revenue* project]

A **performance obligation** [defined as per *Revenue* project]

A **purchaser** [defined as per *Revenue* project]

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.

## Recognition and Measurement of Contributions

11. **An entity shall recognize and measure contributions it makes by applying the Public Sector Performance Obligation Approach in paragraphs 12–94 below.**

## Public Sector Performance Obligation Approach

### Recognition

#### *Identifying the Binding Arrangement (Step 1)*

12. **An entity (the purchaser) shall account for a contribution that is within the scope of this [draft] Standard only when all of the following criteria are met:**
- (a) **The parties to the binding arrangement have approved the binding arrangement (in writing, orally or in accordance with the parties' or the sector's other customary practices) and are committed to perform their respective obligations;**

## ED XX—GRANTS, CONTRIBUTIONS AND OTHER TRANSFERS

- (b) **The entity can identify each party's rights regarding the goods or services to be transferred;**
  - (c) **The entity can identify the payment terms for the goods or services to be transferred;**
  - (d) **The binding arrangement has economic substance (i.e., the risk, timing or amount of the entity's future cash flows or service potential is expected to change as a result of the binding arrangement); and**
  - (e) **It is probable that the resource recipient will transfer the goods or services to the purchaser or to the beneficiary or beneficiaries specified in the binding arrangement. In evaluating whether the transfer of the goods or services is probable, an entity shall consider only the resource recipient's ability and intention to transfer the goods or services when they are due.**
13. A binding arrangement may include one or more parts that meet the criteria in paragraph 12, and another part or parts that do not meet the criteria in paragraph 12. An entity shall recognize and measure such a binding arrangement as follows:
- (a) The part or parts of the binding arrangement that meets the criteria in paragraph 12 shall be treated as a separate binding arrangement; and
  - (b) The part or parts of the binding arrangement that do not meet the criteria in paragraph 12 shall be treated as a separate binding arrangement for a grant or other transfer, and recognized and measured in accordance with paragraphs 96–109
14. A binding arrangement is an agreement between two or more parties that creates enforceable rights and obligations. Enforceability of the rights and obligations in a binding arrangement is created through legal or equivalent means. Factors that determine enforceability may differ between jurisdictions and some enforcement mechanisms may be outside the legal system. Binding arrangements can be written, oral or implied by an entity's or a sector's customary practices. The practices and processes for establishing binding arrangements with purchasers vary across legal jurisdictions, sectors and entities. In addition, they may vary within an entity (for example, they may depend on the class of resource recipient or the nature of the promised goods or services). An entity shall consider those practices and processes in determining whether and when an agreement with a resource recipient creates enforceable rights and obligations.
15. Some binding arrangements for contributions may have no fixed duration and can be terminated or modified by either party at any time. Other binding arrangements may automatically renew on a periodic basis that is specified in the binding arrangement. An entity shall apply this [draft] Standard to the duration of the binding arrangement (i.e., the period of the binding arrangement) in which the parties to the binding arrangement have present enforceable rights and obligations.
16. For the purpose of applying this [draft] Standard, a binding arrangement for a contribution does not exist if each party to the binding arrangement has the unilateral enforceable right to terminate a wholly unperformed binding arrangement without compensating the other party (or parties). A binding arrangement is wholly unperformed if both of the following criteria are met:
- (a) The entity has not yet paid, and is not yet obligated to pay, consideration to the resource recipient in exchange for promised goods or services; and
  - (b) The resource recipient has not yet transferred any promised goods or services to the purchaser or beneficiary.

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17. If a binding arrangement for a contribution meets the criteria in paragraph 12 at the inception of the binding arrangement, an entity shall not reassess those criteria unless there is an indication of a significant change in facts and circumstances. For example, if a resource recipient's ability to transfer the promised goods or services deteriorates significantly, an entity would reassess whether it is probable that the entity (or beneficiary) will receive the goods or services to which the entity will be entitled in exchange for the consideration.
18. If a binding arrangement for a contribution does not meet the criteria in paragraph 12, an entity shall continue to assess the binding arrangement to determine whether the criteria in paragraph 12 are subsequently met.
19. When a binding arrangement for a contribution does not subsequently meet the criteria in paragraph 12, an entity shall recognize a grant or other transfer in accordance with paragraphs 95–99 below.

## Combination of Binding Arrangements

20. An entity shall combine two or more binding arrangements entered into at or near the same time with the same resource recipient (or related parties of the resource recipient) and account for the binding arrangements as a single binding arrangement if one or more of the following criteria are met:
  - (a) The binding arrangements are negotiated as a package with a single economic objective;
  - (b) The amount of consideration to be paid in one binding arrangement depends on the price or performance of the other binding arrangement; or
  - (c) The goods or services promised in the binding arrangements (or some goods or services promised in each of the binding arrangements) are a single performance obligation in accordance with paragraphs 25–33.

## Modifications to a Binding Arrangement

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

## ED XX—GRANTS, CONTRIBUTIONS AND OTHER TRANSFERS

the modification in accordance with paragraphs 54–58 on estimating variable consideration and paragraphs 59–61 on constraining estimates of variable consideration.

23. An entity shall account for a modification to a binding arrangement as a separate binding arrangement if both of the following conditions are present:
- (a) The scope of the binding arrangement increases because of the addition of promised goods or services that are distinct (in accordance with paragraphs 29–33); and
  - (b) The price of the binding arrangement increases by an amount of consideration that reflects the entity's stand-alone purchase prices of the additional promised goods or services and any appropriate adjustments to that price to reflect the circumstances of the particular binding arrangement. For example, an entity may adjust the stand-alone purchase price of an additional good or service for a discount that the entity receives for repeat purchases.
24. If a modification to a binding arrangement is not accounted for as a separate binding arrangement in accordance with paragraph 23, an entity shall account for the promised goods or services not yet received by the entity or the beneficiary at the date of the modification to a binding arrangement (i.e., the remaining promised goods or services) in whichever of the following ways is applicable:
- (a) An entity shall account for the modification to a binding arrangement as if it were a termination of the existing binding arrangement and the creation of a new binding arrangement, if the remaining goods or services are distinct from the goods or services received on or before the date of the modification to a binding arrangement. The amount of consideration to be allocated to the remaining performance obligations (or to the remaining distinct goods or services in a single performance obligation identified in accordance with paragraph 25(b)) is the sum of:
    - (i) The consideration promised to the resource recipient (including amounts already received by the resource recipient) that was included in the estimate of the contribution consideration and that had not been recognized as an expense; and
    - (ii) The consideration promised as part of the modification to a binding arrangement.
  - (b) An entity shall account for the modification to a binding arrangement as if it were a part of the existing binding arrangement if the remaining goods or services are not distinct and, therefore, form part of a single performance obligation that is partially satisfied at the date of the modification to a binding arrangement. The effect that the modification to a binding arrangement has on the contribution consideration, and on the entity's measure of progress towards complete satisfaction of the performance obligation, is recognized as an adjustment to expense (either as an increase in or a reduction of expense) at the date of the modification of a binding arrangement (i.e., the adjustment to expense is made on a cumulative catch-up basis).
  - (c) If the remaining goods or services are a combination of items (a) and (b), then the entity shall account for the effects of the modification on the unsatisfied (including partially unsatisfied) performance obligations in the modified binding arrangement in a manner that is consistent with the objectives of this paragraph.

*Identifying Performance Obligations (Step 2)*

25. **At the inception of the binding arrangement, an entity (the purchaser) shall assess the goods or services promised by the resource recipient in a binding arrangement for a contribution**

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**and shall identify as a performance obligation of the resource recipient each promise to transfer to the purchaser or 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 beneficiary (see paragraph 26).**

26. A series of distinct goods or services has the same pattern of transfer to the purchaser or beneficiary if both of the following criteria are met:

- (a) Each distinct good or service in the series that the resource recipient promises to transfer to the purchaser or beneficiary would meet the criteria in paragraph 38 to be a resource recipient's performance obligation satisfied over time; and
- (b) In accordance with paragraphs 42–43, the same method would be used to measure the resource recipient's progress towards complete satisfaction of the performance obligation to transfer each distinct good or service in the series to the purchaser or beneficiary.

#### Promises in Binding Arrangements for Contributions

- 27. A binding arrangement for a contribution generally explicitly states the goods or services that a resource recipient promises to transfer to a purchaser or beneficiary. However, the performance obligations identified in a binding arrangement for a contribution may not be limited to the goods or services that are explicitly stated in that binding arrangement. This is because a binding arrangement for a contribution may also include promises that are implied by an entity's or sector's customary practices, published policies or specific statements if, at the time of entering into the binding arrangement, those promises create a valid expectation of the entity (the purchaser) that the resource recipient will transfer a good or service to the entity or the beneficiary.
- 28. Performance obligations of the resource recipient do not include activities that a resource recipient must undertake to fulfil a binding arrangement unless those activities transfer a good or service to a purchaser or beneficiary. For example, a services provider may need to perform various administrative tasks to set up a binding arrangement. The performance of those tasks does not transfer a service to a purchaser or beneficiary as the tasks are performed. Therefore, those setup activities are not a performance obligation of the resource recipient.

#### Distinct Goods or Services

- 29. Depending on the binding arrangement, promised goods or services may include, but are not limited to, the following:
  - (a) Sale of goods produced by a resource recipient (for example, inventory of a manufacturer);
  - (b) Resale of goods purchased by a resource recipient (for example, merchandise of a retailer);
  - (c) Resale of rights to goods or services purchased by a resource recipient (for example, a ticket resold by an resource recipient acting as a principal, as described in paragraphs AGxx–AGxx);
  - (d) A resource recipient performing a task for a purchaser or beneficiary that is agreed-upon in the binding arrangement;
  - (e) A resource recipient providing a service of standing ready to provide goods or services (for example, unspecified updates to software that are provided on a when-and-if-available basis)

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- or of making goods or services available for a purchaser or beneficiary to use as and when the purchaser or beneficiary decides;
- (f) A resource recipient providing a service of arranging for another party to transfer goods or services to a purchaser or beneficiary (for example, acting as an agent of another party, as described in paragraphs AGxx–AGxx);
  - (g) A resource recipient granting rights to goods or services to be provided in the future that a purchaser can resell or provide to its customer (for example, an resource recipient selling a product to a retailer promises to transfer an additional good or service to an individual who purchases the product from the retailer);
  - (h) A resource recipient constructing, manufacturing or developing an asset on behalf of a purchaser or beneficiary;
  - (i) A resource recipient granting licenses (see paragraphs AGxx–AGxx); and
  - (j) A resource recipient granting options to purchase additional goods or services (when those options provide a purchaser with a material right, as described in paragraphs AGxx–AGxx).
30. A good or service that is promised to an entity (a purchaser) is distinct if both of the following criteria are met:
- (a) The purchaser can benefit or receive service potential from the good or service either on its own or together with other resources that are readily available to the purchaser (i.e., the good or service is capable of being distinct). A purchaser can benefit or receive service potential from the good or service transferred to a beneficiary where the transfer of the good or service to the beneficiary contributes to the purchaser achieving its service objectives; and
  - (b) The resource recipient's promise to transfer the good or service to the entity or beneficiary is separately identifiable from other promises in the binding arrangement (i.e., the promise to transfer the good or service is distinct within the context of the binding arrangement).
31. An entity (a purchaser) can benefit or receive service potential from a good or service in accordance with paragraph 30(a) if the good or service could be used, consumed, sold for an amount that is greater than scrap value or otherwise held in a way that generates economic benefits or service potential (whether by the purchaser or a beneficiary). For some goods or services, a purchaser (or beneficiary) may be able to benefit or receive service potential from a good or service on its own. For other goods or services, a purchaser (or beneficiary) may be able to benefit or receive service potential from the good or service only in conjunction with other readily available resources. A readily available resource is a good or service that is sold separately (by the resource recipient or another entity) or a resource that the purchaser (or beneficiary) has already obtained from the resource recipient (including goods or services that the resource recipient will have already transferred to the purchaser or beneficiary under the binding arrangement) or from other transactions or events. Various factors may provide evidence that the purchaser or beneficiary can benefit or receive service potential from a good or service either on its own or in conjunction with other readily available resources. For example, the fact that the resource recipient regularly sells a good or service separately would indicate that a purchaser or beneficiary can benefit or receive service potential from the good or service on its own or with other readily available resources.
32. In assessing whether an resource recipient's promises to transfer goods or services to the entity (the purchaser) or a beneficiary are separately identifiable in accordance with paragraph 30(b), the objective is to determine whether the nature of the promise, within the context of the binding

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arrangement, is to transfer each of those goods or services individually or, instead, to transfer a combined item or items to which the promised goods or services are inputs. Factors that indicate that two or more promises to transfer goods or services to a purchaser or beneficiary are not separately identifiable include, but are not limited to, the following:

- (a) The resource recipient provides a significant service of integrating the goods or services with other goods or services promised in the binding arrangement into a bundle of goods or services that represent the combined output or outputs for which the purchaser has entered into binding arrangements. In other words, the resource recipient is using the goods or services as inputs to produce or deliver the combined output or outputs specified by the purchaser. A combined output or outputs might include more than one phase, element or unit.
  - (b) One or more of the goods or services significantly modifies or customizes, or are significantly modified or customized by, one or more of the other goods or services promised in the binding arrangement.
  - (c) The goods or services are highly interdependent or highly interrelated. In other words, each of the goods or services is significantly affected by one or more of the other goods or services in the binding arrangement. For example, in some cases, two or more goods or services are significantly affected by each other because the resource recipient would not be able to fulfil its promise by transferring each of the goods or services independently.
33. If a promised good or service is not distinct, an entity shall combine that good or service with other promised goods or services until it identifies a bundle of goods or services that is distinct. In some cases, that would result in the entity accounting for all the goods or services promised in a binding arrangement as a single performance obligation of the resource recipient.

*Satisfaction of Performance Obligations (Step 5)*

34. **An entity shall recognize an expense when (or as) the resource recipient satisfies a performance obligation by transferring a promised good or service (i.e., an asset) to either the entity or a beneficiary. An asset is transferred when (or as) the entity or beneficiary obtains control of that asset.**
35. For each performance obligation identified in accordance with paragraphs 25–33, an entity shall determine at the inception of the binding arrangement whether the resource recipient satisfies the performance obligation over time (in accordance with paragraphs 38–40) or satisfies the performance obligation at a point in time (in accordance with paragraph 41). If the resource recipient does not satisfy a performance obligation over time, the performance obligation is satisfied at a point in time.
36. Goods and services are assets, even if only momentarily, when they are received and used (as in the case of many services). Control of an asset refers to the ability to direct the use of, and obtain substantially all of the remaining benefits or service potential from, the asset. Control includes the ability to prevent other entities from directing the use of, and obtaining the benefits or service potential from, an asset. The benefits or service potential of an asset are the potential cash flows (inflows or savings in outflows), or the capacity to provide services that contribute to achieving the entity's objectives, that can be obtained directly or indirectly in many ways, such as by:
- (a) Using the asset to produce goods or provide services (including public services);
  - (b) Using the asset to enhance the value of other assets;
  - (c) Using the asset to settle liabilities or reduce expenses;

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- (d) Selling or exchanging the asset;
  - (e) Pledging the asset to secure a loan; and
  - (f) Holding the asset.
37. When evaluating whether an entity (a purchaser) or beneficiary obtains control of an asset, an entity shall consider any agreement to repurchase the asset (see paragraphs AGxx–AGxx).

## Performance Obligations Satisfied Over Time

38. An entity (the purchaser) recognizes an expense over time when the resource recipient satisfies a performance obligation over time. A resource recipient transfers control of a good or service over time and, therefore, satisfies a performance obligation over time, if one of the following criteria is met:
- (a) The entity or beneficiary simultaneously receives and consumes the benefits or service potential provided by the resource recipient's performance as the resource recipient performs (see paragraphs AGxx–AGxx);
  - (b) The resource recipient's performance creates or enhances an asset (for example, work in progress) that the entity or beneficiary controls as the asset is created or enhanced (see paragraph AGxx); or
  - (c) The resource recipient's performance does not create an asset with an alternative use to the resource recipient (see paragraph 39) and the resource recipient has an enforceable right to payment for performance completed to date (see paragraph 40).
39. An asset created by a resource recipient's performance does not have an alternative use to the resource recipient if the resource recipient is either restricted from readily directing the asset for another use during the creation or enhancement of that asset or limited practically from readily directing the asset in its completed state for another use, in the binding arrangement. The assessment of whether an asset has an alternative use to the resource recipient is made at the inception of the binding arrangement. After the inception of the binding arrangement, an entity shall not update the assessment of the alternative use of an asset unless the parties to the binding arrangement approve a modification to a binding arrangement that substantively changes the performance obligation. Paragraphs AGxx–AGxx provide guidance for assessing whether an asset has an alternative use to an entity.
40. An entity shall consider the terms of the binding arrangement, as well as any laws that apply to the binding arrangement, when evaluating whether the resource recipient has an enforceable right to payment for performance completed to date in accordance with paragraph 38(c). The resource recipient's right to payment for performance completed to date does not need to be for a fixed amount. However, at all times throughout the duration of the binding arrangement, the resource recipient must be entitled to an amount that at least compensates it for performance completed to date if the binding arrangement is terminated by the entity (the purchaser) or another party for reasons other than the resource recipient's failure to perform as promised. Paragraphs AGxx–AGxx provide guidance for assessing the existence and enforceability of a right to payment and whether a resource recipient's right to payment would entitle it to be paid for its performance completed to date.

## Performance Obligations Satisfied at a Point in Time

41. An entity (the purchaser) recognizes an expense at a point in time when the resource recipient satisfies a performance obligation at a point in time. If a performance obligation is not satisfied over

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time in accordance with paragraphs 38–40, a resource recipient satisfies the performance obligation at a point in time. To determine the point in time at which the entity (or a beneficiary) obtains control of a promised asset and the resource recipient satisfies a performance obligation, the entity shall consider the requirements for control in paragraphs 34–37. In addition, an entity shall consider indicators of the transfer of control, which include, but are not limited to, the following:

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

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## Measuring Progress Towards Complete Satisfaction of a Performance Obligation

42. For each performance obligation satisfied over time by a resource recipient in accordance with paragraphs 38–40, an entity (the purchaser) shall recognize an expense over time by measuring the progress towards complete satisfaction of that performance obligation. The objective when measuring progress is to depict a resource recipient's performance in transferring control of goods or services promised to the entity or a beneficiary (i.e., the satisfaction of a performance obligation of the resource recipient).
43. An entity shall apply a single method of measuring progress for each performance obligation of the resource recipient satisfied over time and the entity shall apply that method consistently to similar performance obligations and in similar circumstances. At the end of each reporting period, an entity shall remeasure a resource recipient's progress towards complete satisfaction of a performance obligation satisfied over time.

## Methods for Measuring Progress

44. Appropriate methods of measuring progress include, from the resource recipient's perspective, output methods and, where the information is both available to the entity (the purchaser) and relevant to the assessment of an expense, input methods. Paragraphs AGxx–AGxx provide guidance for using output methods and input methods to measure a resource recipient's progress towards complete satisfaction of a performance obligation. In determining the appropriate method for measuring progress, an entity shall consider the nature of the good or service that the resource recipient promised to transfer to the purchaser or beneficiary.
45. When applying a method for measuring progress, an entity shall exclude from the measure of progress any goods or services for which the resource recipient does not transfer control to the entity (the purchaser) or a beneficiary. Conversely, an entity shall include in the measure of progress any goods or services for which the resource recipient does transfer control to the entity or a beneficiary when satisfying that performance obligation.
46. As circumstances change over time, an entity (the purchaser) shall update its measure of progress to reflect any changes in the outcome of the performance obligation of the resource recipient. Such changes to an entity's measure of progress shall be accounted for as a change in accounting estimate in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

## Reasonable Measures of Progress

47. An entity (the purchaser) shall recognize an expense for a performance obligation of the resource recipient satisfied over time only if the entity can reasonably measure the resource recipient's progress towards complete satisfaction of the performance obligation. An entity would not be able to reasonably measure a resource recipient's progress towards complete satisfaction of a performance obligation if it lacks reliable information that would be required to apply an appropriate method of measuring progress.
48. In some circumstances (for example, in the early stages of a binding arrangement), an entity (the purchaser) may not be able to reasonably measure the outcome of a performance obligation of the resource recipient. The entity shall not recognize an expense until such time that it can reasonably measure the outcome of the performance obligation of the resource recipient.

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*Inability of a Purchaser to Determine when a Resource Recipient has Satisfied a Performance Obligation*

49. **In some circumstances, an entity (the purchaser) may not be able to determine whether a resource recipient has satisfied a performance obligation, whether over time or at a point in time. Such circumstances may occur, for example, where the binding arrangement specifies that the resource recipient will transfer goods or services to a beneficiary, but does not require the resource recipient to provide the entity with information about the satisfaction of the performance obligation. In such circumstances, shall recognize and measure the contribution as if it were a grant or other transfer in accordance with paragraphs 95–112.**

**Measurement**

50. **When (or as) a resource recipient satisfies a performance obligation, an entity (the purchaser) shall recognize as an expense the amount of the contribution consideration (which excludes estimates of variable consideration that are constrained in accordance with paragraphs 59–61) that is allocated to that performance obligation.**

*Determining the Contribution Consideration (Step 3)*

51. An entity (a purchaser) shall consider the terms of the binding arrangement and its customary practices to determine the contribution consideration. The contribution consideration is the value of the resources (i.e., the consideration) that the entity expects to transfer to the resource recipient, in exchange for resource recipient transferring the promised goods or services, either to the entity or to a beneficiary. The consideration promised in a binding arrangement for a contribution may include fixed amounts, variable amounts, or both.
52. The nature, timing and amount of consideration promised by an entity (a purchaser) affect the estimate of the contribution consideration. When determining the contribution consideration, an entity shall consider the effects of all of the following:
- (a) Variable consideration (see paragraphs 54–58 and 62);
  - (b) Constraining estimates of variable consideration (see paragraphs 59–61);
  - (c) The existence of a significant financing component in the binding arrangement (see paragraphs 63–68);
  - (d) Non-cash consideration (see paragraphs 69–71);
  - (e) Consideration receivable by an entity (see paragraphs 72–74); and
  - (f) The existence of a premium in the binding arrangement (see paragraphs 75–76).
53. For the purpose of determining the contribution consideration, an entity (a purchaser) shall assume that the goods or services will be transferred by the resource recipient to the entity or a beneficiary as promised in accordance with the existing binding arrangement and that the binding arrangement will not be cancelled, renewed or modified.

**Variable Consideration**

54. If the consideration promised in a binding arrangement includes a variable amount, an entity (a purchaser) shall estimate the amount of consideration to which the resource recipient will be entitled (and which the entity will be obligated to pay) in exchange for transferring the promised goods or services to the entity or a beneficiary.

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55. An amount of consideration can vary because of discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties or other similar items. The promised consideration can also vary if a resource recipient's entitlement to the consideration is contingent on the occurrence or non-occurrence of a future event. For example, an amount of consideration would be variable if either a product was sold with a right of return or a fixed amount is promised as a performance bonus on achievement of a specified milestone.
56. The variability relating to the consideration promised by an entity (the purchaser) may be explicitly stated in the binding arrangement. In addition to the terms of the binding arrangement, the promised consideration is variable if either of the following circumstances exists:
- (a) The entity has a valid expectation arising from a resource recipient's customary practices, published policies or specific statements that the resource recipient will accept an amount of consideration that is less than the price stated in the binding arrangement. That is, it is expected that the resource recipient will offer a price concession. Depending on the jurisdiction, sector or customer this offer may be referred to as a discount, rebate, refund or credit.
  - (b) Other facts and circumstances indicate that the resource recipient's intention, when entering into the binding arrangement with the entity (the purchaser), is to offer a price concession to the entity.
57. An entity shall estimate an amount of variable consideration by using either of the following methods, depending on which method the entity expects to better predict the amount of consideration which it will be required to pay to the resource recipient:
- (a) The expected value—the expected value is the sum of probability-weighted amounts in a range of possible consideration amounts. An expected value may be an appropriate estimate of the amount of variable consideration if an entity has a large number of binding arrangements with similar characteristics.
  - (b) The most likely amount—the most likely amount is the single most likely amount in a range of possible consideration amounts (i.e., the single most likely outcome of the binding arrangement). The most likely amount may be an appropriate estimate of the amount of variable consideration if the binding arrangement has only two possible outcomes (for example, a resource recipient either achieves a performance bonus or does not).
58. An entity shall apply one method consistently throughout the binding arrangement when estimating the effect of an uncertainty on an amount of variable consideration which the entity will be required to pay to the resource recipient. In addition, an entity shall consider all the information (historical, current and forecast) that is reasonably available to the entity and shall identify a reasonable number of possible consideration amounts. The information that an entity uses to estimate the amount of variable consideration would typically be similar to the information that the entity's management uses during the bid-and-proposal process.

#### Constraining Estimates of Variable Consideration

59. An entity shall include in the contribution consideration some or all of an amount of variable consideration estimated in accordance with paragraph 57 only to the extent that it is highly probable that a significant reversal in the amount of cumulative expense recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

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60. In assessing whether it is highly probable that a significant reversal in the amount of cumulative expense recognized will not occur once the uncertainty related to the variable consideration is subsequently resolved, an entity shall consider both the likelihood and the magnitude of the expense reversal. Factors that could increase the likelihood or the magnitude of an expense reversal include, but are not limited to, any of the following:
- (a) The amount of consideration is highly susceptible to factors outside the entity's influence. Those factors may include volatility in a market, the judgement or actions of third parties, weather conditions and a high risk of obsolescence of the promised good or service.
  - (b) The uncertainty about the amount of consideration is not expected to be resolved for a long period of time.
  - (c) The entity's experience (or other evidence) with similar types of binding arrangements is limited, or that experience (or other evidence) has limited predictive value.
  - (d) The resource recipient has a practice of either offering a broad range of price concessions or changing the payment terms and conditions of similar binding arrangements in similar circumstances.
  - (e) The binding arrangement has a large number and broad range of possible consideration amounts.
61. An entity shall apply **paragraph AGxx** to account for an expense in the form of a sales-based or usage-based royalty that is promised in exchange for a license of intellectual property.

## Reassessment of Variable Consideration

62. At the end of each reporting period, an entity shall update the estimated contribution consideration (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period. The entity shall account for changes in the contribution consideration in accordance with paragraphs 91–94.

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

63. In determining the contribution consideration, an entity shall adjust the promised amount of consideration for the effects of the time value of money if the timing of payments agreed to by the parties to the binding arrangement (either explicitly or implicitly) provides the entity (the purchaser) or the resource recipient with a significant benefit of financing the transfer of goods or services to the entity or a beneficiary. In those circumstances, the binding arrangement contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the binding arrangement or implied by the payment terms agreed to by the parties to the binding arrangement.
64. The objective when adjusting the promised amount of consideration for a significant financing component is for an entity (the purchaser) to recognize an expense at an amount that reflects the price that the entity would have paid for the promised goods or services if the entity had paid cash for those goods or services when (or as) they transfer to the entity or a beneficiary (i.e., the cash selling price). An entity shall consider all relevant facts and circumstances in assessing whether a binding arrangement contains a financing component and whether that financing component is significant to the binding arrangement, including both of the following:

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- (a) The difference, if any, between the amount of promised consideration and the cash selling price of the promised goods or services; and
  - (b) The combined effect of both of the following:
    - (i) The expected length of time between when the resource recipient transfers the promised goods or services to the entity (the purchaser) or beneficiary and when the entity pays for those goods or services; and
    - (ii) The prevailing interest rates in the relevant market.
65. Notwithstanding the assessment in paragraph 64, a binding arrangement for a contribution would not have a significant financing component if any of the following factors exist:
- (a) The entity (the purchaser) paid for the goods or services in advance and the timing of the transfer of those goods or services is at the discretion of the entity or a beneficiary.
  - (b) A substantial amount of the consideration promised by the entity (the purchaser) is variable and the amount or timing of that consideration varies on the basis of the occurrence or non-occurrence of a future event that is not substantially within the control of the entity or the resource recipient (for example, if the consideration is a sales-based royalty).
  - (c) The difference between the promised consideration and the cash selling price of the good or service (as described in paragraph 64) arises for reasons other than the provision of finance to either the entity (the purchaser) or the resource recipient, and the difference between those amounts is proportional to the reason for the difference. For example, the payment terms might provide the entity or the resource recipient with protection from the other party failing to adequately complete some or all of its obligations under the binding arrangement.
66. As a practical expedient, an entity (the purchaser) need not adjust the promised amount of consideration for the effects of a significant financing component if the entity expects, at the inception of the binding arrangement, that the period between when the resource recipient transfers a promised good or service to the entity or a beneficiary and when the entity pays for that good or service will be one year or less.
67. To meet the objective in paragraph 64 when adjusting the promised amount of consideration for a significant financing component, an entity (the purchaser) shall use the discount rate that would be reflected in a separate financing transaction between the entity and the resource recipient at the inception of the binding arrangement. That rate would reflect the credit characteristics of the party receiving financing in the binding arrangement, as well as any collateral or security provided by the entity or the resource recipient, including assets transferred in the binding arrangement. An entity may be able to determine that rate by identifying the rate that discounts the nominal amount of the promised consideration to the price that the entity would pay in cash for the goods or services when (or as) they transfer to the entity or a beneficiary. After the inception of the binding arrangement, an entity shall not update the discount rate for changes in interest rates or other circumstances.
68. An entity shall present the effects of financing (interest expense or interest revenue) separately from expenses from binding arrangements for contributions in the statement of financial performance. Interest expense or interest revenue is recognized only to the extent that a binding arrangement liability or a binding arrangement asset (or receivable) is recognized in accounting for a binding arrangement for a contribution.

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## Non-Cash Consideration

69. To determine the contribution consideration for binding arrangements in which the entity (the purchaser) promises consideration in a form other than cash, the entity shall measure the non-cash consideration (or promise of non-cash consideration) at the carrying amounts of the assets transferred or to be transferred.
70. If the carrying amount of the asset is not known, for example because the entity has promised to provide services, and the costs of those services will not be known until the services have been provided, the entity shall apply paragraphs 54–61 in measuring the non-cash consideration.
71. If the entity contributes goods or services (for example, materials, equipment or labor) to facilitate a resource recipient's fulfilment of the binding arrangement, the entity shall assess whether it loses control of those contributed goods or services. If so, the entity shall account for the contributed goods or services as non-cash consideration transferred to the resource recipient.

## Consideration Receivable by a Purchaser

72. Consideration payable to an entity (a purchaser) includes cash amounts that a resource recipient pays, or expects to pay, to the entity. Consideration payable to an entity also includes credit or other items (for example, a coupon or voucher) that can be applied against amounts owed to the resource recipient. An entity shall account for consideration receivable from a resource recipient as a reduction of the contribution consideration and, therefore, of an expense unless the payment to the entity is in exchange for a distinct good or service (as described in paragraphs 29–33) that the entity transfers to the resource recipient. If the consideration payable by a resource recipient includes a variable amount, an entity shall estimate the contribution consideration (including assessing whether the estimate of variable consideration is constrained) in accordance with paragraphs 54–61.
73. If consideration receivable by an entity (a purchaser) is a payment for a distinct good or service transferred to a resource recipient, then the entity shall account for the sale of the good or service in accordance with [draft] IPSAS [X] (ED xx), *Revenue from Binding Arrangements with Purchasers*. However, if the amount of consideration receivable by the entity exceeds the carrying amount of the distinct good or service that the entity transfers to the resource recipient (or, where the carrying amount is not known, the estimated cost of the distinct good or service), then the entity shall account for such an excess as a reduction of the contribution consideration.
74. Accordingly, if consideration receivable by an entity (a purchaser) is accounted for as a reduction of the contribution consideration, an entity shall recognize the reduction of an expense when (or as) the later of either of the following events occurs:
  - (a) The entity recognizes an expense for the receipt (by the entity or a beneficiary) of the related goods or services from the resource recipient; and
  - (b) The resource recipient pays or promises to pay the consideration (even if the payment is conditional on a future event). That promise might be implied by the resource recipient's customary practices.

## The Existence of a Premium in the Binding Arrangement

75. An entity pays a premium when purchasing goods or services if the promised consideration in the binding arrangement exceeds the sum of the fair value of those promised goods or services. An entity may pay a premium where it intends not only to purchase the goods or services (either for its own

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consumption or for transfer to a beneficiary) but also to provide additional funding to the resource recipient (usually another public sector entity or a not-for-profit organization). An entity shall exclude the excess of the promised consideration over the fair value of the promised goods and services from the contribution consideration and shall instead recognize and measure that excess in accordance with paragraphs 96–112. [Note: Application Guidance on application of fair value will be required – depending on the relative timing of the projects, this could be by a cross-reference to the *Measurement IPSAS*.]

76. As a practical expedient, an entity need not exclude the excess of the promised consideration over the fair value of the promised goods and services from the contribution consideration if the entity expects, at the inception of the binding arrangement, that both parties will have satisfied all their obligations under the binding arrangement within one year or less.

*Allocating the Contribution Consideration to Performance Obligations (Step 4)*

77. **The objective when allocating the contribution consideration is for an entity (the purchaser) to allocate the contribution consideration to each performance obligation (or distinct good or service) in an amount that depicts the cost which the entity expects to incur in exchange for the promised goods or services being transferred to the entity or a beneficiary.**
78. To meet the allocation objective, an entity shall allocate the contribution consideration to each performance obligation identified in the binding arrangement on a relative stand-alone purchase price basis in accordance with paragraphs 80–84, except as specified in paragraphs 85–87 (for allocating discounts) and paragraphs 88–90 (for allocating consideration that includes variable amounts).
79. Paragraphs 80–90 do not apply if a binding arrangement has only one performance obligation. However, paragraphs 88–90 may apply if a resource recipient promises to transfer a series of distinct goods or services identified as a single performance obligation in accordance with paragraph 25(b) and the promised consideration includes variable amounts.

*Allocation Based on Stand-Alone Purchase Prices*

80. To allocate the contribution consideration to each performance obligation on a relative stand-alone purchase price basis, an entity shall determine the stand-alone purchase price at the inception of the binding arrangement of the distinct good or service underlying each performance obligation in the binding arrangement and allocate the contribution consideration in proportion to those stand-alone purchase prices.
81. The stand-alone purchase price is the price at which an entity would purchase a promised good or service separately from a resource recipient. The best evidence of a stand-alone purchase price is the observable price of a good or service when the entity purchases that good or service separately in similar circumstances and from similar resource recipients. In a binding arrangement, stated price or a list price for a good or service may be (but shall not be presumed to be) the stand-alone purchase price of that good or service.
82. If a stand-alone purchase price is not directly observable, an entity shall estimate the stand-alone purchase price at an amount that would result in the allocation of the contribution consideration meeting the allocation objective in paragraph 77. When estimating a stand-alone purchase price, an entity shall consider all information (including market conditions, entity-specific factors and information about the resource recipient or class of resource recipient) that is reasonably available

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to the entity. In doing so, an entity shall maximize the use of observable inputs and apply estimation methods consistently in similar circumstances.

83. Suitable methods for estimating the stand-alone purchase price of a good or service include, but are not limited to, the following:
- (a) Market assessment approach—an entity could evaluate the market in which it purchases goods or services and estimate the price that a resource recipient in that market would be willing to accept for those goods or services. That approach might include referring to prices from the resource recipient's competitors for similar goods or services.
  - (b) Residual approach—an entity may estimate the stand-alone purchase price by reference to the total contribution consideration less the sum of the observable stand-alone purchase prices of other goods or services promised in the binding arrangement. However, an entity may use a residual approach to estimate, in accordance with paragraph 82, the stand-alone purchase price of a good or service only if one of the following criteria is met:
    - (i) The entity purchases the same good or service from different resource recipients (at or near the same time) for a broad range of amounts (i.e., the purchase price is highly variable because a representative stand-alone purchase price is not discernible from past transactions or other observable evidence); or
    - (ii) The good or service has not previously been purchased on a stand-alone basis (i.e., the purchase price is uncertain).
84. A combination of methods may need to be used to estimate the stand-alone purchase prices of the goods or services promised in the binding arrangement if two or more of those goods or services have highly variable or uncertain stand-alone purchase prices. For example, an entity may use a residual approach to estimate the aggregate stand-alone purchase price for those promised goods or services with highly variable or uncertain stand-alone purchase prices and then use another method to estimate the stand-alone purchase prices of the individual goods or services relative to that estimated aggregate stand-alone purchase price determined by the residual approach. When an entity uses a combination of methods to estimate the stand-alone purchase price of each promised good or service in the binding arrangement, the entity shall evaluate whether allocating the contribution consideration at those estimated stand-alone purchase prices would be consistent with the allocation objective in paragraph 77 and the requirements for estimating stand-alone selling prices in paragraph 82.

#### Allocation of a Discount

85. An entity receives a discount for purchasing a bundle of goods or services if the sum of the stand-alone purchase prices of those promised goods or services in the binding arrangement exceeds the promised consideration in a binding arrangement. Except when an entity has observable evidence in accordance with paragraph 86 that the entire discount relates to only one or more, but not all, performance obligations in a binding arrangement, the entity shall allocate a discount proportionately to all performance obligations in the binding arrangement. The proportionate allocation of the discount in those circumstances is a consequence of the entity allocating the contribution consideration to each performance obligation on the basis of the relative stand-alone purchase prices of the underlying distinct goods or services.
86. An entity shall allocate a discount entirely to one or more, but not all, performance obligations in the binding arrangement if all of the following criteria are met:

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- (a) The entity regularly purchases each distinct good or service (or each bundle of distinct goods or services) in the binding arrangement on a stand-alone basis;
  - (b) The entity also regularly purchases on a stand-alone basis a bundle (or bundles) of some of those distinct goods or services at a discount to the stand-alone purchase prices of the goods or services in each bundle; and
  - (c) The discount attributable to each bundle of goods or services described in paragraph 86(b) is substantially the same as the discount in the binding arrangement and an analysis of the goods or services in each bundle provides observable evidence of the performance obligation (or performance obligations) to which the entire discount in the binding arrangement belongs.
87. If a discount is allocated entirely to one or more performance obligations in the binding arrangement in accordance with paragraph 86, an entity shall allocate the discount before using the residual approach to estimate the stand-alone purchase price of a good or service in accordance with paragraph 83(b).

*Allocation of Variable Consideration*

88. Variable consideration that is promised in a binding arrangement may be attributable to the entire binding arrangement or to a specific part of the binding arrangement, such as either of the following:
- (a) One or more, but not all, performance obligations in the binding arrangement (for example, a bonus may be contingent on an entity (or beneficiary) receiving a promised good or service within a specified period of time); or
  - (b) One or more, but not all, distinct goods or services promised in a series of distinct goods or services that forms part of a single performance obligation in accordance with paragraph 25(b) (for example, the consideration promised for the second year of a two-year cleaning service binding arrangement will increase on the basis of movements in a specified inflation index).
89. An entity shall allocate a variable amount (and subsequent changes to that amount) entirely to a performance obligation or to a distinct good or service that forms part of a single performance obligation in accordance with paragraph 25(b) if both of the following criteria are met:
- (a) The terms of a variable payment relate specifically to the resource recipient's efforts to satisfy the performance obligation or transfer the distinct good or service to the entity or a beneficiary (or to a specific outcome from satisfying the performance obligation or transferring the distinct good or service to the entity or a beneficiary); and
  - (b) Allocating the variable amount of consideration entirely to the performance obligation or the distinct good or service is consistent with the allocation objective in paragraph 77 when considering all of the performance obligations and payment terms in the binding arrangement.
90. The allocation requirements in paragraphs 77–87 shall be applied to allocate the remaining amount of the contribution consideration that does not meet the criteria in paragraph 89.

*Changes in the Contribution Consideration*

91. After the inception of the binding arrangement, the contribution consideration can change for various reasons, including the resolution of uncertain events or other changes in circumstances that change the amount of consideration which an entity expects to pay in exchange for the promised goods or services.

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92. An entity shall allocate to the performance obligations in the binding arrangement any subsequent changes in the contribution consideration on the same basis as at the inception of the binding arrangement. Consequently, an entity shall not reallocate the contribution consideration to reflect changes in stand-alone purchase prices after the inception of the binding arrangement. Amounts allocated to a satisfied performance obligation shall be recognized as an expense, or as a reduction of an expense, in the period in which the contribution consideration changes.
93. An entity shall allocate a change in the contribution consideration entirely to one or more, but not all, performance obligations or distinct goods or services promised in a series that forms part of a single performance obligation in accordance with paragraph 25(b) only if the criteria in paragraph 89 on allocating variable consideration are met.
94. An entity shall account for a change in the contribution consideration that arises as a result of a modification to a binding arrangement in accordance with paragraphs 21–24. However, for a change in the contribution consideration that occurs after a modification to a binding arrangement, an entity shall apply paragraphs 91–93 to allocate the change in the contribution consideration in whichever of the following ways is applicable:
- (a) An entity shall allocate the change in the contribution consideration to the performance obligations identified in the binding arrangement before the modification if, and to the extent that, the change in the contribution consideration is attributable to an amount of variable consideration promised before the modification and the modification is accounted for in accordance with paragraph 24(a).
  - (b) In all other cases in which the modification was not accounted for as a separate binding arrangement in accordance with paragraph 23, an entity shall allocate the change in the contribution consideration to the performance obligations in the modified binding arrangement (i.e., the performance obligations that were unsatisfied or partially unsatisfied immediately after the modification).

## Recognition and Measurement of Grants and Other Transfers

95. **An entity (a resource provider) shall recognize and measure grants and other transfers it makes in accordance with paragraphs 96–112 below.**

### Recognition

96. **An entity (a resource provider) shall recognize an expense for grants and other transfers at the earlier of the following dates:**
- (a) **When the entity has a present obligation to transfer resources to a beneficiary or resource recipient. In such cases, the entity shall recognize a liability representing its obligation to transfer the resources; and**
  - (b) **When the entity ceases to control the resources; this will usually be the date at which it transfers the resources to the beneficiary or resource recipient. In such cases, the entity derecognizes the resources it ceases to control in accordance with other Standards.**
97. For a present obligation to exist, the beneficiary or resource recipient must be able to enforce the transfer of resources by the entity (the resource provider). Grants or other transfers to be made outside of a binding arrangement are not enforceable by the beneficiary or resource recipient, and no expense is recognized prior to the entity transferring the resources.

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[Note: Guidance on enforceability in line with *Revenue* project to be added, either here or in Application Guidance.]

98. For the purpose of applying this [draft] Standard, where a grant or other transfer is to be made under a binding arrangement, the grant or other transfer does not exist if each party to the binding arrangement has the unilateral enforceable right to terminate a wholly unperformed binding arrangement without compensating the other party (or parties). A binding arrangement is wholly unperformed if both of the following criteria are met:
- (a) The entity has not yet transferred, and is not yet obligated to transfer, any resources to the beneficiary or resource recipient; and
  - (b) The beneficiary or resource recipient has not yet performed any activities that it agreed to perform as part of the binding arrangement.

*Grants and Other Transfers Made as a Series of Transfers*

99. Grants and other transfers may be made as a series of transfers of resources, for example where the entity enters into a binding arrangement to provide annual funding over a three year period. An entity applies the requirements of paragraphs 96–98 to each transfer of resources separately to determine whether an expense is to be recognized.

**Measurement**

*Initial Measurement*

100. **Where an entity recognizes a grant or other transfer prior to transferring the resources to the beneficiary or resource recipient, it shall measure the expense and liability at the best estimate of the costs that the entity will incur in settling the liability. The costs that the entity will incur in settling the liability may include fixed costs, variable costs, or both.**
101. **Where an entity recognizes a grant or other transfer at the date it transfers the resources to the beneficiary or resource recipient, the entity shall measure the expense at the carrying amount of the resources transferred.**
102. When determining the costs that the entity will incur in settling the liability, an entity shall consider the effects of all of the following:
- (a) Variable costs;
  - (b) Constraining estimates of variable costs;
  - (c) Time value of money; and
  - (d) Non-cash transfers.

*Variable Costs*

103. A grant or other transfer may include variable costs where, for example, the entity has agreed to meet the costs, or a portion of the costs, incurred by the beneficiary or resource recipient in carrying out a specified activity. Such arrangements may also specify a maximum amount for the grant or other transfer. An entity's best estimate of the amount it will incur to settle the liability reflects the entity's assessment of the costs that the beneficiary or resource recipient is likely to incur.

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104. An entity shall estimate an amount of variable costs by using either of the following methods, depending on which method the entity expects to better predict the amount of costs it will incur:
- (a) The expected value—the expected value is the sum of probability-weighted amounts in a range of possible cost amounts. An expected value may be an appropriate estimate of the amount of variable costs if an entity has a large number of binding arrangements with similar characteristics.
  - (b) The most likely amount—the most likely amount is the single most likely amount in a range of possible cost amounts (i.e., the single most likely outcome of the binding arrangement). The most likely amount may be an appropriate estimate of the amount of variable costs if the binding arrangements has only two possible outcomes (for example, a beneficiary either purchases an asset or does not).
105. For the purpose of determining the best estimate of the costs it will incur in settling the liability, an entity shall assume that the beneficiary or resource recipient will carry out the specified activities as promised in accordance with the existing binding arrangement and that the binding arrangement will not be cancelled or modified.

*Constraining Estimates of Variable Consideration*

106. Where an entity's best estimate of the amount it will incur to settle the liability includes an element of variable consideration in accordance with paragraph 104, that element shall be included in the entity's best estimate only to the extent that it is highly probable that a significant reversal in the amount of cumulative expense recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

*Time Value of Money*

107. An entity's best estimate of the costs that the entity will incur in settling the liability shall reflect the effects of the time value of money. The discount rate used shall reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money shall be consistent with the currency and estimated term of the liability.
108. As a practical expedient, an entity need not adjust the expense and liability for the effects of the time value of money if the entity expects, at the inception of the binding arrangement, that the period between when the entity recognizes a liability and when the entity transfers the resources to settle that liability will be one year or less.

*Non-Cash Transfers*

109. Where the resources transferred are non-cash assets, an entity does not revalue the assets prior to derecognizing those assets.

*Subsequent measurement*

110. **The liability for a grant or other transfer shall be reduced as resources are transferred to the beneficiary or resource recipient. Any difference between the carrying amount of the resources transferred and the carrying amount of the liability in respect of the grant or other transfer is recognized in surplus or deficit in the period in which the liability is settled.**

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111. Where a liability is discounted in accordance with paragraph 107, the liability is increased and interest expense recognized in each reporting period until the liability is settled, to reflect the unwinding of the discount.
112. Where a liability has yet to be settled, the liability shall be reviewed at each reporting date, and adjusted to reflect the current best estimate of the costs that the entity will incur in settling the liability.

## Presentation

### Binding Arrangements for Contributions

113. **When either party to a binding arrangement has performed, an entity shall present the binding arrangement in the statement of financial position as a binding arrangement asset or a binding arrangement liability, depending on the relationship between the resource recipient's performance and the entity's payment. An entity shall present any unconditional obligations to pay consideration separately as a payable.**
114. If an entity (the purchaser) pays consideration, or has an obligation to pay an amount of consideration that is unconditional (i.e., a payable), before the resource recipient transfers a good or service to the entity or a beneficiary, the entity shall present the binding arrangement as a binding arrangement asset when the payment is made or the payment is due (whichever is earlier). A binding arrangement asset is an entity's right to have the goods or services transferred (either to the entity or to a beneficiary) for which the resource recipient has received consideration (or an amount of consideration is due) from the entity. An entity shall assess a binding arrangement asset for impairment in accordance with IPSAS 21 *Impairment of Non-Cash-Generating Assets*, and IPSAS 26, *Impairment of Cash-Generating Assets*.
115. If a resource recipient performs by transferring goods or services to an entity (the purchaser) or a beneficiary before the entity pays consideration or before payment is due, the entity shall present the binding arrangement as a binding arrangement liability, excluding any amounts presented as a payable. A binding arrangement liability is an entity's obligation to pay consideration in exchange for goods or services that the resource recipient has transferred to a purchaser or a beneficiary.
116. A payable is an entity's obligation to pay consideration that is unconditional. An obligation to pay consideration is unconditional if only the passage of time is required before payment of that consideration is due. For example, an entity would recognize a payable if it has a present obligation to make payment even though that amount may be subject to refund in the future. An entity shall account for a payable in accordance with IPSAS 41, *Financial Instruments*.
117. This [draft] Standard uses the terms 'binding arrangement asset' and 'binding arrangement liability' but does not prohibit an entity from using alternative descriptions in the statement of financial position for those items. If an entity uses an alternative description for a binding arrangement liability, the entity shall provide sufficient information for a user of the financial statements to distinguish between payables and binding arrangement liabilities.

### Grants and Other Transfers

#### *Statement of Financial Position*

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

118. **Entities may provide grants and other transfers with the expectation that the beneficiary or resource recipient will apply these grants and other transfers over more than one reporting**

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**period. An entity shall disclose, either on the face of the statement of financial position or in the notes, those amounts that the entity expects the beneficiary or resource recipient to apply in future reporting periods as a separate item, restricted accumulated surplus or deficit, within net assets/equity.**

119. In presenting information in accordance with paragraph 118, an entity shall rely on information provided by the beneficiary or resource recipient where such information is available to the entity. Where such information is not available to the entity, shall present the amounts on a straight-line basis over the period during which the entity expects the grant or other transfer to be applied, unless another systematic basis is representative of the time pattern of the grant or other transfer's expected application.
120. An entity shall transfer amounts of restricted accumulated surplus or deficit to accumulated surplus or deficit when the entity expects the amounts of grant or other transfer to be applied in the current reporting period.
121. This [draft] Standard uses the term restricted accumulated surplus or deficit to refer to amounts of grants and other transfers provided to beneficiaries and resource recipients that the entity expects those beneficiaries and resource recipients to apply in future reporting periods. It does not prohibit the use of alternative descriptions as long as the meaning is clear.

#### *Statement of Financial Performance*

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

122. **Entities may provide grants and other transfers with the expectation that the beneficiary or resource recipient will apply these grants and other transfers over more than one reporting period. An entity shall disclose, either on the face of the statement of financial performance or in the notes, those amounts that the entity expects the beneficiary or resource recipient to apply in future reporting periods separately from those amounts that the entity expects the beneficiary or resource recipient to have applied in the reporting period in which the expense was recognized.**
123. In presenting information in accordance with paragraph 122, the amount of an individual grant or other transfer that the entity expects the beneficiary or resource recipient to apply in future reporting periods shall match the amount of that grant or other transfer that the entity initially presents in restricted accumulated surplus or deficit in accordance with paragraph 118.

#### **Disclosure**

124. **The objective of the disclosure requirements is for an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of expenses and cash flows arising from grants, contributions and other transfers. To achieve that objective, an entity shall disclose qualitative and quantitative information about all of the following:**
  - (a) **Expenses from grants, contributions and other transfers (see paragraph 127);**
  - (b) **Binding arrangements for contributions (see paragraphs 128–137);**
  - (c) **The significant judgements, and changes in the judgements, made in applying this [draft] Standard to those binding arrangements for contributions (see paragraphs 138–141);**

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- (d) **Binding arrangements for grants and other transfers (see paragraph 142);**
  - (e) **The significant judgements, and changes in the judgements, made in applying this [draft] Standard to those binding arrangements for grants and other transfers (see paragraph 144); and**
  - (f) **Movements during the reporting period in restricted accumulated surplus or deficit (see paragraph 145).**
125. An entity shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. An entity shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have substantially different characteristics. Paragraphs 45–47 of IPSAS 1, *Presentation of Financial Statements*, provide guidance on materiality and aggregation.
126. An entity need not disclose information in accordance with this [draft] Standard if it has provided the information in accordance with another Standard.

**Expenses from grants, contributions and other transfers**

127. An entity shall disclose all of the following amounts for the reporting period, unless those amounts are presented separately in the statement of financial performance, separately from its other expenses:
- (a) Expenses recognized from binding arrangements for contributions;;
  - (b) Expenses recognized from binding arrangements for grants and other transfers; and
  - (c) Expenses recognized from grants and other transfers without binding arrangements.

**Binding Arrangements for Contributions**

128. An entity shall disclose any impairment losses recognized (in accordance with IPSAS 21 or IPSAS 26) on any rights to have goods or services transferred to the entity or a beneficiary, which the entity shall disclose separately from impairment losses from other binding arrangements.

*Disaggregation of Expenses*

129. An entity shall disaggregate expenses recognized from binding arrangements for contributions into categories that depict how the nature, amount, timing and uncertainty of expense and cash flows are affected by economic factors. An entity shall apply the guidance in paragraphs AGxx–AGxx when selecting the categories to use to disaggregate expenses.
130. In addition, an entity shall disclose sufficient information to enable users of financial statements to understand the relationship between the disclosure of disaggregated expenses (in accordance with paragraph 129) and expense information that is disclosed for each reportable segment, if the entity applies IPSAS 18, *Segment Reporting*.

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*Binding Arrangement Balances*

131. An entity shall disclose all of the following:
- (a) The opening and closing balances of binding arrangement assets, payables and binding arrangement liabilities from binding arrangements for contributions, if not otherwise separately presented or disclosed;
  - (b) Expenses recognized in the reporting period that were included in the binding arrangement asset balance at the beginning of the period; and
  - (c) Expenses recognized in the reporting period from performance obligations satisfied (or partially satisfied) by the resource recipient in previous periods (for example, changes in contribution consideration).
132. An entity shall explain how the timing of satisfaction of performance obligations by the resource recipient (see paragraph 134(a)) relates to the typical timing of payment (see paragraph 134(b)) and the effect that those factors have on the binding arrangement asset and the binding arrangement liability balances. The explanation provided may use qualitative information.
133. An entity shall provide an explanation of the significant changes in the binding arrangement asset and the binding arrangement liability balances during the reporting period. The explanation shall include qualitative and quantitative information. Examples of changes in the entity's balances of binding arrangement assets and binding arrangement liabilities include any of the following:
- (a) Changes due to public sector combinations;
  - (b) Cumulative catch-up adjustments to expense that affect the corresponding binding arrangement asset or binding arrangement liability, including adjustments arising from a change in the measure of progress, a change in an estimate of the contribution consideration (including any changes in the assessment of whether an estimate of variable consideration is constrained) or a modification to a binding arrangement;
  - (c) Impairment of a binding arrangement asset;
  - (d) A change in the time frame for an obligation to pay consideration to become unconditional (i.e., for a binding arrangement liability to be reclassified to a payable); and
  - (e) A change in the time frame for a performance obligation of the resource recipient to be satisfied (i.e., for the recognition of an expense arising from a binding arrangement asset).

*Performance Obligations*

134. An entity shall disclose information about the performance obligations in its binding arrangements for contributions, including a description of all of the following:
- (a) The significant payment terms (for example, when payment is typically due, whether the binding arrangement has a significant financing component, whether the consideration amount is variable and whether the estimate of variable consideration is typically constrained in accordance with paragraphs 59–61);
  - (b) The nature of the goods or services that have been or will be transferred to the entity or a beneficiary; and
  - (c) Where the goods or services are transferred to a beneficiary rather than to the entity, how the transfer of those goods and services enables the entity to meet its service objectives.

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*Contribution Consideration Allocated to the Resource Recipient's Remaining Performance Obligations*

135. An entity shall disclose the following information about its resource recipient's remaining performance obligations:
- (a) The aggregate amount of the contribution consideration allocated to the resource recipient's performance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period; and
  - (b) An explanation of when the entity expects to recognize as an expense the amount disclosed in accordance with paragraph 135(a), which the entity shall disclose in either of the following ways:
    - (i) On a quantitative basis using the time bands that would be most appropriate for the duration of the resource recipient's remaining performance obligations; or
    - (ii) By using qualitative information.
136. As a practical expedient, an entity need not disclose the information in paragraph 135 for a performance obligation if either of the following conditions is met:
- (a) The performance obligation is part of a binding arrangement that has an original expected duration of one year or less; or
  - (b) The entity recognizes an expense from the resource recipient's satisfaction of the performance obligation in accordance with paragraph AGxx. [Note: this may need to be deleted as it is not clear how the purchaser will know what the resource recipient is entitled to invoice – see corresponding requirements in draft *Revenue ED*.]
137. An entity shall explain qualitatively whether it is applying the practical expedient in paragraph 136 and whether any consideration from binding arrangements for contributions is not included in the contribution consideration and, therefore, not included in the information disclosed in accordance with paragraph 135. For example, an estimate of the contribution consideration would not include any estimated amounts of variable consideration that are constrained (see paragraphs 59–61).

**Significant Judgements in Applying this [draft] Standard to Binding Arrangements for Contributions**

138. An entity shall disclose the judgements, and changes in the judgements, made in applying this [draft] Standard that significantly affect the determination of the amount and timing of expenses from binding arrangements for contributions. In particular, an entity shall explain the judgements, and changes in the judgements, used in determining both of the following:
- (a) The timing of satisfaction of performance obligations by the resource recipient (see paragraphs 139–140); and
  - (b) The contribution consideration and the amounts allocated to performance obligations (see paragraph 141).

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*Determining the Timing of Satisfaction of Performance Obligations*

139. For performance obligations that a resource recipient satisfies over time, an entity shall disclose both of the following:
- (a) The methods used to recognize an expense (for example, a description of the output methods or input methods (from the resource recipient's perspective) used and how those methods are applied); and
  - (b) An explanation of why the methods used provide a faithful depiction of the transfer of goods or services.
140. For performance obligations satisfied at a point in time, an entity shall disclose the significant judgements made in evaluating when the entity or a beneficiary obtains control of promised goods or services.

*Determining the Contribution Consideration and the Amounts Allocated to Performance Obligations*

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

**Binding Arrangements for Grants and Other Transfers**

142. An entity shall disclose all of the following:
- (a) The opening and closing balances of liabilities from grants and other transfers, if not otherwise separately presented or disclosed; and
  - (b) Where a transfer of resources is conditional on a beneficiary or resource recipient undertaking specified activities, a description of those activities undertaken or to be undertaken.

*Grants or Transfers to be Applied Over More Than One Reporting Period*

143. Where an entity provides grants and other transfers with the expectation that the beneficiary or resource recipient will apply these grants and other transfers over more than one reporting period, an entity shall disclose
- (a) The methods used to allocate the grants and other transfers over the relevant reporting periods within restricted accumulated surplus or deficit; and
  - (b) An explanation of why the methods used provide a faithful depiction of the expected application of the grants and other transfers.

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**Significant Judgements in Applying this [draft] Standard to Binding Arrangements for Grants and Other Transfers.**

144. An entity shall disclose the judgements, and changes in the judgements, made in applying this [draft] Standard that significantly affect the determination of the amount and timing of expenses from grants and other transfers. In particular, an entity shall explain the judgements, and changes in the judgements, used in determining both of the following:
- (a) The timing of satisfaction of activities undertaken or to be undertaken by beneficiaries and resource recipients; and
  - (b) The estimation of liabilities that include variable costs.

**Movements During the Reporting Period in Restricted Accumulated Surplus or Deficit**

145. An entity shall disclose a reconciliation between the carrying amount of restricted accumulated surplus or deficit at the beginning and the end of the period, separately disclosing each change.

**Practical Expedients**

146. If an entity elects to use the practical expedient about the existence of a significant financing component in paragraph 66 (contributions) or paragraph 108 (grants and other transfers), or the practical expedient about the existence of a premium in paragraph 76 the entity shall disclose that fact.

**Effective Date and Transition****Effective Date**

147. **An entity shall apply this [draft] Standard for annual financial statements covering periods beginning on or after January 1, [Year]. Earlier adoption is encouraged. If an entity applies this [draft] Standard for a period beginning before January 1, [Year], it shall disclose that fact and apply [draft] IPSAS 23, *Revenue from Non-Exchange Transactions (Revised)* and [draft] IPSAS xx (ED xx), *Revenue from Binding Arrangements with Purchasers*, at the same time.**
148. When an entity adopts the accrual basis IPSASs of accounting as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* for financial reporting purposes subsequent to this effective date, this [draft] Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS.

**Transition**

149. For the purposes of the transition requirements for binding arrangements in paragraphs 150–156:
- (a) The date of initial application is the start of the reporting period in which an entity first applies this [draft] Standard; and
  - (b) A completed binding arrangement for contributions is a binding arrangement for which the entity or has received all of the goods or services specified in the binding arrangement.

## ED XX—GRANTS, CONTRIBUTIONS AND OTHER TRANSFERS

*Binding Arrangements for Contributions*

150. An entity shall apply this [draft] Standard to binding arrangements for contributions using one of the following two methods:
- (a) Retrospectively to each prior reporting period presented in accordance with IPSAS 3, subject to the expedients in paragraph 152; or
  - (b) Retrospectively with the cumulative effect of initially applying this [draft] Standard recognized at the date of initial application in accordance with paragraphs 154–156.
151. Notwithstanding the requirements of paragraph 33 of IPSAS 3, when this [draft] Standard is first applied to binding arrangements for contributions, an entity need only present the quantitative information required by paragraph 33(f) of IPSAS 3 for the annual period immediately preceding the first annual period for which this [draft] Standard is applied (the ‘immediately preceding period’) and only if the entity applies this [draft] Standard retrospectively in accordance with paragraph 150(a). An entity may also present this information for the current period or for earlier comparative periods, but is not required to do so.
152. An entity may use one or more of the following practical expedients when applying this [draft] Standard retrospectively to binding arrangements for contributions, in accordance with paragraph 150(a):
- (a) For completed binding arrangements for contributions, an entity need not restate binding arrangements that:
    - (i) Begin and end within the same annual reporting period; or
    - (ii) Are completed binding arrangements for contributions at the beginning of the earliest period presented.
  - (b) For completed binding arrangements for contributions that have variable consideration, an entity may use the contribution consideration at the date the binding arrangement was completed rather than estimating variable consideration amounts in the comparative reporting periods.
  - (c) For binding arrangements that were modified before the beginning of the earliest period presented, an entity need not retrospectively restate the binding arrangement for those modifications to a binding arrangement in accordance with paragraphs 23–24. Instead, an entity shall reflect the aggregate effect of all of the modifications that occur before the beginning of the earliest period presented when:
    - (i) Identifying the satisfied and unsatisfied performance obligations;
    - (ii) Determining the contribution consideration; and
    - (iii) Allocating the contribution consideration to the satisfied and unsatisfied performance obligations.
  - (d) For all reporting periods presented before the date of initial application, an entity need not disclose the amount of the contribution consideration allocated to the remaining performance obligations and an explanation of when the entity expects to recognize that amount as revenue (see paragraph 135).

## ED XX—GRANTS, CONTRIBUTIONS AND OTHER TRANSFERS

153. For any of the practical expedients in paragraph 152 that an entity uses, the entity shall apply that expedient consistently to all binding arrangements within all reporting periods presented. In addition, the entity shall disclose all of the following information:
- (a) The expedients that have been used; and
  - (b) To the extent reasonably possible, a qualitative assessment of the estimated effect of applying each of those expedients.
154. If an entity elects to apply this [draft] Standard retrospectively in accordance with paragraph 150(b), the entity shall recognize the cumulative effect of initially applying this [draft] Standard as an adjustment to the opening balance of accumulated surplus or deficit (or other component of net assets/equity, as appropriate) of the annual reporting period that includes the date of initial application. Under this transition method, an entity may elect to apply this [draft] Standard retrospectively only to binding arrangements for contributions that are not completed binding arrangements for contributions at the date of initial application (for example, January 1, [Year] for an entity with a December 31 year-end).
155. An entity applying this [draft] Standard retrospectively in accordance with paragraph 150(b) may also use the practical expedient described in paragraph 152(c), either:
- (a) For all modifications to a binding arrangement that occur before the beginning of the earliest period presented; or
  - (b) For all modifications to a binding arrangement that occur before the date of initial application.
- If an entity uses this practical expedient, the entity shall apply the expedient consistently to all binding arrangements and disclose the information required by paragraph 153.
156. For reporting periods that include the date of initial application, an entity shall provide both of the following additional disclosures if this [draft] Standard is applied retrospectively in accordance with paragraph 150(b):
- (a) The amount by which each financial statement line item is affected in the current reporting period by the application of this [draft] Standard as compared to the entity's previous accounting policies; and
  - (b) An explanation of the reasons for significant changes identified.

*Grants and Other Transfers*

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

## ED XX—GRANTS, CONTRIBUTIONS AND OTHER TRANSFERS

159. For reporting periods that include the date of initial application, an entity shall provide both of the following additional disclosures:
- (a) The amount by which each financial statement line item is affected in the current reporting period by the application of this [draft] Standard as compared to the entity's previous accounting policies; and
  - (b) An explanation of the reasons for significant changes identified.

**Appendix A****Application Guidance**

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

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

- (a) [Application Guidance to be developed in line with the IFRS 15 based Application Guidance and additional guidance for the PSPOA developed in the *Revenue* project.]
- (b) [Additional Application Guidance to be developed for expense transactions outside PSPOA.]

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