SESSION 4:

IPSAS 47, *Revenue*

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Scope of IPSAS 47

Applies to all revenue except:

- Social benefit contributions accounted for using the insurance approach
- Gains from the sale of non-financial assets that are not an output of an entity's activities (for example, investment property, property, plant and equipment)
- Revenue covered by other standards (for example, lease revenue, revenue from financial instruments)
- Revaluation gains

Does not apply to rights or obligations arising from binding arrangements within the scope of other IPSAS

Types of Revenue

Does the transaction arise from a Binding Arrangement?

- Yes – Revenue with Binding Arrangement

  IFRS 15 aligned

- No – Revenue without Binding Arrangement

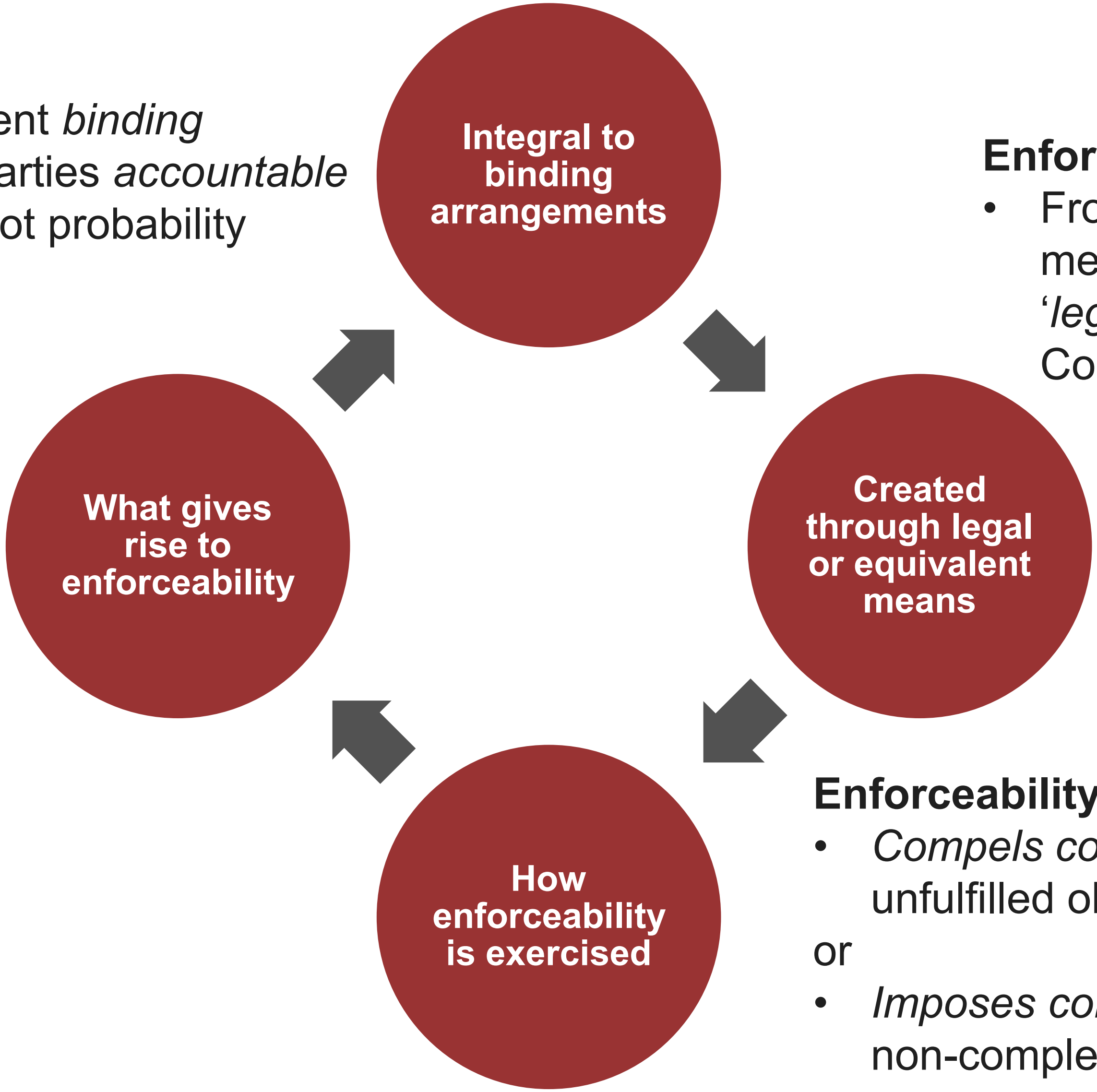
Binding Arrangements

A binding arrangement is an arrangement that confers both rights and obligations, enforceable through legal or equivalent means, on the parties to the arrangement.

Enforceability

Enforceability…

- Makes an arrangement *binding*
- Holds the involved parties *accountable*
- Is based on *ability*, not probability



Enforceability…

- From *legal* or *equivalent* means (consistent with '*legal obligations*' in IPSASB Conceptual Framework)

Enforceability…

- Can arise from *various mechanisms*
- Should be determined by assessing *all relevant factors*

Enforceability…

- *Compels completion* of unfulfilled obligation(s)

or

- *Imposes consequences* of non-completion

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Examples of Types of Revenue Transactions

- Grants from higher levels of government
- Receipt of assets donated by international organizations
- Funding for training courses to be provided to beneficiaries
- Commercial sales of goods
- Commercial sales of services

Definitions – Revenue without Binding Arrangements

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

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

A **resource** provider is the party that provides a resource to the entity

Rights and Obligations from Revenue without Binding Arrangements

An entity's revenue transaction without a binding arrangement may confer rights and/or obligations:

No enforceable right, no enforceable obligation	Enforceable right (may meet the definition of an asset) but no enforceable obligation	Enforceable obligation (may meet the definition of a liability) but no enforceable right

Recognition of Revenue without Binding Arrangements

When entity receives resources (or has right to receive resources):

Does the entity have an obligation that meets the definition of a liability?

Yes – Recognize revenue when (or as) the entity satisfies the obligation

No – Recognize revenue immediately

Measurement of Revenue without Binding Arrangements

Revenue recognition

- Revenue is measured at the amount of the increase in net assets
  - Non-cash consideration → Current value basis

Subsequent Measurement

- Receivable assets are
  - within scope of IPSAS 41 as a financial assets; or
  - not in the scope of IPSAS 41 on the same basis as a financial asset, by analogy.
- All other assets: as prescribed by the applicable IPSAS
- Liabilities measured in accordance with IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* limited to the associated asset value

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Definitions – Taxes

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

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

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

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

Accounting for Taxes

Recognition

- Taxable event occurs (event subject to taxation); and
- Recognition criteria satisfied

Measurement

- At consideration received/receivable
- Factors considered:
  - Probability resources will flow
  - Current value of resultant assets

Revisions

- Accounted for in the current period

Other Tax Accounting Issues

Resources received prior to the taxable event are recognized as advance receipts of taxes

Taxation revenue is the gross amount:

- Not reduced for expenses paid through the tax system
- Not grossed up for tax expenditures

Taxes levied for specific purposes

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Accounting for Revenue with Binding Arrangements

1. Identify the binding arrangement
2. Identify compliance obligations
3. Determine the transaction consideration
4. Allocate the transaction consideration
5. Recognize revenue

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Definitions – Revenue with Binding Arrangements

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

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

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

A **purchaser** is a resource provider that provides a resource to the entity in exchange for goods or services that are an output of an entity’s activities under a binding arrangement for its own consumption.

Definitions – Revenue with Binding Arrangements

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

A **third-party beneficiary** is an entity, household or individual who will benefit from a transaction made between other parties by receiving resources.

The **transaction consideration** is the amount of resources to which an entity expects to be entitled.

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Step 1 – Identify Binding Arrangements

Criteria must be met to account for revenue with a binding arrangement:

Parties to the binding arrangement have approved the binding arrangement

The entity can identify each party's rights under the binding arrangement

The entity can identify the payment terms for the satisfaction of each identified compliance obligation

The binding arrangement has economic substance

It is probable that the entity will collect the consideration to which it will be entitled for satisfying its compliance obligations

Combination of Binding Arrangements

An entity treats two or more binding arrangements as a single binding arrangement if entered into at/near the same time with the same resource provider (or related parties) and any of the following criteria are met:

- Negotiated as a package with a single objective
- Payment in one binding arrangement depends on the other’s terms/performance
- Promises across arrangements form one single compliance obligation

Modifications of Binding Arrangements

Modification is treated as a new binding arrangement only if:

Scope increases (added distinct promises), *and*

Consideration increases (reflects standalone value of new promises).

Otherwise, Account for:

Termination + New Arrangement: Treat original arrangement as terminated and create new one with remaining/modified promises OR

Part of Existing Arrangement : If remaining promises are not distinct (form a single compliance obligation).

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Step 2 – Identify Compliance Obligations

An entity recognizes as a compliance obligation each promise to:

- Use resources internally or
- Transfer to external parties (purchaser/third -party beneficiary)

For either:

- ✓ Distinct goods/services (or bundle)
- ✓ Series of substantially similar goods/services with:
  - Same characteristics/risks
  - Same transfer/usage pattern

Key Characteristics

- Every binding arrangement has ≥1 compliance obligation (enforceable with no practical alternative to avoid)
  - Serves as the unit of account for recognition / measurement

Non-Distinct Promises

- Combine with other promises until a distinct bundle is identified
- May result in treating all promises as a single compliance obligation

Step 3 – Determine the Transaction Consideration

Transaction consideration: the amount to which an entity expects to be entitled

Factors affecting the estimate of the transaction consideration:

Nature, timing, and amount of consideration

Consider the effects of all following:

- Variable consideration (incentives, penalties, etc.)
- Constraining estimates of variable consideration
- The existence of a significant financing component
- Non-cash consideration
- Consideration payable to a resource provider

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Step 4 – Allocate the Transaction Consideration to Compliance Obligations

Objective: allocate the transaction consideration to each compliance obligation based on the expected entitlement for fulfilling each obligation.	
Relative stand-alone value basis Assign portion of total consideration proportional to each obligation's stand-alone value	Stand-alone value The price at which a good/service would be: > Transferred separately to purchaser/third-party beneficiary > Required for internal use

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Estimating the Stand-alone Value

When direct observation is not possible

- Entities must estimate stand-alone values that achieve the allocation objective

Suitable methods include

- Adjusted market assessment approach
- Expected cost approach
- Residual approach

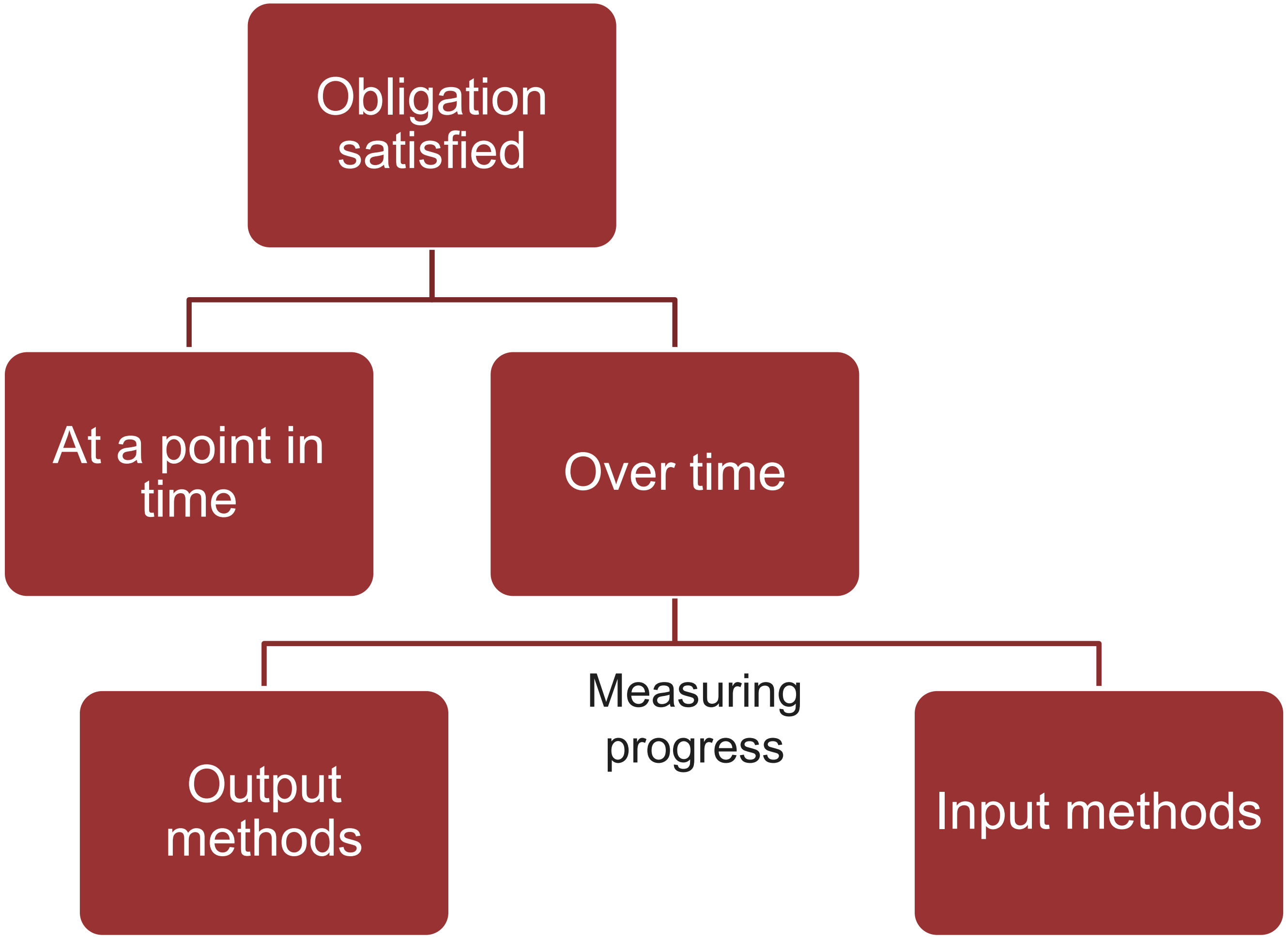
Variable consideration

- May be related to the entire binding arrangement or to a specific part of it
- Requires separate identification and measurement

Step 5 – Recognize Revenue

Entity satisfies compliance obligation prior to receiving resources	Entity satisfies compliance obligation after receiving resources
• Recognize binding arrangement asset and revenue as or when compliance obligation is satisfied • Asset is entitlement to receive resources • Derecognize asset and recognize cash/other asset when resources received	• Recognize cash/other asset and binding arrangement liability when resources received • Liability is entity's obligation to achieve compliance obligation • Derecognize liability and recognize revenue as or when compliance obligation is satisfied

Satisfying Compliance Obligations



Measurement of Assets and Liabilities

Initial Recognition

Assets measured at consideration received/receivable

Non-cash consideration: current value

Subsequent Measurement

Receivable Assets: Within the scope of IPSAS 41 as financial assets

If not in IPSAS 41: Same basis as a financial asset, by analogy

Other Assets: Applicable IPSAS

Subsequent Measurement

Liabilities: Measured in accordance with IPSAS 19, limited to value of associated asset

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Measurement of Revenue with Binding Arrangements

Measurement: When a compliance obligation is satisfied and revenue is recognized, it is measured at the amount of transaction consideration allocated to that obligation.

Variable Consideration: Includes an estimate of variable consideration only if it is highly probable that a significant reversal in cumulative revenue recognized will not occur when the uncertainty is resolved.

Adjusted for any significant financing component.

Costs of Fulfilling a Binding Arrangement

Application of other IPSAS: IPSAS 12, IPSAS 31, or IPSAS 45 if relevant to recognize an asset.

Recognition Criteria for Costs Incurred:

- Direct Relation: Costs must relate directly to a binding arrangement.
- Resource Generation: Costs must generate or enhance resources used in satisfying future compliance obligations.
- Recovery Expectation: Costs are expected to be recovered.

Amortization: The asset is amortized on a systematic basis consistent with the satisfaction of the compliance obligation.

Capital Transfers

A capital transfer is an inflow of cash or another asset that arises from a binding arrangement with a specification that the entity acquires or constructs a non-financial asset that will be controlled by the entity

Recognize revenue as it satisfies its compliance obligations in its capital transfer transaction (as other transactions with binding arrangements)

Some capital transfer transactions may include a compliance obligation for the operation of the acquired or constructed asset, which would not meet the capital transfer definition

Compliance obligations for the operation of an asset are separate compliance obligations

Services In-kind

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

Entities are strongly encouraged to disclose services in-kind received, especially if they are integral to operations.

Examples:

- Technical assistance from other governments or international organizations
- Persons convicted of offenses may be required to perform community service
- Local governments may receive the services of volunteer fire fighters
- Public schools may receive voluntary services from parents
- Public hospitals may receive the services of volunteers

Concessionary Loans

- Loans received at below market terms

Portion of the loan that is repayable plus interest is accounted for in accordance with IPSAS 41	Difference between the transaction consideration and the fair value of the loan on initial recognition is revenue except to the extent that conditions result in a liability	As liability is reduced an equal amount of revenue recognized

- Accounted for as financial instrument

Presentation in the Financial Statements

When either party has performed, present the arrangement in the statement of financial position as:

- Binding Arrangement Asset: If the entity has performed and is awaiting consideration.
- Binding Arrangement Liability: If the entity has received consideration and must perform.

Presentation of Unconditional Rights:

- Present any unconditional rights to consideration separately as a receivable.

Disclosure

Objective: enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows from revenue transactions.

- Disclosure Requirements:
  Revenues from Different Transactions:
  - Transactions without Binding Arrangements
  - Transactions with Binding Arrangements
- Significant judgments made in applying IPSAS 47 to binding arrangements.
- Any assets recognized from costs incurred to obtain or fulfill a binding arrangement with a resource provider.

Resources

Additional Information

- IPSASB's Website
- IPSASB's Handbook (digital version)
- IPSASB's Handbook (PDF version)
- PSAB's International Activities page

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Thank You!