IMPLEMENTING IPSAS: A GUIDE FOR TRAINERS

Expenses

2024 Edition

Contents

Social Benefits

Introduction

IPSAS 42, Social Benefits, was issued in January 2019, and has an effective date of January 1, 2023. Early adoption is permitted.

The delivery of social benefits to the public is a primary objective of most governments, and accounts for a large proportion of their expenditure.

As well as social benefits, governments also provide services, for example healthcare and defense. Such services are outside the scope of social benefits; instead they are covered by guidance on *Collective and Individual Services*, which can be found in Appendix A to IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*. Collective and individual services are discussed later in this module.

Learning Objective

You are able to:

- Apply the definitions of social benefits and social risks
- Apply the general approach to accounting for social benefits
- Be aware of the insurance approach to accounting for social benefits

IPSAS 42 provides guidance on accounting for social benefits, as defined in the Standard. The definition relies on the concept of social risks, which is also defined in IPSAS 42.

IPSAS 42 permits two approaches to accounting for social benefits – the general approach and the insurance approach.

The insurance approach is not discussed in detail in this module, as IPSAS 42 does not provide detailed requirements for this approach. Instead, entities apply the requirements of insurance accounting included in IFRS 17, *Insurance Contracts*, by analogy. The insurance approach is expected to have limited use by governments, at least initially.

Definitions

Social benefits are cash transfers provided to:

a) Specific individuals and/or households who meet eligibility criteria;

b) Mitigate the effect of social risks; and

c) Address the needs of society as a whole.

Social risks are events or circumstances that:

a) Relate to the characteristics of individuals and/or households – for example, age, health, poverty and employment status; and

b) May adversely affect the welfare of individuals and/or households, either by imposing additional demands on their resources or by reducing their income.

c)

Social Benefits

Social benefits are cash transfers (including transfers in the form of cash equivalents, for example pre-paid debit cards) provided to individuals and/ or households. Services provided by a public sector entity are not social benefits.

Social benefits are only provided when eligibility criteria (to receive a social benefit payment when it is next paid) are met.

For example, a government may provide unemployment benefits to ensure that the needs of those whose income during periods of unemployment would otherwise be insufficient are met. Although the unemployment benefit scheme potentially covers the population as a whole, unemployment benefits are only paid to those who are unemployed, i.e. those who meet the eligibility criteria. In some cases, eligibility criteria may relate to citizenship or residence, for example where a public sector entity pays a universal basic income to all adult residents.

The assessment of whether a benefit is provided to mitigate the effect of social risks is made by reference to society as a whole. The benefit does not need to mitigate the effect of social risks for each recipient.

An example is where a government pays a retirement pension to all those over a certain age, regardless of income or wealth, to ensure that the needs of those whose income after retirement would otherwise be insufficient are met. Such benefits satisfy the definition criteria that they are provided to mitigate the effect of social risks.

Social Risks

Social risks relate to the characteristics of individuals and/or households–for example, age, health, poverty, and employment status. The nature of a social risk is that it relates directly to the characteristics of an individual and/or household. The circumstances that lead to an unplanned or undesired event arise from the characteristics of the individuals and/or households. This distinguishes social risks from other risks, where the circumstances that lead to an unplanned or undesired event arise from something other than the characteristics of an individual or household.

For example, unemployment benefits are social benefits because the circumstances covered by the unemployment benefit arise from characteristics of the individuals and/or households – in this case a change in an individual's employment status.

By contrast, aid provided immediately following an earthquake is not a social benefit. The circumstance that leads to an unplanned or undesired event is an active fault line, and the risk is that a possible earthquake causes damage. Because the risk relates to geography rather than individuals and/or households, this risk is not a social risk.

Examples of Social Benefits

- Unemployment Benefits
- State Retirement Pensions
- Disability Pensions

Accounting for Social Benefits

- General Approach
  - Used for all social benefits unless the government elects to use the insurance approach
- Insurance Approach
  - Used only where specified criteria are met and the government elects to use the insurance approach.

IPSAS 42 permits two approaches to accounting for social benefits. The general approach is expected to apply to most social benefits; and for many governments will be the only approach that they use.

The insurance approach is an optional approach, and IPSAS 42 only permits its use when specified criteria are met.

General Approach Recognition

- Recognize a liability for a social benefit scheme when:
  - The entity has a present obligation for an outflow of resources that results from a past event; and
  - The present obligation can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in general purpose financial reports
- The past event is the satisfaction by the beneficiary of all eligibility criteria for the next benefit
- The satisfaction of eligibility criteria for each social benefit payment is a separate past event

The general approach includes a single recognition point for all social benefits and follows the principles in the Conceptual Framework for recognizing a liability.

The key factor in determining when a liability for a social benefit arises is identifying the past event.

Under the general approach, the past event that gives rise to a liability is the satisfaction by the beneficiary of all eligibility criteria for the provision of the next social benefit.

The satisfaction of eligibility criteria for each social benefit payment is a separate past event.

Being alive at the point at which the eligibility criteria are required to be satisfied may be an eligibility criterion, whether explicitly stated or implicit. This depends on the characteristics of each individual social benefit scheme.

Other ongoing eligibility criteria may be relevant for some social benefit schemes. For example, many unemployment benefits are only payable while the individual remains resident in the jurisdiction; residence is an ongoing eligibility criterion.

For a liability to be recognized, a beneficiary must satisfy the eligibility criteria (to receive a social benefit payment) at, or prior to, the reporting date, even if formal validation of the eligibility criteria occurs less frequently.

In IPSAS 42, the general approach does not address social contributions – that is, revenue from contributions towards social benefit schemes. Social contributions are accounted for in accordance with IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers*).

Recognition Examples

- Reaching retirement age (in the case of a retirement pension)
- The death of a partner (in the case of a survivor benefit)
- Becoming unemployed (in the case of an unemployment benefit without a waiting period)
- Being unemployed for a specified period (in the case of an unemployment benefit with a waiting period)

The recognition examples are examples of when a beneficiary may first satisfy all the eligibility criteria for the provision of the next social benefit. To continue to receive the social benefit, beneficiaries would need to continue to satisfy the eligibility criteria.

Some social benefits include a waiting period as part of the eligibility criteria. For example, some unemployment benefits are paid after an individual has been unemployed for a set amount of time, say 14 days. Where there is this type of waiting period, the eligibility criteria are only satisfied once the individual has been unemployed for the specified period.

General Approach Measurement

- Expenses measured at amount equivalent to liability
- Liability measured at the best estimate of the costs that the entity will incur in fulfilling the present obligations
    - IPSAS 46, *Measurement*, provides guidance on measuring liabilities at cost of fulfillment
- Liability is for next payment only
- Discounting not required for most social benefits
- Liability reduced as payments are made – differences recognized in surplus or deficit

Measurement of Expenses

An entity recognizes an expense for a social benefit scheme, measured at the amount of the next payment following satisfaction of the eligibility criteria. Discounting of the expense will not be required for most social benefits, because the next payment will usually be made within twelve months.

Where the entity makes a social benefit payment prior to all eligibility criteria for the next payment being satisfied, it measures the payment in advance (or expense recognized where the payment is irrecoverable) at the amount of the cash transferred.

Measurement of Liability

Under IPSAS 42, the liability for a social benefit scheme is measured at the best estimate of the costs that the entity will incur in fulfilling the present obligations represented by the liability.

In this context, “costs” means the social benefit payments to be made (i.e., the cash transfers). The costs do not include other elements such as administrative costs and bank charges.

This measurement basis is called the 'cost of fulfillment.' IPSAS 46, *Measurement*, includes guidance on measuring liabilities using this basis (see Module 10 for more details).

Because the satisfaction of eligibility criteria for each social benefit payment is a separate past event, the liability is for the next payment only. Consequently, liabilities in respect of social benefits will usually be short-term liabilities. As a result, an entity will often know the amounts involved without needing to make estimates. Similarly, because liabilities in respect of social benefits will usually be short-term liabilities, discounting will not be required for most social benefits.

Subsequent Measurement

The liability is reduced as social benefit payments are made. Any difference between the cost of making the social benefit payments and the carrying amount of the liability is recognized in surplus or deficit in the period in which the liability is settled.

Where a liability is discounted the liability is increased and interest expense recognized in each reporting period to reflect the unwinding of the discount.

Where a liability has yet to be settled, the liability is reviewed at each reporting date, and adjusted to reflect the current best estimate of the social benefit payment required to fulfill the liability.

Worked Example

A government provides a retirement pension. Amounts are paid in full to those individuals who satisfied the eligibility criteria in full at the end of the previous month.

As at December 31, 20X1, the government recognized a liability for retirement pensions of CU1,950,500. During 20X2, the government paid retirement pensions as follows:

January 20X2	*1,950,500*
February–December 20X2	*22,258,000*

During January 20X3, Government H pays retirement pensions totaling CU2,095,750.

What expenses should be recognized in 20X2?

Answer:

The payments made in January 20X2 relate to the liability as at December 21, 20X1. Consequently, these payments are not recognized as expenses in 20X2.

As at December 31, 20X2, Government H recognizes a liability for retirement pensions payable to those who satisfied the eligibility criteria at that date.

Consequently, Government H recognizes a liability of CU2,095,750, the full amount of the retirement pensions paid in January.

During 20x2, the total amount recognized as an expense is CU24,353,750. The breakdown of this amount is as follows:

	CU
Pensions paid in February 20X2 **(recognized in January 20X2) to December 20X2) recognized in November 20X2)**	22,258,000
Pensions paid in January 20X3 **(recognized in December 20X2)**	2,095,750
Total	24,353,750

General Approach Disclosures

- Characteristics of Social Benefit Schemes
- Demographic, economic and other external factors that influence the level of expenditure
- The total expenditure on social benefits, analyzed by social benefit scheme
- A description of any significant amendments to the social benefit schemes
- If a scheme satisfies the criteria to permit the use of the insurance approach, a statement to that effect

Characteristics of social benefit schemes

The disclosure of the characteristics of social benefits includes the following items:

- The nature of the social benefits provided by the schemes (for example, retirement benefits, unemployment benefits, child benefits).
- Key features of the social benefit schemes, such as a description of the legislative framework governing the schemes, and a summary of the main eligibility criteria that must be satisfied to receive the social benefits.
- A description of how the schemes are funded, including whether the funding for the schemes is provided by means of a budget appropriation, a transfer from another public sector entity, or by other means.
- Where a scheme is funded by social contributions:
    - A cross reference to the location of information about those social contributions and any dedicated assets (where included in the entity's financial statements); or
    - A statement regarding the availability of information on those social contributions and any dedicated assets in another entity's financial statements.

Amendments to a social benefit scheme

Amendments to a social benefit scheme include:

- Changes to the level of social benefits provided; and
- Changes to the eligibility criteria, including the individuals and/or households covered by the social benefit scheme.

Insurance Approach

IPSAS 42 includes the insurance approach as a possible alternative approach. Entities are permitted, but not required, to use this approach where a social benefit scheme meets certain criteria.

IPSAS 42 does not include requirements for the insurance approach but directs entities to apply relevant international or national accounting standards by analogy. IPSAS 42 includes guidance on which accounting standards may be used when applying the insurance approach.

Insurance Approach: Criteria

- Intended to be Fully Funded from Contributions
  - Contributions, Levies, Investment Income
  - Review and Adjust Rates and/or Benefits
- Managed as Insurer Manages Insurance Contracts
  - Bound by Scheme
  - Separate Fund or Earmarked
  - Enforceable Rights
  - Assess Financial Performance and Position
  - Possibly Separate Entity

IPSAS 42 permits entities to use the insurance approach where:

- The social benefit scheme is intended to be fully funded from contributions; and
- There is evidence that the entity manages the scheme in the same way as an issuer of insurance contracts, including assessing the financial performance and financial position of the scheme on a regular basis.

IPSAS 42 includes guidance on how to determine whether a social benefit scheme is intended to be fully funded from contributions.

The legislation or regulations governing the scheme should provide for the scheme to be funded solely from contributions, without any general subsidies from taxation or other government revenues.

For some schemes, governments are required to make contributions on behalf of individuals who are unable to make the contribution themselves, for example where they are unemployed. Where a government makes contributions in this manner on behalf of the individuals – which typically will involve the contributions being credited to their account – the payments are classed as a contribution rather than a subsidy. Where governments make payments generally, or fund a deficit, this is a subsidy.

IPSAS 42 also includes indicators to assist entities in determining whether they are managing a scheme in the same way as an issuer of insurance contracts.

- The entity must be bound by the scheme (so adjustments to rates and/or benefits will be prospective only).
- There should be a separate fund maintained for the social benefit scheme (or the assets should be otherwise earmarked and restricted).
- Beneficiaries' and potential beneficiaries' rights should be enforceable in law.

- The entity should assess the financial performance and position of the scheme at appropriate intervals, and take action where required.
- Finally, the scheme may be operated by a separate entity. This is not essential but may provide further evidence that the scheme is being managed as if the entity were an insurer.

Insurance Approach: Accounting Standards

- IFRS 17, Insurance Contracts
- National standards that have adopted substantially the same principles as IFRS 17

- IFRS 17 provides meaningful information when applied to social benefits
- May not apply to other standards

Within the insurance approach section of IPSAS 42, the term "the relevant international or national accounting standard dealing with insurance contracts" refers to IFRS 17, *Insurance Contracts*, and national standards that have adopted substantially the same principles as IFRS 17.

IFRS 17 has adopted principles for accounting for insurance contracts that, when applied by analogy to social benefit schemes, will provide information that meets users' needs and satisfies the qualitative characteristics.

This may not be the case for other accounting standards dealing with insurance contracts. Consequently, IPSAS 42 does not allow an entity to apply by analogy an insurance standard that has not adopted substantially the same principles as IFRS 17.

Insurance Approach: Disclosures

- Basis for determining that the insurance approach is appropriate
- Information required by the international or national accounting standard dealing with insurance contracts
- Information about the characteristics of its social benefit schemes
- Description of any amendments made during the reporting period

Where an entity has elected to use the insurance approach, IPSAS 42 requires the entity to make the disclosures listed above.

The entity needs to explain its basis for determining that the insurance approach is appropriate. This involves explaining how the scheme meets the criteria in IPSAS 42, and why the entity considers the insurance approach will provide better information about the scheme.

An entity will also need to provide all the disclosures required by IFRS 17 or the equivalent national standard. These are extensive.

Finally, the entity will also need to provide information about the characteristics of the social benefit scheme, and any amendments that have been made during the reporting period. These disclosure requirements mirror the equivalent disclosures under the general approach.

Discussions and Questions

Visit the IPSASB webpage

http://www.ipsasb.org

Review Questions

Question 1

Which of the following should be classified as social benefits under IPSAS 42?

a) Provision of Retirement Benefits to Government Employees

b) Provision of State Retirement Pension

c) Provision of Universal Healthcare Services

d) Provision of Unemployment Benefits

e) Provision of Emergency Relief

Question 2

Based on the information presented below:

a) What liability should the government recognize at December 31 20X8?

b) What expenses should the government recognize for 20X8

Scenario:

A government provides a retirement pension to its citizens and permanent residents. The pension scheme pays a fixed amount of CU100 per month (in arrears) to each individual who has reached the retirement age of 70. Amounts are pro-rated in the months in which an individual reaches the retirement age, and in the months in which an individual dies.

The government prepares its financial statements as at December 31. Retirement pensions are paid at the end of each month.

As at December 31, 20X7, the government recognized a liability for retirement pensions of CU2,990,656. During 20X8, the government paid retirement pensions as follows:

Month(s)	**Pensions Paid (CU)**
January 20X8	3,024,997
February – December 20X8	33,435,183
Total	36,460,180

It is assumed that the government has complete information at the date it pays retirement pensions (i.e., it is assumed that the estimates made by the government at the end of the each reporting period match the subsequent events perfectly.

Consequently, the difference between the amount paid in January 20X8 (CU3,024,997) and the liability recognized as at December 31, 20X7 (CU2,990,656) represents the pro-rated retirement pensions paid to those who reached (and were estimated to reach) retirement age during January 20X8 (CU34,341).

On January 31, 20X9, Government I pays retirement pensions totaling CU3,053,576. There are three elements to this payment:

	(CU)
Full pensions paid to those pensioners eligible at December 31, 20X8 and remaining eligible at January 31,20X9	2,979,600
Pro-rated pensions paid to those pensioners eligible at December 31, 20X8 who died (and were estimated to die) during January 20X9	36,420
Pro-rated pensions paid to those who reached retirement age during January 20X9	37,556
Total	3,053,576

Answers to Review Questions

Question 1

The answer is (b) and (d) should be classified as social benefits under IPSAS 42

Retirement benefits provided to government employees (answer (a)) do not address the needs of society as a whole, as they are only available to former employees of the government. The retirement benefits are paid as compensation for employment services rendered. It follows that the retirement benefits do not meet all the elements of the definition of a social benefit. Consequently, the retirement benefits are outside the scope of IPSAS 42. The retirement benefits are employee benefits, and are accounted for in accordance with IPSAS 39, *Employee Benefits*.

The provision of universal healthcare (answer (c)) requires a government to provide services rather than cash transfers. Consequently, the healthcare services are outside the scope of IPSAS 42.

The provision of emergency relief (answer (e)) does not mitigate the effects of social risks, but instead mitigates the effects of other risks, for example the risk of earthquake. IPSAS 42 explains that risks that do not relate to the characteristics of individuals and/or households – for example, risks related to the characteristics of geography or climate – are not social risks. Consequently, the emergency relief is outside the scope of IPSAS 42.

The provision of state retirement pensions (answer (b)) and unemployment benefits answer (d)) are social benefits. They are provided as cash transfers to specific individuals who meet eligibility criteria. The retirement pensions and unemployment benefits are intended to mitigate social risks, in that they are intended to ensure that individuals and households have sufficient income once they reach retirement age or during period of unemployment.

The state retirement pension and unemployment benefits address the needs of society as a whole. In this context, IPSAS 42 notes that the “assessment of whether a benefit is provided to mitigate the effect of social risks is made by reference to society as a whole; the benefit does not need to mitigate the effect of social risks for each recipient. An example is where a government pays a retirement pension to all those over a certain age, regardless of income or wealth, to ensure that the needs of those whose income after retirement would otherwise be insufficient are met.”

Question 2

a) As at December 31, 20X8, the government recognizes a liability (for retirement pensions payable to those who satisfied the eligibility criteria at that date) of CU3,016,020

This includes the full pensions paid to those pensioners eligible at December 31, 20X8 and remaining eligible at January 31, 20X9 (CU2,979,600) and the pro-rated pensions paid to those pensioners eligible at December 31 who died (and were estimated to die) during January 20X9 (CU36,420). The liability does not include the pro-rated pensions paid to those who reached retirement age during January 20X9 because they had not satisfied the eligibility criteria as at December 31, 20X8.

b) During 20x8, the total amount recognized as an expense is CU36,485,544.

The breakdown of this amount is as follows:

	(CU)
Pro-rated pensions paid to those who reached retirement age during January 20X8 (recognized in January 20X8)	34,341
Pensions paid between February 20X8 and December 20X8 and recognized in the financial year January 1, 20X8 to December 31, 20X8	33,435,183
Full pensions paid to those pensioners eligible at December 31, 20X8 and remaining eligible at January 31, 20X9 (recognized in December 20X8)	2,979,600
Pro-rated pensions paid to those pensioners eligible at December 31, 20X8 who died during January 20X9 (recognized in December 20X8)	36,420
Total	36,485,544

Collective and Individual Services

Learning Objective

You are able to:

- Apply the definitions of collective services and individual services
- Apply the accounting requirements for collective and individual services
- Understand the relationship between collective and individual services, social benefits and contractual obligations.

When IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, was first issued, provisions and contingent liabilities arising from social benefits were excluded from the scope of the Standard. At that time, IPSAS 19 described social benefits in wide terms as goods, services, and other benefits provided in the pursuit of the social policy objectives of a government.

IPSAS 42, *Social Benefits*, amended IPSAS 19, which now excludes from its scope social benefits within the scope of IPSAS 42 (i.e., cash transfers provided to mitigate the effect of social risks.

A consequence of this amendment was to bring within the scope of IPSAS 19 collective and individual services. A key issue is whether a provision arose in respect of those transactions.

Collective and Individual Services (Amendments to IPSAS 19) addresses this issue.

Definitions

Collective services are services provided by a public sector entity simultaneously to all members of the community that are intended to address the needs of society as a whole.

Individual services are goods and services provided to individuals and/or households by a public sector entity that are intended to address the needs of society as a whole.

The provision of a **collective service** to one individual does not reduce the amount available to other individuals; there is no rivalry in the consumption of collective services. Consumption of collective services is usually passive and does not require the explicit agreement or active participation of those benefiting from the service.

Examples of collective services include defense and street lighting.

The provision of an **individual service** to one individual may reduce the amount available to other individuals, or may delay the receipt of those services by some individuals. Consumption of individual services requires the explicit agreement or active participation of those benefiting from the service. Goods or services provided by a public sector entity on commercial terms do not address the needs of society as a whole, and therefore do not satisfy the definition of individual services.

Examples of individual services include universal healthcare and universal education.

Collective Services, Individual Services and Social Benefits

	Social Benefits	Individual Services	Collective Services
Involves a cash transfer to eligible beneficiaries?	✓	✗	✗
Provided to individuals and/or households, rather than to a community?	✓	✓	✗
Intended to address the needs of society as a whole?	✓	✓	✓

The above table illustrates the differences between collective services, individual services, and social benefits. Social benefits involve a cash transfer, whereas collective and individual services involve the provision of services

Accounting for Collective and Individual Services

- Collective Services
  - Ongoing activity of government
- Individual Services
  - Ongoing activity of government
  - No liability to beneficiaries
- Expenses accounted for using other IPSAS

Accounting for Collective Services

Collective services are considered to be ongoing activities of the public sector entity that delivers the services.

In accordance with IPSAS 19, “no provision is recognized for costs that need to be incurred to continue an entity’s ongoing activities in the future”.

Consequently, no provision is recognized for the intention to deliver collective services. Expenses are recognized as the services are delivered, in accordance with other IPSAS.

In delivering collective services, a public sector entity acquires resources and incurs expenses through contractual and other binding arrangements. Examples include the salaries paid to defense staff, the electricity used in delivering street lighting, the acquisition of non-current assets used in delivering those services, and the purchase of collective services from a third-party provider.

These contractual and other binding arrangements would be accounted for in accordance with other IPSAS. These arrangements may give rise to a liability, but the liability arises from the contract or binding arrangement, not the promise to provide collective services.

Accounting for Individual Services

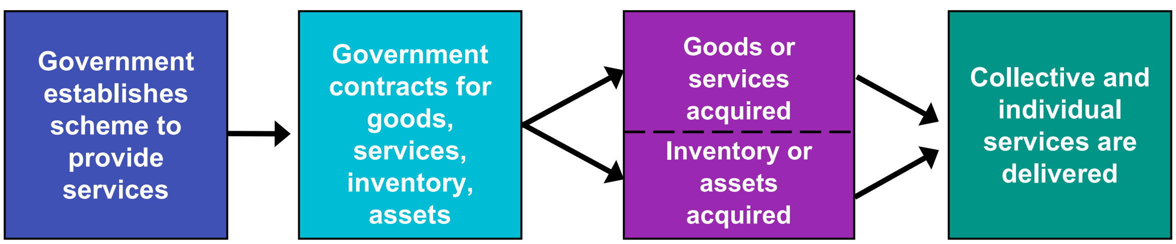
Similarly, the delivery of individual services is an ongoing activity of the public sector entity that provides the services. The delivery of individual services results in the public sector entity acquiring resources and incurring expenses through contractual and other binding arrangements.

These contractual and other binding arrangements would be accounted for in accordance with other IPSAS. These arrangements may give rise to a liability, but the liability arises from the contract or binding arrangement, not the promise to provide collective services.

The public sector entity uses the resources acquired to deliver individual services. Where individuals access these services, the entity may have a number of future obligations relating to the delivery of these individual services. However, these obligations are not present obligations and do not give rise to a liability.

As with collective services, no provision is recognized for the intention to deliver individual services prior to individuals and/or households accessing the services.

Interaction of Provisions and Contractual and Other Binding Arrangements in Accounting for Collective and Individual Services



Government establishes scheme to provide services

When a government decides to provide collective services (such as defense) or individual services (such as healthcare), this will often be done via legislation.

The legislation commits the government to providing services as ongoing activities of government.

No provision is recognized for costs that need to be incurred to continue an entity's ongoing activities in the future. These are future, not present, obligations.

Government contracts for goods, services, inventory, assets

Governments provide collective and individual services through contractual and other binding arrangements.

These arrangements may be with staff, with suppliers of goods, with third party providers of the services, or with providers of assets.

These arrangements are executory; no liability is recognized until the other party has delivered.

These arrangements do not affect the government's future obligations to third party beneficiaries.

Goods or services acquired

Governments recognize a financial liability to pay for other goods and services acquired. These goods and services are consumed immediately they are received (for example, electricity for street lighting).

Because the items are consumed immediately, no asset is recognized.

Inventory or assets acquired

Governments also recognize inventory and non-current assets, and recognize a corresponding financial liability to pay for the items.

Collective and individual services are delivered

As the government delivers collective and individual services, it recognizes an expense.

Where goods or services are acquired and consumed immediately to provide services, the government does not recognize then immediately derecognize an asset, but recognizes an expense to match the liability.

Where inventory or assets are consumed in providing collective or individual services, the inventory or assets are derecognized or depreciated.

Questions and Discussion

Visit the IPSASB webpage

http://www.ipsasb.org

Review Questions

Question 1

Which of the following should be classified as collective services under IPSAS 19?

Which should be classified as individual services?

a) Defense

b) Universal education

c) Universal healthcare

d) Street lighting

e) Policing

f) Commercial garbage collection

Question 2

A municipality maintains parks for the public to access. The municipality enters into a contract with a private sector company to provide the maintenance services in respect of one of the parks for the next calendar year. Services are expected to be provided evenly over the year. The contract requires the municipality to make payments quarterly in advance.

When should the municipality recognize an expense?

Answer to Review Questions

Question 1

Which of the following should be classified as collective services under IPSAS 19?

Which should be classified as individual services?

Answers (a), (d) and (e) should be classified as collective services under IPSAS 19.

Answers (b) and (c) should be classified as individual services under IPSAS 19.

Answer (f) is neither a collective service not an individual service.

Defense, street lighting and policing are collective services because they are examples of services that are provided by a public sector entity simultaneously to all members of the community that are intended to address the needs of society as a whole. There is no rivalry in the consumption of these services.

Universal healthcare and universal education are individual services because they are examples of services provided to individuals and/or households by a public sector entity that are intended to address the needs of society as a whole.

Commercial garbage collection is neither a collective service nor an individual service, because the service is provided on a commercial basis. Goods or services provided by a public sector entity on commercial terms do not address the needs of society as a whole, and therefore do not satisfy the definition of individual services.

Question 2

The municipality recognizes an expense as services are provided.

Providing and maintaining parks for public use is a collective service. Under IPSAS 19, the municipality does not recognize a provision for its intention to provide collective services.

The municipality will recognize an expense as the services are provided in accordance with other IPSAS. The contract with the private sector company is an executory contract, so the municipality only recognizes an expense as the services are provided, which is evenly over the year. As payments are made quarterly in advance, the municipality will recognize a prepayment until the services are provided.

Transfer Expenses

Introduction

IPSAS 48, Transfer Expenses, was issued in May 2023, and has an effective date of January 1, 2026. Early adoption is permitted.

Transfer expenses are a common transaction for most governments, and, for some entities, account for a large proportion of their expenditure.

As well as transfer expenses, governments provide social benefits. Social benefits are outside the scope of IPSAS 48; instead they are covered in IPSAS 42, *Social Benefits*, which is discussed earlier in this module. Governments may also provide services, for example healthcare and defense. Such services are outside the scope of transfer expenses; instead they are covered by guidance on *Collective and Individual Services*, which can be found in Appendix A to IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*. Collective and individual services are discussed earlier in this module.

Purpose of Session

You are able to:

- Apply the definitions relating to transfer expenses
- Distinguish between transfer expenses without binding arrangements and transfer expenses with binding arrangements
- Apply the accounting treatment for transfer expenses with binding arrangements
- Apply the accounting treatment for transfer expenses with binding arrangements

IPSAS 48 provides guidance on accounting for transfer expenses, as defined in the Standard. IPSAS 48 also excludes from its scope some transactions that might meet the definition of a transfer expense, but which are covered in a more specific Standard. This includes social benefits (covered in IPSAS 42) and concessionary loans by the lender (covered in IPSAS 41, *Financial Instruments*).

There are two accounting treatments for transfer expenses, depending on whether or not the transaction arises from a binding arrangement.

Definitions

A **transfer expense** is an expense arising from a transaction, other than taxes, in which an entity provides a good, service, or other asset to another entity (which may be an individual) without directly receiving any good, service, or other asset in return.

A **transfer right** is an entity's enforceable right to have the transfer recipient satisfy its obligation in a manner as specified in a binding arrangement or face the consequences as specified in the binding arrangement.

A **transfer obligation** is an entity's obligation in a binding arrangement to transfer resources in a specified manner.

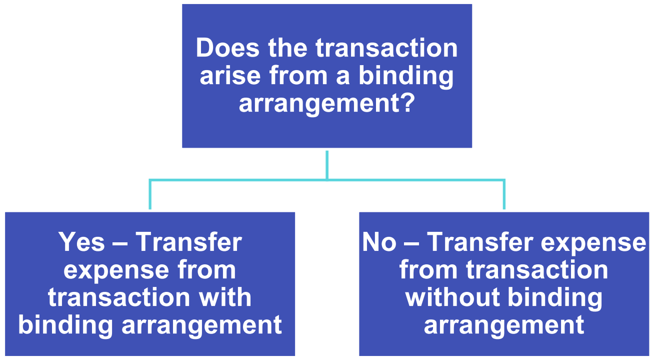
A transfer expense is similar to a non-exchange transaction as defined in IPSAS 12, which states that "Non-exchange transactions are transactions that are not exchange transactions, where an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange." Public sector entities may receive value or provide value in a non-exchange transaction.

The difference, other than the fact that a transfer expense only covers the expense side of the transaction, is that in a transfer expense, the transferor does not receive anything in exchange for providing a transfer. Non-exchange expenses include transfer expenses, but also include transactions where the transferor receives something of lower value in return.

In IPSAS 48, the transferor is referred to as the **transfer provider**. The recipient of the transfer is the **transfer recipient**, who may be obligated to transfer goods or services to **third-party beneficiaries**.

Transfer rights and **transfer obligations** result from a transfer expense transaction with a **binding arrangement** (as defined in IPSAS 47, *Revenue*). Where the transaction involves two public sector entities, the counterparty will account for the transaction under IPSAS 47 (discussed in Module 4), which includes equivalent terms for the recipient. For example, the obligation referred to in the definition of a transfer right is defined as a **compliance obligation** in IPSAS 47.

Types of Transfer Expense



The existence or absence of a binding arrangement is used to determine how to account for a transfer expense. While the concept of a binding arrangement is prevalent throughout IPSAS literature, applying the concept to transfer expenses relies on the understanding how a bindng arrangement can be enforced. The importance of enforceability can be seen in the definition (which can be found in IPSAS 47 as the same definition is used in accounting for revenue).

Binding Arrangement

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 is a key feature of the definition. If an arrangement cannot be enforced by both parties, the arrangement is not binding, and a transfer expense transaction is accounted for as a transfer expense without a binding arrangement.

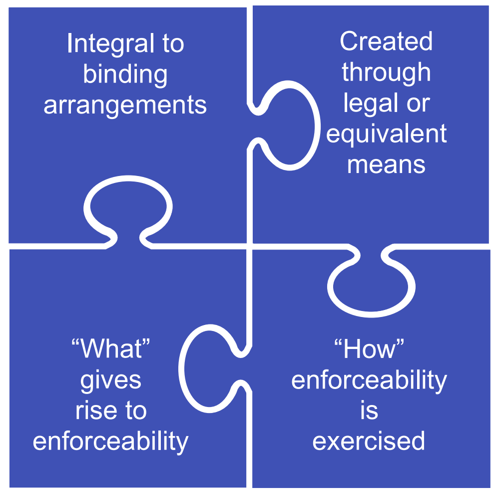
Enforceability

Enforceability…

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

Enforceability…

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



Enforceability…

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

Enforceability…

- *Compels completion of unfulfilled obligation(s)*

or

- *Imposes consequences of non-completion*

Enforceability underpins the definition of a binding arrangement. An entity uses judgment to consider all relevant factors in their jurisdiction and specific transaction, to assess whether enforceability exists in its transfer expense arrangement. Enforceability can:

- Arise from various mechanisms (i.e., "what"), to hold the parties accountable to fulfilling each of their respective obligations by compelling them to fulfill their obligations or face imposed consequences (i.e., "how"); and
- Be through legal or equivalent means in the public sector. Equivalent means (which include executive authority and cabinet or ministerial directives) capture enforcement outside the judicial system that is similar to the force of law.

An arrangement is enforceable by another party if the agreement includes:

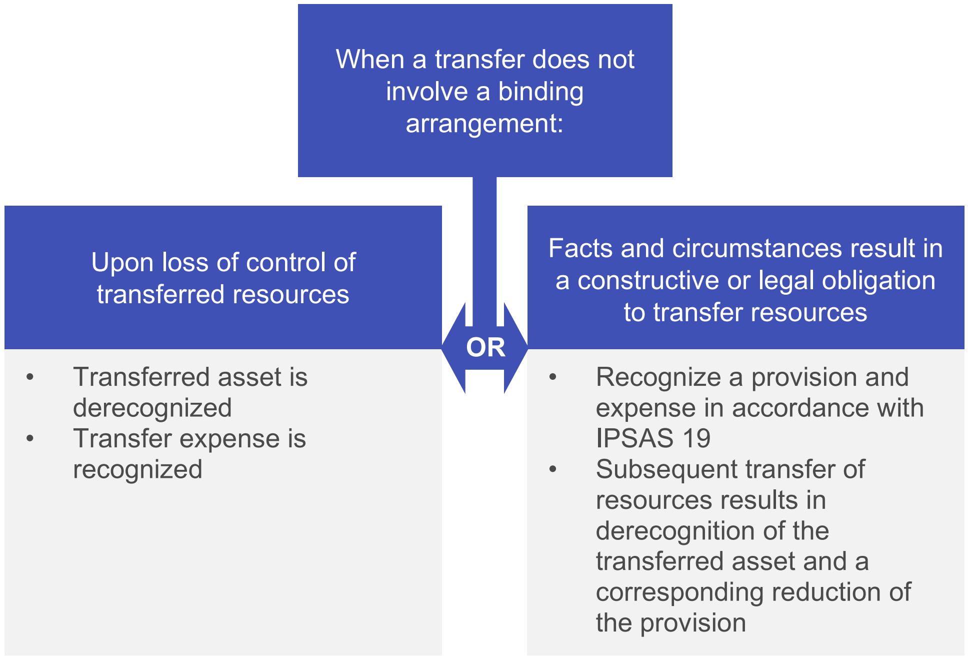
- Distinct rights and obligations for each involved party; and
- Remedies for non-completion by either party which can be enforced through the identified enforcement mechanisms.

In determining whether an arrangement is enforceable, the entity considers the substance rather than the legal form of the arrangement. The assessment of whether an arrangement is enforceable is based on an entity's ***ability*** to enforce the specified terms and conditions of the arrangement and the satisfaction of the other parties' stated obligations. An entity's intentions regarding enforcement are not considered in assessing whether the arrangement is enforceable.

Examples

- Grants to lower levels of government
- Assets donated by international organizations
- Funding for training courses to be provided to beneficiaries

Accounting for Transfer Expenses without Binding Arrangements



When a transfer expense arises from a transaction without a binding arrangement:

- The entity would need to first consider whether it has a constructive or legal obligation related to the transfer. If so, the entity recognizes an expense and a provision under IPSAS 19, *Provisions, Contingent Liabilities, and Contingent Assets*. The subsequent transfer of resources to the transfer recipient settles the provision; and
- If there is no related constructive or legal obligation, the entity derecognizes the assets to be transferred and recognizes a transfer expense when it ceases to control these resources. This will usually be when the entity transfers the resources to the transfer recipient.

Examples of an entity having a constructive or legal obligation relating to the transfer include:

- A government establishes a scheme to support businesses, as happened in many countries in response to COVID-19. Where the scheme does not impose obligations on the businesses, the scheme will not be a binding arrangement, but the government may have a legal obligation to provide the support.
- In some countries, transfers between levels of government may be established in legislation, with there being no obligations placed on the receiving government.

Measurement of Transfer Expenses without Binding Arrangements

- When a provision is recognized when a constructive obligation or legal obligation to transfer resources arises, the provision is initially and subsequently measured in accordance with IPSAS 19.
- When an entity recognizes an expense at the time it ceases to control the resources, the entity shall measure the expense at the carrying amount of the transferred resources.

Where an entity recognizes an expense and a provision, the entity measures the provision (both initially and subsequently) in accordance with IPSAS 19 (see Module 3). The expense is measured at the same amount as the provision.

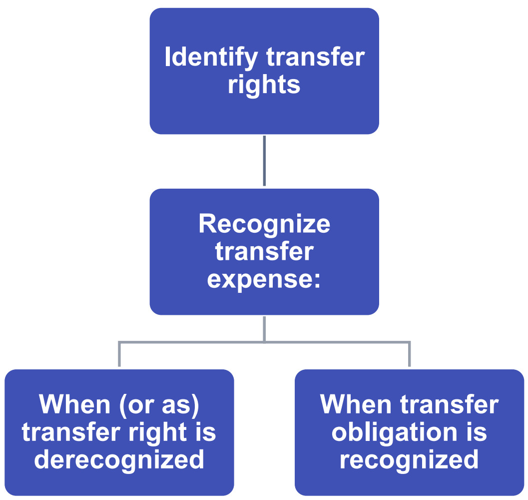
The entity may, therefore, need to adjust the estimate of the provision at the end of the reporting period, and may need to adjust the carrying amount to reflect the time value of money. The contra-entry to any adjustment is to surplus or deficit. When the entity subsequently transfers resources, this reduces or extinguishes the provision.

Where an entity recognizes an expense at the date it loses control of the resources (which is usually when it transfers those resources to the transfer recipient), the entity measures the expense at the carrying amount of the resources transferred.

In many cases, the resources that are transferred will be cash, and the expense is measured at the amount of cash transferred. In other cases, the resources may be a non-current asset, inventory, or services. The expense is measured at the carrying amount of resources transferred. In the case of services, this will be the cost of providing the services.

The resources transferred are derecognized in accordance with the relevant Standard.

Accounting for Transfer Expenses with Binding Arrangements



IPSAS 48 requires an entity to identify its distinct transfer rights in a binding arrangement. Transfer rights are

- A right to have the transfer recipient satisfy an obligation that is separate from the satisfaction of other obligations in the binding arrangement; or
- A series of rights to have the transfer recipient satisfy its obligation that have substantially the same characteristics and risks and that have the same pattern of satisfaction.

Transfer rights provide the basis of the timing of recognition for transfer expenses. IPSAS 48 requires transfer expenses with binding arrangements to be recognized as or when a transfer right is extinguished, and therefore requires the entity to allocate the transfer consideration to transfer rights.

Transfer rights are units of account when accounting for transfer expenses, in the same way that a transfer recipient's compliance obligations are units of account when accounting for revenue in accordance with IPSAS 47.

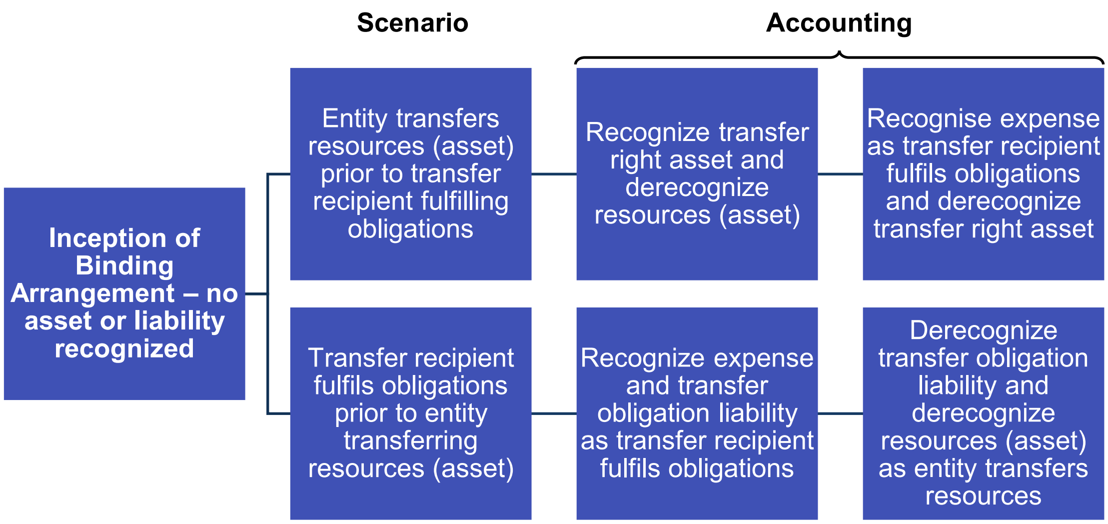
A transfer right is identified as a distinct right that can be enforced separately from other rights in the binding arrangement. Typically, from the entity's perspective, whether a transfer right is distinct will be evident from the negotiations of the binding arrangement.

The entity may need to aggregate related rights until the aggregation produces a distinct right that can be enforced separately. This aggregation is identified as a transfer right.

In some binding arrangements, it may not be possible to identify aggregations of rights to have the transfer recipient satisfy its obligations that are distinct. In such cases, the entity identifies the binding arrangement as a single transfer right.

The resources transferred are derecognized in accordance with the relevant Standard.

Recognizing Transfer Expenses with Binding Arrangements



A binding arrangement gives an entity (the transfer provider) one or more transfer rights and imposes one or more transfer obligations on the entity. These transfer rights and obligations meet the *Conceptual Framework* definition of assets and liabilities respectively.

At the inception of a binding arrangement and when the binding arrangement is wholly unsatisfied, an entity shall not recognize any asset, liability, or expense associated with the binding arrangement. The transfer rights and transfer obligations under a wholly unsatisfied binding arrangement are interdependent and inseparable. The combined transfer rights and transfer obligations constitute a single asset or liability that is measured at zero.

A binding arrangement is wholly unsatisfied if both of the following criteria are met:

- The entity has not yet paid, and is not yet obligated to pay, any consideration to the transfer recipient for the transfer recipient satisfying any of its compliance obligations in the binding arrangement; and
- The transfer recipient has not started satisfying any of its compliance obligations in the binding arrangement.

After the inception of the binding arrangement, two scenarios can occur. Either the entity transfers resources prior to the transfer recipient starting to fulfil its obligations, or the transfer recipient starts to fulfil its obligations (and becomes entitled to receive resources) prior to the entity transferring the resources.

While the principle for recognizing an expense is the same in both cases – that is, revenue is recognized as the entity's transfer right is derecognized – the detailed accounting will be different due to the different timings of transfer of the resources and the fulfilment of the transfer recipient's compliance obligation.

Scenario 1: Entity transfers resources (asset) prior to transfer recipient fulfilling obligations

In this scenario, the entity transfers resources (typically cash) to the transfer recipient prior to the transfer recipient starting to fulfil its obligations. This is sometimes known as a 'prefinancing' arrangement.

The transfer of resources discharges the entity's transfer obligation. The transfer right and transfer obligation recognized as a single asset or liability, measured at zero, at the inception of the binding arrangement no longer net to zero as the transfer obligation has been discharged. Consequently, the entity:

- Recognizes the transfer right as an asset (debit transfer right asset); and
- Derecognizes the asset that represents the transferred resources (for example, cash) (credit cash or other asset).

The transfer right asset represents the entity's right to have the transfer recipient fulfil its compliance obligations. As (or when) the transfer recipient does so, the transfer right asset ceases to exist. Consequently, as (or when) the transfer recipient fulfils its compliance obligation, the entity:

- Recognizes a transfer expense (debit transfer expense); and
- Derecognizes the transfer right asset (credit transfer right asset).

Scenario 2: Transfer recipient fulfils obligations prior to entity transferring resources (asset)

In this scenario, the transfer recipient starts to fulfil its compliance obligation (and become entitled to the transfer of resources) prior to the entity transferring those resources.

As (or when) the transfer recipient fulfils its compliance obligations, the entity's transfer right asset ceases to exist. The transfer right and transfer obligation recognized as a single asset or liability, measured at zero, at the inception of the binding arrangement no longer net to zero as the transfer right has ceased to exist as a result of the transfer recipient fulfilling its compliance obligation. Consequently the entity:

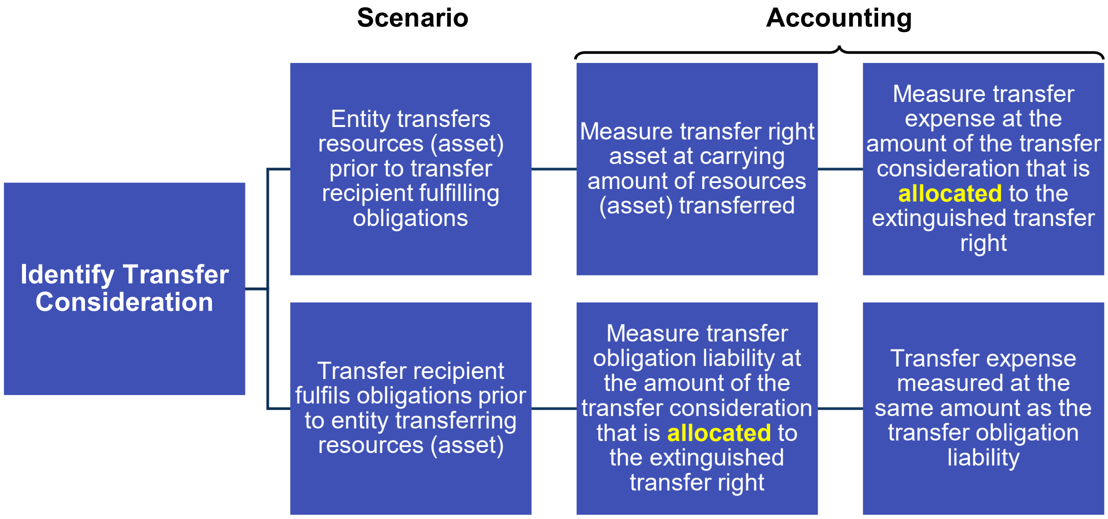
- Recognizes a transfer expense (debit transfer expense); and
- Recognizes a transfer obligation liability (credit transfer obligation liability).

The transfer obligation liability represents the entity's obligation to transfer resources (usually cash) to the transfer recipient. This obligation is discharged as (or when) the entity transfers the resources to the transfer recipient. On transferring the resources, the entity:

- Derecognizes the transfer obligation liability (debit transfer obligation liability); and
- Derecognizes the asset that represents the transferred resources (for example, cash) (credit cash or other asset).

The transfer recipient may fulfil its compliance obligation (and consequently the entity's transfer right may cease to exist) over time or at a point in time. Where the transfer recipient is required to deliver goods to a third=party beneficiary, the compliance obligation is likely to be fulfilled at a point in time (when the goods are delivered). Conversely, if the transfer recipient is required to deliver services evenly over a period of time, the compliance obligation is likely to be fulfilled over time.

Measurement of Transfer Expenses with Binding Arrangements



An entity needs to consider the terms of the binding arrangement to determine the transfer consideration. Transfer consideration is the total carrying amount of the resources which an entity has transferred, or is obligated to transfer, to the transfer recipient in accordance with the binding arrangement. This includes the effects of variable consideration.

When an entity transfers resources to a transfer recipient prior to the transfer recipient starting to satisfy its obligation, the entity shall, at recognition, measure the resulting transfer right asset at the total carrying amount of the resources which have been transferred in accordance with the binding arrangement.

When a transfer expense is recognized from the extinguishment of a transfer right, the transfer expense is measured at the amount of the transfer consideration that is allocated to the extinguished transfer right.

When the transfer recipient has satisfied its compliance obligations and the entity has not yet transferred its resources as required by the binding arrangement, the entity measures its transfer obligation liability at the total carrying amount of the resources which the entity is obligated to transfer in accordance with the binding arrangement (this will be the same amount as the transfer expense recognized at the same time).

Variable Consideration

Some binding arrangements may involve the transfer of variable consideration. Transfer consideration may vary due to discounts, rebates, refunds, credits, incentives, performance bonuses, penalties and similar items. Under IPSAS 48, variable consideration is measured using the same requirements as the measurement of provisions in IPSAS 19.

Allocation of Transfer Consideration to Transfer Rights

- Transfer consideration is allocated to each distinct transfer right to reflect its stand-alone consideration, adjusted for amounts of variable consideration
- The stand-alone consideration is the amount that an entity intends to compensate the transfer recipient for satisfying each of its obligations
- Transfer consideration can vary for items such as discounts, rebates, refunds, credits, incentives, performance bonuses, penalties etc.
- Variable consideration allocated to one or more transfer rights where can be identified with those rights
  - Otherwise allocated to all transfer rights proportionately

When a binding arrangement involves multiple distinct transfer rights, the transfer consideration needs be allocated to each distinct transfer right. This determines the amount that the entity will recognize as a transfer expense for each transfer right.

The transfer consideration is allocated to each distinct transfer right to reflect its stand-alone consideration, IPSAS 48 defines the stand-alone consideration as "the amount that an entity intends to compensate the transfer recipient for satisfying each of its obligations."

The transfer consideration allocated to each distinct transfer right is also adjusted for amounts of variable consideration (that is, incentives, performance bonuses, penalties, and similar items).

Variable consideration may be attributable to the entire binding arrangement or to specific transfer rights:

- When the variable consideration can be identified with one or more transfer rights, the variable consideration is allocated to those transfer right(s) alone; or
- When the variable consideration cannot be identified with one or more transfer rights, the entity allocates the variable consideration to all the transfer rights proportionately to their share of the transfer consideration (excluding variable consideration that cannot be identified with one or more transfer rights).

Worked Example

- A national government enters into a binding arrangement with a regional government.
  - Under the terms of the binding arrangement, the regional government agrees to provide training to individuals who have become unemployed in the last six months.
  - The national government agrees to transfer CU10,000 to the regional government. The agreement states that CU1,000 is to allocated to providing the course materials at the start of the course, and CU9,000 is to be allocated to delivering the training once a week over a three-month period (four sessions per month).
- How should the national government account for the transfer expense?

Answer:

Under the terms of the binding arrangement, the national government has two distinct transfer rights:

- The right to have the course materials provided at the start of the course; and
- The right to have the training delivered weekly over a three-month period.

There are no amounts of variable consideration. The transfer consideration is therefore allocated to the transfer rights in line with the binding arrangement:

- CU1,000 for the provision of the course materials at the start of the course (this transfer right will be extinguished at a point in time, when the course materials are provided to the participants); and
- CU9,000 for the delivery of the training (this transfer right is extinguished over time as the training is delivered over the three-month period).

Consequently, the national government will recognize transfer expenses as follows:

- The national government recognizes a transfer expense of CU1,000 when the regional government provides the course materials to the participants.
- The national government recognizes a transfer expense of CU750 each week as the training is delivered (CU9,000 ÷ 12 weeks = CU 750 per week).

As well as recognizing the transfer expense, the national government will also recognize either a transfer right asset or a transfer obligation liability. This will depend on the timing of the transfer of the CU10,000 to the regional government, which is not explicitly stated in the example:

- If the national government transfers the CU10,000 before the start of the training, it would recognize a transfer right asset of CU10,000 when it derecognizes the cash. It would then derecognize the transfer right asset as it recognizes the transfer expense.
- If the national government transfers the CU10,000 to the regional government after the training has been completed, it would recognize a transfer obligation liability over time as it recognizes the transfer expense. When the national government transfers the CU10,000 to the regional government, it will derecognize the transfer obligation liability and derecognize the cash.

Other Issues

- After the recognition of a transfer right asset by the entity, the transfer recipient may become unable or unwilling to satisfy its obligations under the binding arrangement.
    - Where there is an enforceable and unconditional right to the receipt of cash or other financial assets (a refund) – recognize financial asset and derecognize transfer right asset
    - Otherwise apply IPSAS 21 in determining impairment of transfer right asset
- Modifications to binding arrangements
    - Treat as new arrangement if new transfer rights and increased transfer consideration
    - Otherwise accounted for as if part of original arrangement

Derecognition or Impairment of a Transfer Right Asset Due to Non-Performance by the Transfer Recipient

After the recognition of a transfer right asset by the entity, the transfer recipient may become unable or unwilling to satisfy its obligations under the binding arrangement. The accounting treatment will depend on the terms of the binding arrangement, the legal system in the jurisdiction, and/or other circumstances,

- Where the entity has an enforceable and unconditional right to the receipt of cash or other financial assets (that is, a right to a refund), the entity derecognizes the transfer right asset and recognizes a financial asset. Subsequent to its recognition, the entity shall measure the financial asset in accordance with IPSAS 41.
- Where the entity cannot recognize a financial asset (that is, the entity does not have a right to a refund), the entity shall assess the transfer right asset for impairment in accordance with IPSAS 21, *Impairment of Non-Cash-Generating Assets*.

Modifications to a Binding Arrangement

A modification to a binding arrangement is a change in the rights and obligations of a binding arrangement that is approved by the parties to the binding arrangement. A modification to a binding arrangement exists when the parties to a binding arrangement approve a modification that either creates new enforceable rights and obligations, or changes the existing enforceable rights and obligations of the parties to the binding arrangement.

An entity accounts for a modification to a binding arrangement as a separate binding arrangement if both of the following conditions exist:

- The scope of the binding arrangement increases, providing the entity with one or more additional transfer rights, because the transfer recipient accepts one or more additional obligations, or an increase in one or more existing obligations; and
- The transfer consideration increases by an amount that is intended to reflect the value of the additional transfer rights by compensating the transfer recipient for the additional or increased obligations assumed.

If both conditions are not met, an entity accounts for the modification to the binding arrangement as if it were a part of the original binding arrangement:

- The entity determines the accumulated transfer expense to be recognized as at the date of the modification by revising its estimates of the transfer consideration and the amount of the transfer consideration allocated to extinguished and unextinguished transfer rights.
- The difference between the accumulated transfer expense determined as at the date of the modification and the accumulated transfer expense previously recognized is recognized in surplus or deficit (as an additional expense or a reduction in expense) as at the date of the modification.

Presentation and Disclosure

- Presentation
  - Transfer right assets and transfer obligation liabilities are presented in the statement of financial position
- Disclosure
  - Transfer expenses and related balances
  - Transfer arrangements
  - The significant judgments, and changes in the judgments, made regarding the recognition of transfer right assets from transfer expense transactions

As required by IPSAS 1, an entity has to present an analysis of expenses using a classification based on the nature of expenses or their function within the entity. In the context of transfer expenses, the analysis of expenses by nature results in the presentation of transfer expenses as a separate line item, while the analysis of expenses by function results in the allocation of transfer expenses to the various programs or purposes for which the transfers were made.

In addition to the analysis of expenses, an entity is required to provide qualitative and quantitative information on the significant transfers arising from transactions with and without binding arrangements to enable users to understand how the entity's resources are spent on its programs, activities, and services.

Disclosures may also be required under other Standards. For example, a transfer obligation liability will be a financial liability if the transfer is to be made in cash, and the disclosure requirements in IPSAS 30, *Financial Instruments: Disclosures* will apply.

Questions and Discussion

Visit the IPSASB webpage

http://www.ipsasb.org

Review Questions

Question 1

Do the following transactions give rise to a transfer expense?

If so, does the transfer expense arise from a transaction with a binding arrangement or without a binding arrangement?

a) A national government enters a binding arrangement with a university whereby the national government will provide the university with a grant of CU25 million to undertake research into the effects of restrictive diets on general health. The binding arrangement includes a requirement that the university will transfer the results of the research to the national government, including rights to any intellectual property and/or patents created.

b) An international organization enters into an agreement with a national non-profit organization whereby the international organization will provide the non-profit organization with a grant of CU1 million to carry out a vaccination program in the country. The non-profit organization is required to provide monthly progress updates to the international organization.

c) A local government is required under its constitution to undertake various social programs; however, it has insufficient resources to undertake these programs without assistance. The national government decides to transfer CU10 million of surplus funds to the local government to assist with its social programs. The details of the transfer are documented in a “funding agreement.” However, the agreement only results in an obligation for the national government to transfer funds and does not provide the national government with any rights to compel the local government to act in a specific manner.

Question 2

A municipality enters into a binding arrangement with a publisher for the publisher to provide copies of an accounting textbook to the public secondary schools in the city (who are third-party beneficiaries because they are not controlled by the municipality). Because the number of textbooks required by each school is based on the number of students enrolled in the accounting course, the binding arrangement only specifies that the municipality will pay the publisher CU30 per textbook, and the number of textbooks to be provided will be based on enrollment numbers which will be finalized a month before the beginning of the school year.

Under the terms of the binding arrangement, the municipality will provide the enrollment numbers along with an upfront deposit for 10% of the expected transfer consideration to the publisher. The publisher will then provide the textbooks to the schools at least two weeks before the start of the school year, and the municipality will pay the remaining consideration for the textbooks provided within 30 days after the schools have received the shipments.

IUpon finalization of student enrollment, the enrollment numbers were provided to the publisher, and 19,800 textbooks were shipped to the schools.

How should the municipality account for the binding arrangement?

Answer to Review Questions

Question 1

Do the following transactions give rise to a transfer expense?

If so, does the transfer expense arise from a transaction with a binding arrangement or without a binding arrangement?

Transaction (a): The binding arrangement does not give rise to a transfer expense of the national government, as the national government directly receives the results of the research (including rights to any intellectual property and/or patents) from the research in return for providing the grant as consideration. Consequently, the binding arrangement is outside the scope of IPSAS 48. The national government applies IPSAS 31, *Intangible Assets*, in accounting for the binding arrangement.

Transaction (b): The agreement confers both rights and obligations on both parties to the agreement and is therefore a binding arrangement:

- The international organization has a right to have the non-profit organization carry out the vaccination program and an obligation to transfer CU1 million to the non-profit organization.
- The non-profit organization has a right to receive CU1 million and an obligation to carry out the vaccination program.

The international organization does not directly receive anything in return for making the transfer to the non-profit organization. The transaction is therefore a **transfer expense with a binding arrangement**.

Transaction (c): The transaction gives rise to a transfer expense for the national government as the national government does not directly receive anything in return for making the transfer. Since the agreement does not confer both rights and obligations on the national government, it is not a binding arrangement. The national government accounts for the transfer as a **transfer expense without a binding arrangement**.

Question 2

The municipality accounts for the binding arrangement as follows:

Upon entering the binding arrangement, no accounting occurs as neither party has started to satisfy its obligations in the arrangement.

A month before the school year begins, the municipality provides the enrollment numbers and the 10% deposit to the publisher. Upon payment of the deposit, the municipality recognizes a transfer right asset of CU59,400 (CU30 × 19,800 books × 10%):

Transfer right asset	CU59,400	
Cash		CU59,400

Two weeks before the beginning of the school year, the publisher has fully satisfied its obligations by transferring the textbooks to the schools, and the municipality's right to have the textbooks delivered has been extinguished. The municipality derecognizes the transfer right asset of CU59,400 and records the amount as a transfer expense. In addition, the Government also recognizes a transfer obligation liability and a transfer expense for the unpaid consideration of CU534,600 (CU30 × 19,800 books – CU59,400 deposit) based on the terms of the binding arrangement:

Transfer expense	CU594,000	
Transfer right asset		CU59,400
Transfer obligation liability		CU534,600

Thirty days after the textbooks have been delivered, the municipality pays the outstanding balance of the consideration to the publisher. The municipality derecognizes the transfer obligation liability and also derecognizes the cash it transfers to the publisher:

Transfer obligation liability	CU534,600	
Cash		CU534,600