Public Benefit Entities (PBE) Newsletter

Edition #1/25: September 2025

ED PBE IPSAS 47 Revenue Supplement

In February 2020 the IPSASB issued ED 70 *Revenue with Performance Obligations* and ED 71 *Revenue without Performance Obligations* which proposed different accounting guidance based on whether the revenue transaction has a performance obligation.

The IPSASB decided to do the following in the development of IPSAS 47, which is also applicable to ED PBE IPSAS 47:

a) Present revenue guidance in a single Standard;
b) Clarify and refine the accounting principles and concepts to account for revenue transactions in the public sector; and
c) Provide non-authoritative guidance to help preparers use professional judgement in applying the accounting principles consistently.

ED PBE IPSAS 47, aims to provide a robust framework for revenue recognition by enhancing consistency and transparency. It seeks to future-proof revenue accounting by ensuring that the principles remain relevant as revenue arrangements evolve, equipping public benefit entities (PBEs) with a structured approach to assessing complex transactions.

The ED outlines two accounting models, underpinned by the existence of a binding arrangement.

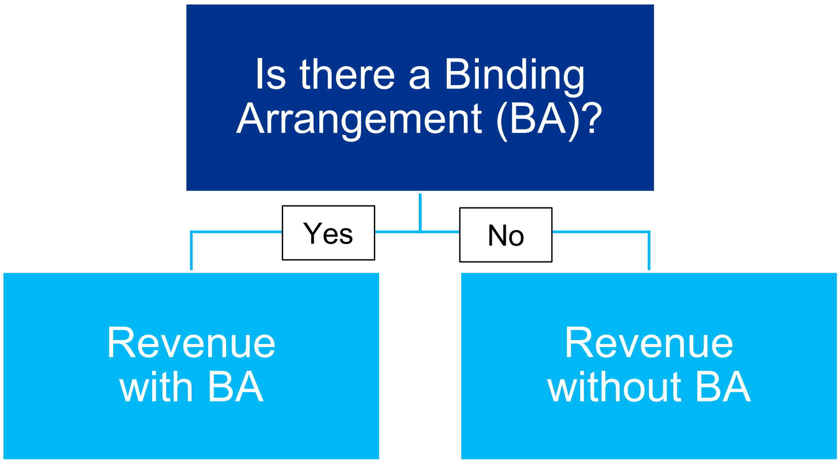
Binding arrangements

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 underpins the definition of a binding arrangement. For an arrangement to be enforceable it must include:

- at least an enforceable right and an enforceable obligation for at least two of the parties to the arrangement; and
- remedies for non-completion by each involved party which can be enforced through the identified enforcement mechanisms.

Assessing whether an arrangement is enforceable will require judgement and consideration of all relevant facts relating to the transaction. Enforceability can:

a) Arise from various mechanisms to hold the parties accountable to fulfilling each of their obligations, or face imposed consequences; and
b) Be through legal or equivalent means. Equivalent refers to situations where an arrangement is enforceable outside of the judicial system in a manner that is similar to the force of law.



Revenue from Transactions without Binding Arrangements

The accounting model for revenue without binding arrangements requires an entity to consider whether any of its rights or its obligations in the revenue transactions meet the definitions of an asset or liability.

A lot of the transactions in the public sector involve entities providing goods or services for the public's benefit. This results in these transactions not having both an enforceable right and an enforceable obligation. These transactions would therefore be classified as being without binding arrangements. (For example, taxes and levies.)

Where an entity is party to a transaction without binding arrangement, the entity **does not have both** an enforceable right and an enforceable obligation. The IPSASB provides the following examples to illustrate this point:

Type of Transaction	Enforceable Right	Enforceable Obligation
Donations	No	No
Income Taxes	Yes	No
Education Grant	No	Yes

If we look at the above in more detail:

a) For the donation, the entity (e.g. an aid organisation) is not able to enforce payment of a donation by anyone and is generally not required to use the donation in a specific way.
b) In terms of income taxes, the entity (e.g. IRD) is able to enforce payment by the taxpayer, but is not generally required to deliver specific services to the specific taxpayer in relation to the income taxes received.
c) Lastly, for the education grant, the entity (e.g. University) cannot enforce payment from government for an education grant made available to students that meet specified criteria, but they are obligated to make the grant available if the student meets the specified criteria.

This model is consistent with the core principles as they were presented in PBE IPSAS 23 *Revenue for non-exchange transactions*.

The entity shall recognise revenue from a transaction without a binding arrangement:

a) When (or as) it satisfies any obligations associated with the inflow of revenue that meet the definition of a liability; or
b) Immediately if the entity does not have enforceable obligations associated with the inflow.

Revenue is measured at the amount of the increase in the entity's net assets, being the cash received or the receivable recognised.

Our initial thoughts on the potential impact?

a) *Consistent framework for all revenue*
The application of ED PBE IPSAS 47 for revenue without binding arrangements should enable users to be more confident as to when revenue previously classified as "non-exchange" should be recognised. A criticism of PBE IPSAS 23 was that in some situations difficulties arose in determining whether the revenue was actually non-exchange.

Additionally, previously where the obligation was to provide goods to a third party, these transactions were classified as non-exchange because the payer did not receive directly equal value in exchange. This should also be alleviated with the introduction of ED PBE IPSAS 47.

b) *Timing of revenue recognition and exchange v non-exchange distinction*
Under ED PBE IPSAS 47, more revenue, classified as non-exchange under PBE IPSAS 23, will likely be deferred and spread over the period that goods or services are delivered. This is because under ED PBE IPSAS 47 for revenue without binding arrangements, revenue is recognised as the obligations are fulfilled, or immediately if there is not enforceable obligation. In contrast PBE IPSAS 23:
   - deferred recognition of non-exchange only where there was a "use or return" clause; and
   - classified transactions as non-exchange when the agreement required that goods or services be delivered to a third party.

c) *More guidance*
ED PBE IPSAS 47 for revenue without binding arrangements provides more guidance than PBE IPSAS 23 in the following areas:
   - Appropriations – transfer recipients will need to determine if they have an enforceable right to resources if the resources are subject to an appropriation which is not yet authorised. However, we think this would more likely be determined by the laws of the jurisdiction.
   - Capital transfers- unlike in PBE IPSAS 23, the accounting treatment for capital transfers is specifically addressed. Ccapital transfers arising from a binding agreement shall be treated as revenue except to the extent a liability exists. As the liability is extinguished, revenue shall be recognised.
   - Disclosure requirements for services in-kind are enhanced, requiring the disclosure of services in-kind that have been recognised and recommending qualitative disclosure about the nature and type of services in-kind received.

d) *Concerns*
While we consider it an improvement from PBE IPSAS 9, PBE IPSAS 11 and PBE IPSAS 23, there are aspects of the proposed standard that are difficult to follow and may take time to apply in practice. The following specific complexities also come to mind:
   - The costs of transition may be significant depending on the number of revenue streams an entity has.
   - Explaining the differences in how revenue has been recognised to stakeholders will need to be considered carefully, as it may be very different from the previous Standards.
   - System changes will most likely be required, and for the majority of entities, this is unlikely to be something that can be done internally.

Revenue from Transactions with Binding Arrangements

The accounting model for revenue with binding arrangement is primarily aligned to NZ IFRS 15 *Revenue from Contracts with Customers* ('NZ IFRS 15') but has been adapted and expanded for the public sector.

The two key aspects that have been adapted/ expanded for the public sector are:

a) A binding arrangement
The concept of binding arrangement in ED PBE IPSAS 47 is broader than a "contract" as used in NZ IFRS 15. A binding arrangement allows for jurisdictions where government and public sector entities

cannot enter into legal contracts, but rather enter into agreements that are in substance the same as contracts.

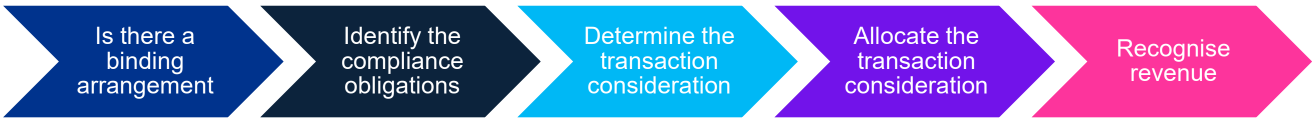
In addition, ED PBE IPSAS 47 acknowledges that public sector transactions often involve third-party beneficiaries, which could be an entity or an individual or household, receiving the goods or services.

b) A compliance obligation
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.

Again, this compliance obligation is broader than a 'performance obligation' as used in NZ IFRS 15, as compliance obligations also includes any:

- Present obligations that are legally binding through equivalent means;
- Requirements for the entity to use resources internally for distinct goods or services; and
- Requirements to transfer distinct goods or services to a party other than the resource provider, such as to a third-party beneficiary.

Taking into account the above, ED PBE IPSAS 47 follows the 5 step approach for the recognition of revenue where there are binding arrangements:



The above 5 step approach is very similar to the approach taken in NZ IFRS 15.

Revenue is recognised at the amount allocated to a specific compliance obligation when, or as, the entity satisfies that specific compliance obligation.

An entity measures revenue by determining the transaction consideration, which is the amount of resources to which an entity expects to be entitled for satisfying a compliance obligation. The determination of consideration is made more complex due to items such as variable consideration, significant financing components, non-cash consideration or consideration payable to a resource provider.

The total transaction consideration would then be allocated to individual compliance obligations based on their relative stand-alone values.

Our initial thoughts on the potential impact?

a) Transitioning to ED PBE IPSAS 47 for revenue from binding arrangements may be quite a shift in thinking for public sector and not-for-profit entities as the revenue recognition concepts (which stem from NZ IFRS 15) are arguably for-profit oriented entities. By comparison PBE IPSAS 9 *Revenue from Exchange Transactions* concentrates on the exchange concept.
b) The initial application of ED PBE IPSAS 47 for revenue from binding arrangements may result in revenue being recognised earlier or later, depending on the identification of compliance obligations and when they can be deemed to be completed.
c) ED PBE IPSAS 47 for revenue from binding arrangements is different from NZ IFRS 15 in that the goods or services do not have to be delivered to the "purchaser" but can be provided to a third-party beneficiary. This may result in some transactions that would have been previously treated as non-exchange now falling under ED PBE IPSAS 47 for revenue from binding arrangements.
d) The disclosure requirements in ED PBE IPSAS 47 for revenue from binding arrangements are similar to those in NZ IFRS 15 and are significantly more detailed than those in PBE IPSAS 9. While we

appreciate materiality can be applied to the disclosure requirements, it may be that the disclosures themselves are onerous for entities such as mid-size (Tier 2) not-for-profit organisations and do not necessarily provide added value for readers of the financial statements.

KPMG’s next steps

a) We are following the progress of the ED towards becoming a standard.
b) We will be issuing a more detailed newsletter once the ED is accepted as a final Standard.
c) We will continue working to identify possible impacts for specific types of entities.
d) We are looking to facilitate a client seminar on this topic during 2026.

What should you do now?

a) Read the Exposure Draft.
b) Consider how the proposals may impact your revenue recognition.
c) Contact Sarah or Simon if you would like to discuss the potential impact of the ED on your financial statements.

Sources

The main sources utilised in preparing this document are:

- The IPSASB document “IPSAS 47 At A Glance”;
- The XRB document “Upcoming ED Fact Sheet PBE IPSAS 47 Revenue”; and
- The XRB document “ED PBE IPSAS 47 Revenue”.

If you have any questions, please reach out to your regular KPMG advisory contact or one of the PBE team:

Your PBE Team

Simon Lee
National Technical Director
Accounting Advisory Services
Ph: 04 816 4678
E: sdlee@kpmg.co.nz

Sarah Bate
Director / PBE Accounting Lead
Accounting Advisory Services
Ph: 04 816 4874
E: sbate@kpmg.co.nz