



Proposed Recommendations Document: 1.28 Work-in-progress and transfer of ownership¹

Summary Details

Links to Related Guidance/Discussion/Issue Notes and Latest Manuals: Recommendations to Resolve Minor Action Points (A.12) Draft 2025 SNA and Draft BPM7 ²	
Global Consultation(s):	SNA: September 2023
Discussions at the Advisory Expert Group on National Accounts (AEG) / Balance of Payments Committee (BOPCOM) Meeting(s):	AEG: March 2023
Discussions at GFSAC Meeting(s):	To be determined
Summary of Proposed Recommendations: <p>The proposed recommendation is to align the guidance on the recording of incomplete fixed assets as inventories of work-in-progress in the update of the <i>GFSM 2014</i> with that of the draft 2025 SNA. It recommends the recording of all incomplete fixed assets as work-in-progress. Even in the case of evidence of an effective transfer of ownership, incomplete fixed assets are recorded as work-in-progress in the purchaser's books—for example when fixed assets are produced under a contract of sale and are evidenced by an effective transfer of ownership. In addition, the difference between the stage payments and the estimated value of the effective transfer of ownership is to be recorded as other accounts payable and receivable. Incomplete fixed assets produced on own account should also be recorded as work-in-progress except where it is not practically possible (e.g., intellectual property).</p>	

Background and Issues

1. The *GFSM 2014* (paras. 7.37 and 7.80) recommends that inventories of work-in-progress be recorded for any output that is not complete at the end of a reporting period, including for incomplete fixed assets such as construction. However, the only exceptions where incomplete fixed assets are recorded as acquisition of fixed assets instead of work-in-progress are when the ultimate owner is deemed to have taken ownership of the partially completed assets. These exceptions can be in cases of:

¹ Previous title for this research project was “Work-in-progress, transfer of ownership, and capital services”.

² Links are to the “white cover” versions of the 2025 SNA and BPM7. While technically still considered draft only editorial amendments will be made between these versions and the final versions.

- Fixed assets constructed on own account: Incomplete fixed assets produced on own account are recorded as acquisition of fixed assets rather than inventories of work-in-progress (*GFSM 2014*, paras. 7.37 and 8.15).
- Construction of building and structures under a contract of sale: Here, incomplete fixed assets transferred to the purchaser (final owner) are recorded as acquisition of fixed assets rather than work-in-progress. In the case of stage payments (progressive payments) made throughout the lifetime of the contract, it can be used as proxy to record as the acquisition in final owner's balance sheet when it is difficult to estimate the effective transfer of ownership. When the stage payments are considered to exceed the value of the incomplete asset, this excess is recorded as a trade advance (accounts payable) which will eventually be exhausted as the construction of the fixed asset proceeds (*GFSM 2014*, paras. 7.37 and 8.15).

2. In the absence of a contract of sale, the incomplete structure is recorded as work-in-progress and completed structures are recorded as finished goods on the balance sheet of the producer of the fixed assets (*GFSM 2014*, para. 7.37). No ownership transfers are recorded in the balance sheet of the purchaser/acquirer until the ownership of the completed fixed assets is effectively transferred, i.e., the ownership of the asset changes.

3. The draft *2025 SNA* (paras. 11.62 and 11.63 among others) revised the guidance for the recording of work-in-progress to provide a more generic guidance on recording incomplete fixed assets as work-in-progress by default, and not restricting it to building and structures. The revisions can be summarized as follows:

- In general, incomplete fixed assets will be recorded as work-in-progress in the books of the asset producer only and no transfer of ownership will be made to the purchaser until the project is completed (i.e., no work-in-progress to be recorded in the purchaser's balance sheet). This general conceptual treatment is subject to the below special cases.
- When a contract of sale exists between the purchaser and the producer of a fixed asset, the incomplete asset should be recorded as work-in-progress in the purchaser's balance sheet only when there is an effective transfer of ownership.
- Where there is a contract of sale but it is difficult to apply in practice the criterion of effective ownership transfer of the work-in-progress to the purchaser, stage payments made by the purchaser can be used as a proxy for transfer of ownership.
- In the case of stage payments, any difference between the stage payments made on the work-in-progress related to a fixed assets and the estimated value of ownership transferred should be recorded as other accounts receivable/payable.
- Incomplete fixed assets produced on own account should be recorded as work-in-progress instead of gross fixed capital formation (acquisition of fixed assets). However, where it is difficult to apply the distinction between work-in-progress versus gross fixed capital formation in practice, there is the flexibility to record the partially completed projects produced on own account as gross fixed capital formation (acquisition of fixed assets) by default.

4. The revised guidance of the draft *2025 SNA* on capital services will not impact on the update of the *GFSM 2014* as unlike National Accounts capital services is not captured separately in GFS.

Proposed Recommendations

5. The guidance for the recording of incomplete fixed assets in the *GFSM 2014* update to incorporate the revisions introduced in the draft *2025 SNA* to maintain consistency between these two macroeconomic statistical manuals. The guidance to record work-in-progress and transfer of ownership in the *GFSM 2014* update should reflect the changes as explained in para. 3 above. The revisions would require an update of the conceptual guidance in *GFSM 2014* (paras. 7.37, 7.80-7.83), as well as an update of references to the treatment of work-in-progress in individual asset categories such as on cultivated biological resources (GFS code 61131 – para. 7.62). The reference to the inclusion of advances for work that is in progress (para. 7.225) in other accounts receivable/payable (GFS codes 6208, 6218, 6228, 6308, 6318, and 6328) will be retained but expanded to also include the difference between the value of stage payments and the estimated value of the effective ownership transfer.

Rationale for Proposed Recommendations

6. The proposed recommendations aim to harmonize the updated GFSM with the *2025 SNA*, a key objective of the *GFSM 2014* update process. Specifically, this proposed recommendation is to align the recording of work-in-progress and transfer of ownership of incomplete fixed assets in the updated GFSM with that of the draft *2025 SNA*.

Proposed Text for GFSM Update

7. To consider revisions of *GFSM 2014* in paras. 7.37, 7.62, 7.58, 7.80, 7.225, and 8.15 so as to be consistent with the draft *2025 SNA* (paras. 7.119-7.123, 7.130, 11.14, 11.79, 11.62, 11.63, 11.72, 11.140-11.145, and 11.212-11.221).

8. To further clarify the treatment of work-in progress, a decision tree specifically developed for the *GFSM* update could be considered for inclusion in the updated *GFSM* (see Annex).

Annex

Decision Tree to guide the recording of work-in-progress of fixed assets (based on the recommendations of the draft 2025 SNA)

