IPSAS & PFM WORKSHOP

IPSAS 9: Revenue from Exchange Transactions

Isiolo, Northern Kenya, 26th – 28th April, 2017

Presentation outline

1. Definition of terms
2. Key sources of exchange and non-exchange revenue
3. Measurement
4. Practical examples on how to account for exchange & non-exchange revenue
5. Key disclosure requirements
6. Practical Implementation challenges

Definition of terms

Exchange transactions – are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Goods,
Services, use of
entity's asset(s)

Sources of Revenue from exchange transactions

Revenue includes only the gross inflows of economic benefits or service potential received and receivable by the entity on its own account.

Amounts collected as an agent of the government or another government organization or on behalf of other third parties; for example, the collection of driving license fees, passport application fees, electricity/water/telephone bills payment, etc. by the ***HUDUMA CENTRE*** on behalf of entities providing such services are not economic benefits or service potential that flow to them, and do not result in increases in assets or decreases in liabilities. **KRA** also collects levies on agency basis.

Instead, revenue is the amount of any commission received, or receivable, for the collection or handling of the gross flows.

Sources of Revenue from exchange transactions cont'd

Revenue is recognized when it is probable that;

(a) future economic benefits or service potential will flow to the entity, and
(b) these benefits can be measured reliably
Examples of **services** rendered by public sector entities for which revenue is typically received in exchange may include the provision of housing, management of water facilities, management of toll roads, and management of transfer payments.

Sources of Revenue from exchange transactions cont'd

Goods includes;

(a) goods produced by the entity for the purpose of sale, such as publications, and

(b) Goods purchased for resale, such as merchandise or land and other property held for resale.

The **use by others of entity assets** gives rise to revenue in the form of:

(a) Interest – charges for the use of cash or cash equivalents, or amounts due to the entity;

(b)Royalties – charges for the use of long-term assets of the entity, for example, patents, trademarks, copyrights, and computer software; and

•Dividends or similar distributions – distributions of surpluses to holders of equity investments in proportion to their holdings of a particular class of capital.

IPSAS 9 Cont'd

Financing inflows, notably borrowings, do not meet the definition of revenue because they;

(a)result in an equal change in both assets, and liabilities and

(b)have no impact upon net assets/equity.

Financing inflows are taken directly to the statement of financial position and added to the balances of assets and liabilities.

Measurement of exchange revenue

Revenue shall be measured at the fair value of the consideration received or receivable.

The amount of revenue arising on a transaction is usually determined by agreement between the entity and the purchaser or user of the asset or service. It is measured at the fair value of the consideration received, or receivable, taking into account the amount of any trade discounts and volume rebates allowed by the entity.

Measurement of exchange revenue

An entity is generally able to make reliable estimates after it has agreed to the following with the other parties to the transaction:

a) Each party's enforceable rights regarding the service to be provided and received by the parties;

(b) The consideration to be exchanged; and

(c) The manner and terms of settlement.

Measurement of exchange revenue

The stage of completion of a transaction may be determined by the following methods;

(a) Surveys of work performed;
(b) Services performed to date as a percentage of total services to be performed; or
(c) The proportion that costs incurred to date bear to the estimated total costs of the transaction.

Note - when the outcome of a transaction cannot be estimated reliably, and it is not probable that the costs incurred will be recovered, revenue is not recognized and the costs incurred are recognized as an expense.

Measurement of exchange revenue

Revenue is recognized only when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. However, when an uncertainty arises about the collectability of an amount already included in revenue, the uncollectable amount, or the amount in respect of which recovery has ceased to be probable, is recognized as an expense, rather than as an adjustment of the amount of revenue originally recognized.

Revenue from sale of goods

Revenue from the sale of goods shall be recognized when all the following conditions have been satisfied:

(a) The entity has transferred to the purchaser the significant risks and rewards of ownership of the good
(b) The entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
(c) The amount of revenue can be measured reliably;
(d) It is probable that the economic benefits or service potential associated with the transaction will flow to the entity; and
e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest, Royalties, and Dividends or Similar Distributions

Revenue shall be recognized using the following accounting treatments:

(a) Interest shall be recognized on a time proportion basis that takes into account the effective yield on the asset;

(b) Royalties shall be recognized as they are earned in accordance with the substance of the relevant agreement; and

(c) Dividends or similar distributions shall be recognized when the shareholder's or the entity's right to receive payment is established.

Disclosure

An entity shall disclose:

(a) The accounting policies adopted for the recognition of revenue, including the methods adopted to determine the stage of completion of transactions involving the rendering of services;

(b) The amount of each significant category of revenue recognized during the period, including revenue arising from:

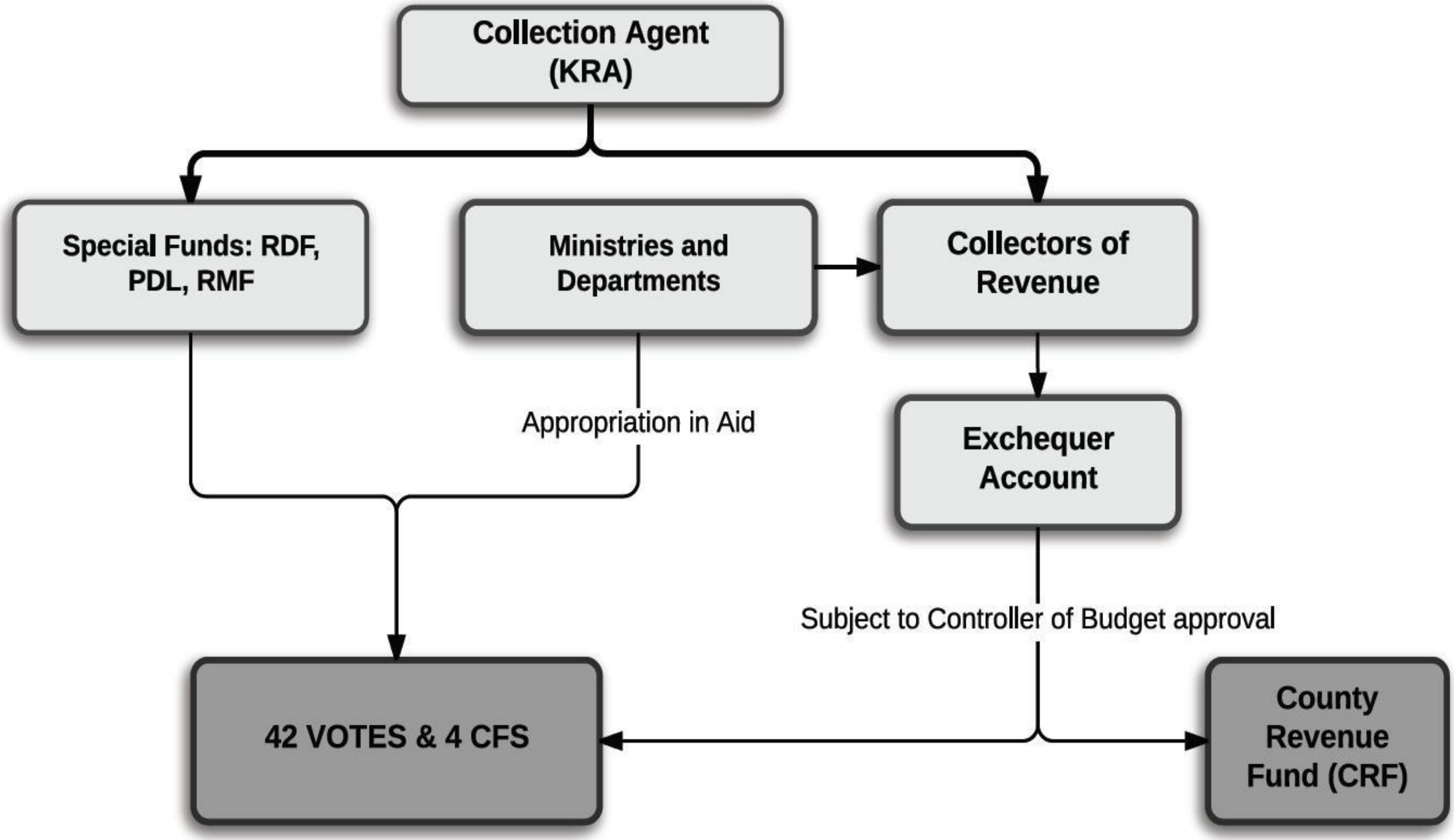
(i) The rendering of services;
(ii) The sale of goods;
(iii) Interest;
(iv) Royalties; and
(v) Dividends or similar distributions; and

(c) The amount of revenue arising from exchanges of goods or services included in each significant category of revenue.

Implementation

Article 82 of the PFM Act 2012 requires that all National Government Receivers of Revenue to prepare a report on revenue collected during the year and submit to the Auditor-General and a copy to the Controller of Budget, National Treasury and the Commission on Revenue Allocation **by 30th September.**

Funds flow process (ref to Art 206 of the CoK)



Challenges

1. An accrual standard but some entities (e.g MDAs) are currently preparing reports on cash basis (receivers of revenues reports)

2. Data mismatch especially where entities like postal corporation (huduma centre) collect revenues as agents for others.

3. Re-structuring especially within state corporationsespecially where entities are merged with others or completely scrapped off.

Conclusion

- Discussion

- Questions?