

New Developments on Revenue Recognition IFRS 15 ,IPSAS 9 & IPSAS 23

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Abbreviations



- IFRS** - **International Financial Reporting Standard**
- IPSAS** - **International Public Sector Accounting Standard**
- IAS** - **International Audit Standard**
- IFRIC** - **International Financial Reporting Interpretations Committee**

Abbreviations (Cont...)



- IASB** - **International Accounting Standards Board**
- GBE** - **Government Business Enterprises**
- SIC** - **Standard Interpretations Committee**
- GAAP** - **Generally Accepted Accounting Principles**

International Financial Reporting Standard 15



International Financial Reporting Standard 15

Revenue from Contracts with Customers

International Financial Reporting Standard 15



- ❑ **Approved by International Accounting Standards Board on 28th May, 2014**
- ❑ **The Standard is applicable for annual reporting periods beginning on or after 1 January 2017. Earlier application is permitted.**
- ❑ **Application**

IFRS 15 supersedes:-

- (a) IAS 11 Construction Contracts**
- (b) IAS 18 Revenue**

International Financial Reporting Standard 15



Application cont...

(c) IFRIC 13 Customer Loyalty Programs;

(d) IFRIC 15 Agreements for the Construction of Real Estate;

(e) IFRIC 18 Transfers of Assets from Customers; and

(f) SIC-31 Revenue — Barter Transactions Involving Advertising Services.

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Reasons for issuing Financial Reporting Standard 15



- ❑ Previous revenue recognition requirements in IFRS differed from those in GAAP and both sets of requirements were in need of improvement;**
- ❑ Difficulty in application of IAS 18 and IAS 11 to complex transactions;**
- ❑ Need for uniform revenue accounting concepts for economically similar transactions**

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International Accounting Standard 11 – Construction Contracts

A contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

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International Financial Reporting Standard 15



International Accounting Standard 11 – Construction Contracts cont...

Objective

Prescribed the accounting treatment of revenue and costs associated with construction contracts.

Allocation of contract revenue and contract costs to the accounting periods in which construction work is performed.

Scope

The Standard - applied in accounting for construction contracts in the financial statements of contractors.

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International Accounting Standard 18 – Revenue

The gross inflow of economic benefits during the period - arising in the course of the ordinary activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity participants

Objective

Prescribed the accounting treatment of revenue arising from certain types of transactions and events. Revenue is recognized when it is probable that future economic benefits will flow to the entity and the benefits can be measured reliably.

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International Financial Reporting Standard 15



International Accounting Standard 18 – Revenue cont...

Scope

The Standard - applied in accounting for revenue arising from the following transactions and events:-

- a) The sale of goods;**
- b) The rendering of services; and**
- c) The use by others of entity assets yielding interest, royalties and dividends**

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Why International Financial Reporting Standard 15 (shortfalls of IAS 11 and IAS 18)



- **Remove inconsistencies and weaknesses in previous revenue accounting requirements**
- **Provide a more robust framework for addressing revenue issues**
- **Improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets;**

Why International Financial Reporting Standard 15 (shortfalls of IAS 11 and IAS 18)



- **provide more useful information to users of financial statements through improved disclosure requirements; and**
- **simplify the preparation of financial statements by reducing the number of requirements to which an entity must refer**

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Objective of International Financial Reporting Standard 15



The objective of this Standard is to establish the principles that an entity shall apply to report useful information to users of financial statements

ABOUT

Nature, amount, timing and certainty (or uncertainty) of revenue and cash flows arising from a contract with a customer

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Scope of International Financial Reporting Standard 15



An entity shall apply this Standard to all contracts with customers, except the following:

(a) lease contracts, insurance contracts, financial instruments, certain guarantee contracts and other contractual rights or;

(b) non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers.

Features / Concepts of International Financial Reporting Standard 15



- I. Identify the contract(s) with a customer**
- II. Identify the performance obligations in the contract**
- III. Determine the transaction price**
- IV. Allocate the transaction price**
- V. Recognize revenue when (or as) the entity satisfies a performance obligation**

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Contract Recognition of International Financial Reporting Standard 15



A contract is only recognised under this Standard when the following are met :-

- the parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations;**
- the entity can identify each party's rights regarding the goods or services to be transferred;**
- the entity can identify the payment terms for goods or services to be transferred.**

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Contract Recognition of International Financial Reporting Standard 15 cont...



- **the contract has commercial substance (i.e. the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract); and**
- **it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.**

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Disclosure requirements of International Financial Reporting Standard 15



Disclosure requires an entity to provide:-

Qualitative and quantitative information about;

a. Its contracts;

b. significant judgements, and changes in the judgements,

c. any assets recognised from the costs to obtain or fulfil a contract

d. disaggregation of revenue

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Disclosure requirements of International Financial Reporting Standard 15 cont...



Disclosure requires an entity to provide:-

- e. contract balances, including the opening and closing balances of receivables, contract assets and contract liabilities;**
- f. performance obligations in contracts with customers;**
- g. Transaction price allocated to the remaining performance obligations;**

International Public Sector Accounting Standard 9



International Public Sector Accounting Standard (IPSAS) 9 and 23

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International Public Sector Accounting Standard 9



International Public Sector Accounting Standard 9

REVENUE FROM EXCHANGE TRANSACTIONS

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Objective of International Public Sector Accounting Standard 9



**This IPSAS is drawn primarily from
IAS 18 (Revised 1993) - “Revenue”**

**Published by the International
Accounting Standards Board (IASB)**

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International Public Sector Accounting Standard 9



- ❑ **IPSAS 9 - effective for annual financial statements covering periods beginning on or after July 1, 2002. Earlier application was encouraged.**

- ❑ **Definitions**
 - 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.**

International Public Sector Accounting Standard 9



❑ Definitions cont...

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners.

❑ **Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.**

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Scope of International Public Sector Accounting Standard 9



IPSAS 9 is applied in accounting for revenue arising from the following exchange transactions and events:-

(a) The rendering of services;

(b) The sale of goods; and

(c) The use by others of entity assets yielding interest, royalties and dividends.

2. Standard applies to all public sector entities other than Government Business Enterprises (GBEs required to use IFRS)

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Scope of International Public Sector Accounting Standard 9 cont...



IPSAS 9 does not deal with revenues:-

(a) Addressed in other IPSAS including:-

(i) Lease agreements (IPSAS 13)

(ii) Dividends arising from investments accounted for under the equity method (IPSAS 7) and

(iii) Gains from the sale of property, plant and equipment (IPSAS 17)

(b) Arising from insurance contracts of insurance entities:-

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Scope of International Public Sector Accounting Standard 9 cont...



IPSAS 9 does not deal with revenues:-

- (c) Arising from changes in the fair value of financial assets and financial liabilities or their disposal; (IAS 39)**
- (d) Arising from changes in the value of other current assets;**
- (e) Arising from natural increases in herds, and agricultural and forest products; and**
- (f) Arising from the extraction of mineral ores.**

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Disclosure requirements of International Public Sector Accounting Standard 9



Disclosure - an entity to provide:-

- (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;**

Disclosure requirements of International Public Sector Accounting Standard 9 cont...



(ii) The sale of goods;

(iii) Interest;

(iv) Royalties; and

(v) Dividends or their equivalents; and

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

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Comparison of International Public Sector Accounting Standard 9 with IAS 18



- ❑ IPSAS 9, “Revenue From Exchange Transactions” is drawn primarily from IAS 18, “Revenue.”**
- ❑ The definition of revenue adopted in IPSAS 9 is similar to the definition adopted in IAS 18 save for IAS 18 refers to ordinary activities**
- ❑ IAS 18 has also been included in IPSAS 9 to clarify the applicability of the standards to accounting by public sector entities.**

Differences of International Public Sector Accounting Standard 9 with IAS 18



- ❑ IAS 18 deals with both exchange transactions and non-exchange transactions whereas IPSAS 9 only deals with exchange transactions with non-exchange transactions dealt with in IPSAS 23.**
- ❑ IPSAS 23 applies to all public sector entities (other than Government Business Enterprises) whereas IAS 18 is for ordinary activities**

International Public Sector Accounting Standard 23



International Public Sector Accounting Standard (IPSAS) 23

REVENUE FROM NON-EXCHANGE TRANSACTIONS TAXES AND TRANSFERS

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International Public Sector Accounting Standard 23



- ❑ IPSAS 23 was issued in 2006 to address issues arising from non-exchange transactions**
- ❑ There was no Standard to address Revenue from non-exchange transactions (taxes and transfers) thus creation of IPSAS 23.**
- ❑ IPSAS 23 has no equivalent counterpart under IAS or IFRS.**

International Public Sector Accounting Standard 23



Application

- **IPSAS 23 - effective for annual financial statements covering periods beginning on or after June 30, 2008. Earlier application was encouraged.**

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International Public Sector Accounting Standard 23



Definition

Non-exchange transactions - where there is no exchange (“*without a kind of consideration*” !!!)

In a non-exchange transaction, 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.

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Objective of International Public Sector Accounting Standard 23



Objective of Standard is to prescribe requirements for financial reporting of revenue arising from non-exchange transactions, other than non-exchange transactions that give rise to an entity combination.

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Scope of International Public Sector Accounting Standard 23



- An entity which prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for revenue from non-exchange transactions.**
- IPSAS 23 also applies to all public sector entities other than Government Business Enterprises (GBEs).**

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Key Features of International Public Sector Accounting Standard 23



(a) Takes a transactional analysis approach.

Analyze resources from non-exchange transactions. Determine if they meet the definition of an asset - if they do, determine whether a liability is also required to be recognized;

(b) Requires assets recognized be measured at their fair value as at the date of acquisition;

Key Features of International Public Sector Accounting Standard 23



- (c) Liabilities be recognized as a result of a non-exchange transaction - in accordance with principles of Provisions, Contingent Liabilities and Contingent Assets”;**
- (d) Revenue equal to the increase in net assets associated with an inflow of resources be recognized;**
- (e) Provides specific guidance that addresses:-**
 - i. Taxes;**

Key Features of International Public Sector Accounting Standard 23



ii. Transfers, including:-

- **Debt forgiveness and assumption of liabilities;**
- **Fines;**
- **Requests;**
- **Gifts and Donations, including goods in-kind;**
- **Services in-kind;**

(f) Allows but does not require, the recognition of services in-kind; and

(g) Requires disclosures to be made in respect of revenue from non-exchange transactions.

Application of International Public Sector Accounting Standard 23



- ☐ **Grants;**
- ☐ **Debt forgiveness;**
- ☐ **Fines;**
- ☐ **Bequests;**
- ☐ **Gifts;**
- ☐ **Pledges;**
- ☐ **Donations; and**
- ☐ **Goods and services in-kind.**

Disclosure requirements of International Public Sector Accounting Standard 23



Entity to disclose either on the face of, or in the notes to, the general purpose financial statements:-

(a) The amount of revenue from non-exchange transactions recognized during the period

By major classes showing separately:-

(i) Taxes, showing separately major classes of taxes; and

(ii) Transfers, showing separately major classes of transfer revenue.

(b) The amount of receivables recognized in respect of non-exchange revenue.

Disclosure requirements of International Public Sector Accounting Standard 23 cont...



(c)The amount of liabilities recognized in respect of transferred assets subject to conditions.

(d)The amount of assets recognized that are subject to restrictions and the nature of those restrictions.

(e)The existence and amounts of any advance receipts in respect of non-exchange transactions.

(f)The amount of any liabilities forgiven

Disclosure requirements of International Public Sector Accounting Standard 23 cont...



Entity to disclose in the notes to the general purpose financial statements:-

- (a) The accounting policies adopted for the recognition of revenue from non-exchange transactions.**
- (b) For major classes of revenue from non-exchange transactions, basis on which the fair value of inflowing resources was measured.**

Disclosure requirements of International Public Sector Accounting Standard 23 cont...



Entity to disclose in the notes to the general purpose financial statements:-

- (a) The accounting policies adopted for the recognition of revenue from non-exchange transactions.**
- (b) For major classes of revenue from non-exchange transactions, the basis on which the fair value of inflowing resources was measured.**

Disclosure requirements of International Public Sector Accounting Standard 23 cont...



- (c) For major classes of taxation revenue which the entity cannot measure reliably during the period in which the taxable event occurs - information about the nature of the tax.**
- (d) The nature and type of major classes of bequests, gifts, donations showing separately major classes of goods in-kind received.**

Disclosure requirements of International Public Sector Accounting Standard 23 cont...



❑ Is KRA IPSAS Compliant ?

❑ Is GoK IPSAS Compliant ?

**OVER TO YOU BWANA
AUDITOR GENERAL !!!**

Questions



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