

IPSAS 9—REVENUE FROM EXCHANGE TRANSACTIONS

Acknowledgment

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The standards, which have been set in bold type, should be read in the context of the commentary paragraphs in this Standard, which are in plain type, and in the context of the “Preface to International Public Sector Accounting Standards.” International Public Sector Accounting Standards are not intended to apply to immaterial items.

Objective

The International Accounting Standards Committee (IASC) “Framework for the Preparation and Presentation of Financial Statements” defines income as “increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants.” The IASC definition of income encompasses both revenue and gains. This Standard uses the term “revenue,” which encompasses both revenues and gains, in place of the term “income.” Certain specific items to be recognized as revenues are addressed in other Standards and are excluded from the scope of this Standard. For example, gains arising on the sale of property, plant and equipment are specifically addressed in Standards on property, plant and equipment and are not covered in this Standard.

The objective of this Standard is to prescribe the accounting treatment of revenue arising from exchange transactions and events.

The primary issue in accounting for revenue is determining when to recognize revenue. Revenue is recognized when it is probable that future economic benefits or service potential will flow to the entity and these benefits can be measured reliably. This Standard identifies the circumstances in which these criteria will be met and, therefore, revenue will be recognized. It also provides practical guidance on the application of these criteria.

Scope

1. **An entity which prepares and presents financial statements under the accrual basis of accounting should apply this Standard 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. **This Standard applies to all public sector entities other than Government Business Enterprises.**
3. The “Preface to International Public Sector Accounting Standards” issued by the International Public Sector Accounting Standards Board (IPSASB) explains that Government Business Enterprises (GBEs) apply International Financial Reporting Standards (IFRSs) which are issued by the International

Accounting Standards Board (IASB). GBEs are defined in IPSAS 1, “Presentation of Financial Statements.”

4. This Standard does not deal with revenue arising from non-exchange transactions.
5. Public sector entities may derive revenues from exchange or non-exchange transactions. An exchange transaction is one in which the entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange. Examples of exchange transactions include:
 - (a) The purchase or sale of goods or services; or
 - (b) The lease of property, plant and equipment; at market rates.
6. In distinguishing between exchange and non-exchange revenues, substance rather than the form of the transaction should be considered. Examples of non-exchange transactions include revenue from the use of sovereign powers (for example, direct and indirect taxes, duties, and fines), grants and donations.
7. The rendering of services typically involves the performance by the entity of an agreed task over an agreed period of time. The services may be rendered within a single period or over more than one period. 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. Some agreements for the rendering of services are directly related to construction contracts, for example, those for the services of project managers and architects. Revenue arising from these agreements is not dealt with in this Standard but is dealt with in accordance with the requirements for construction contracts as specified in International Public Sector Accounting Standard (IPSAS) 11, “Construction Contracts.”
8. Goods includes goods produced by the entity for the purpose of sale, such as publications, and goods purchased for resale, such as merchandise or land and other property held for resale.
9. 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

- (c) Dividends or equivalents—distributions of surpluses to holders of equity investments in proportion to their holdings of a particular class of capital.
10. This Standard does not deal with revenues:
- (a) Addressed in other International Public Sector Accounting Standards, including:
- (i) Lease agreements (see IPSAS 13, “Leases”);
- (ii) Dividends arising from investments which are accounted for under the equity method (see IPSAS 7, “Accounting for Investments in Associates”); and
- (iii) Gains from the sale of property, plant and equipment (which are dealt with in IPSAS 17, “Property, Plant and Equipment”),
- (b) Arising from insurance contracts of insurance entities;
- (c) Arising from changes in the fair value of financial assets and financial liabilities or their disposal (guidance on accounting for financial instruments can be found in international or national accounting standards addressing the recognition and measurement of financial instruments);
- (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.

Definitions

11. The following terms are used in this Standard with the meanings specified:

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.

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.

Non-exchange transactions are transactions that are not exchange transactions. 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.

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.

Terms defined in other International Public Sector Accounting Standards are used in this Standard with the same meaning as in those other Standards, and are reproduced in the Glossary of Defined Terms published separately.

Revenue

12. 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 agent of the government or another government organization or on behalf of other third parties, for example the collection of telephone and electricity payments by the post office on behalf of entities providing such services, are not economic benefits or service potential which flow to the entity and do not result in increases in assets or decreases in liabilities. Therefore, they are excluded from revenue. Similarly, in a custodial or agency relationship, the gross inflows of economic benefits or service potential include amounts collected on behalf of the principal and which do not result in increases in net assets/equity for the entity. The amounts collected on behalf of the principal are not revenue. Instead, revenue is the amount of any commission received or receivable for the collection or handling of the gross flows.
13. Financing inflows, notably borrowings, do not meet the definition of revenue because they result in an equal change in both assets and liabilities and 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 Revenue

14. **Revenue should be measured at the fair value of the consideration received or receivable.**
15. 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.
16. In most cases, the consideration is in the form of cash or cash equivalents and the amount of revenue is the amount of cash or cash equivalents received or receivable. However, when the inflow of cash or cash equivalents is deferred, the fair value of the consideration may be less than

the nominal amount of cash received or receivable. For example, an entity may provide interest free credit to the purchaser or accept a note receivable bearing a below-market interest rate from the purchaser as consideration for the sale of goods. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The imputed rate of interest is the more clearly determinable of either:

- (a) The prevailing rate for a similar instrument of an issuer with a similar credit rating; or
- (b) A rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.

The difference between the fair value and the nominal amount of the consideration is recognized as interest revenue in accordance with paragraphs 33 and 34.

17. When goods or services are exchanged or swapped for goods or services which are of a similar nature and value, the exchange is not regarded as a transaction which generates revenue. This is often the case with commodities like oil or milk where suppliers exchange or swap inventories in various locations to fulfill demand on a timely basis in a particular location. When goods are sold or services are rendered in exchange for dissimilar goods or services, the exchange is regarded as a transaction which generates revenue. The revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

Identification of the Transaction

18. The recognition criteria in this Standard are usually applied separately to each transaction. However, in certain circumstances, it is necessary to apply the recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction. For example, when the price of a product includes an identifiable amount for subsequent servicing, that amount is deferred and recognized as revenue over the period during which the service is performed. Conversely, the recognition criteria are applied to two or more transactions together when they are linked in such a way that the effect cannot be understood without reference to the series of transactions as a whole. For example, an entity may sell goods and, at the same time, enter into a separate agreement to repurchase the goods at a later date, thus negating the substantive effect of the transaction; in such a case, the two transactions are dealt with together.

Rendering of Services

19. **When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction should be recognized by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:**
- (a) **The amount of revenue can be measured reliably;**
 - (b) **It is probable that the economic benefits or service potential associated with the transaction will flow to the entity;**
 - (c) **The stage of completion of the transaction at the reporting date can be measured reliably; and**
 - (d) **The costs incurred for the transaction and the costs to complete the transaction can be measured reliably.**
20. The recognition of revenue by reference to the stage of completion of a transaction is often referred to as the percentage of completion method. Under this method, revenue is recognized in the reporting periods in which the services are rendered. For example, an entity providing property valuation services would recognize revenue as the individual valuations are completed. The recognition of revenue on this basis provides useful information on the extent of service activity and performance during a period. IPSAS 11, also requires the recognition of revenue on this basis. The requirements of that Standard are generally applicable to the recognition of revenue and the associated expenses for a transaction involving the rendering of services.
21. 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.
22. 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.

It is also usually necessary for the entity to have an effective internal financial budgeting and reporting system. The entity reviews and, when

necessary, revises the estimates of revenue as the service is performed. The need for such revisions does not necessarily indicate that the outcome of the transaction cannot be estimated reliably.

23. The stage of completion of a transaction may be determined by a variety of methods. An entity uses the method that measures reliably the services performed. Depending on the nature of the transaction, the methods may include:
- (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. Only costs that reflect services performed to date are included in costs incurred to date. Only costs that reflect services performed or to be performed are included in the estimated total costs of the transaction.
- Progress payments and advances received from customers often do not reflect the services performed.
24. For practical purposes, when services are performed by an indeterminate number of acts over a specified time frame, revenue is recognized on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.
25. **When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue should be recognized only to the extent of the expenses recognized that are recoverable.**
26. During the early stages of a transaction, it is often the case that the outcome of the transaction cannot be estimated reliably. Nevertheless, it may be probable that the entity will recover the transaction costs incurred. Therefore, revenue is recognized only to the extent of costs incurred that are expected to be recoverable. As the outcome of the transaction cannot be estimated reliably, no surplus is recognized.
27. 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. When the uncertainties that prevented the outcome of the contract being estimated reliably no longer exist, revenue is recognized in accordance with paragraph 19 rather than in accordance with paragraph 25.

Sale of Goods

28. **Revenue from the sale of goods should 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 goods;**
 - (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.**
29. The assessment of when an entity has transferred the significant risks and rewards of ownership to the purchaser requires an examination of the circumstances of the transaction. In most cases, the transfer of the risks and rewards of ownership coincides with the transfer of the legal title or the passing of possession to the purchaser. This is the case for most sales. However, in certain other cases, the transfer of risks and rewards of ownership occurs at a different time from the transfer of legal title or the passing of possession.
30. If the entity retains significant risks of ownership, the transaction is not a sale and revenue is not recognized. An entity may retain a significant risk of ownership in a number of ways. Examples of situations in which the entity may retain the significant risks and rewards of ownership are:
- (a) When the entity retains an obligation for unsatisfactory performance not covered by normal warranty provisions;
 - (b) When the receipt of the revenue from a particular sale is contingent on the derivation of revenue by the purchaser from its sale of the goods (for example, where a government publishing operation distributes educational material to schools on a sale or return basis);
 - (c) When the goods are shipped subject to installation and the installation is a significant part of the contract which has not yet been completed by the entity; and
 - (d) When the purchaser has the right to rescind the purchase for a reason specified in the sales contract and the entity is uncertain about the probability of return.

31. If an entity retains only an insignificant risk of ownership, the transaction is a sale and revenue is recognized. For example, a seller may retain the legal title to the goods solely to protect the collectability of the amount due. In such a case, if the entity has transferred the significant risks and rewards of ownership, the transaction is a sale and revenue is recognized. Another example of an entity retaining only an insignificant risk of ownership may be a sale when a refund is offered if the purchaser is not satisfied. Revenue in such cases is recognized at the time of sale provided the seller can reliably estimate future returns and recognizes a liability for returns based on previous experience and other relevant factors.
32. Revenue is recognized only when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. In some cases, this may not be probable until the consideration is received or until an uncertainty is removed. For example, the revenue may be dependent upon the ability of another entity to supply goods as part of the contract and if there is any doubt that this will occur, recognition may be delayed until it has occurred. When the goods are supplied, the uncertainty is removed and revenue is recognized. 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.

Interest, Royalties and Dividends

33. **Revenue arising from the use by others of entity assets yielding interest, royalties and dividends should be recognized using the accounting treatments set out in paragraph 34 when:**
- (a) **It is probable that the economic benefits or service potential associated with the transaction will flow to the entity; and**
 - (b) **The amount of the revenue can be measured reliably.**
34. **Revenue should be recognized using the following accounting treatments:**
- (a) **Interest should be recognized on a time proportion basis that takes into account the effective yield on the asset;**
 - (b) **Royalties should be recognized as they are earned in accordance with the substance of the relevant agreement; and**
 - (c) **Dividends or their equivalents should be recognized when the shareholder's or the entity's right to receive payment is established.**

35. The effective yield on an asset is the rate of interest required to discount the stream of future cash receipts expected over the life of the asset to equate to the initial carrying amount of the asset. Interest revenue includes the amount of amortization of any discount, premium or other difference between the initial carrying amount of a debt security and its amount at maturity.
36. When unpaid interest has accrued before the acquisition of an interest-bearing investment, the subsequent receipt of interest is allocated between pre-acquisition and post-acquisition periods; only the post-acquisition portion is recognized as revenue. When dividends on equity securities are declared from pre-acquisition net surplus, those dividends are deducted from the cost of the securities. If it is difficult to make such an allocation except on an arbitrary basis, dividends are recognized as revenue unless they clearly represent a recovery of part of the cost of the equity securities.
37. Royalties, such as petroleum royalties, accrue in accordance with the terms of the relevant agreement and are usually recognized on that basis unless, having regard to the substance of the agreement, it is more appropriate to recognize revenue on some other systematic and rational basis.
38. 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.

Disclosure

39. **An entity should 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 their equivalents; and**

- (c) **The amount of revenue arising from exchanges of goods or services included in each significant category of revenue.**
40. Guidance on disclosure of any contingent assets and contingent liabilities can be found in IAS 37, “Provisions, Contingent Liabilities and Contingent Assets.” Contingent assets and contingent liabilities may arise from items such as warranty costs, claims, penalties or possible losses.

Effective Date

41. **This International Public Sector Accounting Standard becomes effective for annual financial statements covering periods beginning on or after July 1, 2002. Earlier application is encouraged.**
42. When an entity adopts the accrual basis of accounting, as defined by International Public Sector Accounting Standards, for financial reporting purposes, subsequent to this effective date, this Standard applies to the entity’s annual financial statements covering periods beginning on or after the date of adoption.

Appendix

The appendix is illustrative only and does not form part of the standards. The purpose of the appendix is to illustrate the application of the standards to assist in clarifying their meaning in a number of situations. The examples focus on particular aspects of a transaction and are not a comprehensive discussion of all the relevant factors which might influence the recognition of revenue. The examples generally assume that the amount of revenue can be measured reliably, it is probable that the economic benefits or service potential will flow to the entity and the costs incurred or to be incurred can be measured reliably. The examples do not modify or override the standards.

Public sector entities derive revenues from exchange or non-exchange transactions. This Standard deals only with revenue arising from exchange transactions. Revenue from exchange transactions is derived from:

- (a) Sale of goods or provision of services to third parties;
- (b) Sale of goods or provision of services to other government agencies; and
- (c) The use by others of entity assets yielding interest, royalties and dividends.

The application of the recognition criteria to particular transactions may be affected by:

- (a) The law in different countries, which may determine the point in time at which the entity transfers the significant risks and rewards of ownership. Therefore, the examples in this section of the appendix need to be read in the context of the laws in the country in which the transaction takes place; and
- (b) The nature of the relationship (contractual or otherwise) between the entity that pays and the entity that receives the revenue (that is, the entities may agree on specific points in time at which the receiving entity can recognize revenue).

Rendering of Services

1. *Housing*

Rental income from the provision of housing is recognized as the income is earned in accordance with the terms of the tenancy agreement.

2. *School transport*

Revenue from fares charged to passengers for the provision of school transport is recognized as the transport is provided.

3. *Management of toll roads*

Revenue from the management of toll roads is recognized as it is earned, based on the usage of the roads.

4. *Processing of court cases*

Revenue from the processing of court cases can be recognized either by reference to the stage of completion of the processing, or based on the periods during which the courts are in session.
5. *Management of facilities, assets or services*

Revenue from the management of facilities, assets or services is recognized over the term of the contract as the management services are provided.
6. *Science and technology research*

Revenue received from clients from contracts for undertaking science and technology research is recognized by reference to the stage of completion on individual projects.
7. *Installation fees*

Installation fees are recognized as revenue by reference to the stage of completion of the installation, unless they are incidental to the sale of a product in which case they are recognized when the goods are sold.
8. *Servicing fees included in the price of the product*

When the selling price of a product includes an identifiable amount for subsequent servicing (for example, after sales support and product enhancement on the sale of software), that amount is deferred and recognized as revenue over the period during which the service is performed. The amount deferred is that which will cover the expected costs of the services under the agreement, together with a reasonable return on those services.
9. *Insurance agency commissions*

Insurance agency commissions received or receivable which do not require the agent to render further service are recognized as revenue by the agent on the effective commencement or renewal dates of the related policies. However, when it is probable that the agent will be required to render further services during the life of the policy, the commission, or part thereof, is deferred and recognized as revenue over the period during which the policy is in force.
10. *Financial service fees*

The recognition of revenue for financial service fees depends on the purposes for which the fees are assessed and the basis of accounting for any associated financial instrument. The description of fees for financial services may not be indicative of the nature and substance of the services provided. Therefore, it is necessary to distinguish between fees which are an integral part of the effective yield of a financial instrument, fees which are

earned as services are provided, and fees which are earned on the execution of a significant act.

- (a) *Fees which are an integral part of the effective yield of a financial instrument*

Such fees are generally treated as an adjustment to the effective yield. However, when the financial instrument is to be measured at fair value subsequent to its initial recognition the fees are recognized as revenue when the instrument is initially recognized.

- (b) *Fees earned as services are provided*

- (i) *Fees charged for servicing a loan*

Fees charged by an entity for servicing a loan are recognized as revenue as the services are provided. If the entity sells a loan but retains the servicing of that loan at a fee which is lower than a normal fee for such services, part of the sales price of the loan is deferred and recognized as revenue as the servicing is provided.

- (ii) *Commitment fees to originate or purchase a loan*

If it is unlikely that a specific lending arrangement will be entered into, the commitment fee is recognized as revenue on a time proportion basis over the commitment period.

- (c) *Fees earned on the execution of a significant act, which is much more significant than any other act.*

The fees are recognized as revenue when the significant act has been completed.

11. *Admission fees*

Revenue from artistic performances, banquets and other special events is recognized when the event takes place. When a subscription to a number of events is sold, the fee is allocated to each event on a basis which reflects the extent to which services are performed at each event.

12. *Tuition fees*

Revenue is recognized over the period of instruction.

13. *Initiation, entrance and membership fees*

Revenue recognition depends on the nature of the services provided. If the fee permits only membership, and all other services or products are paid for separately, or if there is a separate annual subscription, the fee is recognized as revenue when no significant uncertainty as to its collectability exists. If the fee entitles the member to services or publications to be provided during

the membership period, or to purchase goods or services at prices lower than those charged to non-members, it is recognized on a basis that reflects the timing, nature and value of the benefits provided.

14. *Franchise or concession fees*

Franchise or concession fees may cover the supply of initial and subsequent services, equipment and other tangible assets, and know-how. Accordingly, franchise or concession fees are recognized as revenue on a basis that reflects the purpose for which the fees were charged. The following methods of franchise or concession fee recognition are appropriate:

(a) *Supplies of equipment and other tangible assets*

The amount, based on the fair value of the assets sold, is recognized as revenue when the items are delivered or title passes.

(b) *Supplies of initial and subsequent services*

Fees for the provision of continuing services, whether part of the initial fee or a separate fee, are recognized as revenue as the services are rendered. When the separate fee does not cover the cost of continuing services together with a reasonable return, part of the initial fee, sufficient to cover the costs of continuing services and to provide a reasonable return on those services, is deferred and recognized as revenue as the services are rendered.

(c) *Continuing franchise or concession fees*

Fees charged for the use of continuing rights granted by the agreement, or for other services provided during the period of the agreement, are recognized as revenue as the services are provided or the rights used.

(d) *Agency transactions*

Transactions may take place between the franchisor and the franchisee which, in substance, involve the franchisor acting as agent for the franchisee. For example, the franchisor may order supplies and arrange for their delivery to the franchisee at no return. Such transactions do not give rise to revenue.

15. *Fees from the development of customized software*

Fees from the development of customized software are recognized as revenue by reference to the stage of completion of the development, including completion of services provided for post delivery service support.

Sale of Goods

16. “Bill and hold” sales, in which delivery is delayed at the purchaser’s request but the purchaser takes title and accepts billing

Revenue is recognized when the purchaser takes title, provided:

- (a) It is probable that delivery will be made;
- (b) The item is on hand, identified and ready for delivery to the purchaser at the time the sale is recognized;
- (c) The purchaser specifically acknowledges the deferred delivery instructions; and
- (d) The usual payment terms apply.

Revenue is not recognized when there is simply an intention to acquire or manufacture the goods in time for delivery.

17. *Goods shipped subject to conditions*

- (a) *Installation and inspection*

Revenue is normally recognized when the purchaser accepts delivery, and installation and inspection are complete. However, revenue is recognized immediately upon the purchaser's acceptance of delivery when:

- (i) The installation process is simple in nature; or
- (ii) The inspection is performed only for purposes of final determination of contract prices.

- (b) *On approval when the purchaser has negotiated a limited right of return*

If there is uncertainty about the possibility of return, revenue is recognized when the shipment has been formally accepted by the purchaser or the goods have been delivered and the time period for rejection has elapsed.

- (c) *Consignment sales under which the recipient (purchaser) undertakes to sell the goods on behalf of the shipper (seller)*

Revenue is recognized by the shipper when the goods are sold by the recipient to a third party.

- (d) *Cash on delivery sales*

Revenue is recognized when delivery is made and cash is received by the seller or its agent.

18. *Lay away sales under which the goods are delivered only when the purchaser makes the final payment in a series of installments*

Revenue from such sales is recognized when the goods are delivered. However, when experience indicates that most such sales are consummated, revenue may be recognized when a significant deposit is received provided the goods are on hand, identified and ready for delivery to the purchaser.

19. *Orders when payment (or partial payment) is received in advance of delivery for goods not presently held in inventory, for example, the goods are still to be manufactured or will be delivered directly to the customer from a third party*

Revenue is recognized when the goods are delivered to the purchaser.

20. *Sale and repurchase agreements (other than swap transactions) under which the seller concurrently agrees to repurchase the same goods at a later date, or when the seller has a call option to repurchase, or the purchaser has a put option to require the repurchase, by the seller, of the goods*

The terms of the agreement need to be analyzed to ascertain whether, in substance, the seller has transferred the risks and rewards of ownership to the purchaser and hence revenue is recognized. When the seller has retained the risks and rewards of ownership, even though legal title has been transferred, the transaction is a financing arrangement and does not give rise to revenue.

21. *Sales to intermediate parties, such as distributors, dealers or others for resale*

Revenue from such sales is generally recognized when the risks and rewards of ownership have passed. However, when the purchaser is acting, in substance, as an agent, the sale is treated as a consignment sale.

22. *Subscriptions to publications and similar items*

When the items involved are of similar value in each time period, revenue is recognized on a straight line basis over the period in which the items are dispatched. When the items vary in value from period to period, revenue is recognized on the basis of the sales value of the item dispatched in relation to the total estimated sales value of all items covered by the subscription.

23. *Installment sales, under which the consideration is receivable in installments*

Revenue attributable to the sales price, exclusive of interest, is recognized at the date of sale. The sale price is the present value of the consideration, determined by discounting the installments receivable at the imputed rate of interest. The interest element is recognized as revenue as it is earned, on a time proportion basis that takes into account the imputed rate of interest.

24. *Real estate sales*

Revenue is normally recognized when legal title passes to the purchaser. However, in some jurisdictions the equitable interest in a property may vest in the purchaser before legal title passes and therefore the risks and rewards of ownership have been transferred at that stage. In such cases, provided that the seller has no further substantial acts to complete under the contract, it may be appropriate to recognize revenue. In either case, if the seller is obliged to

perform any significant acts after the transfer of the equitable and/or legal title, revenue is recognized as the acts are performed. An example is a building or other facility on which construction has not been completed.

In some cases, real estate may be sold with a degree of continuing involvement by the seller such that the risks and rewards of ownership have not been transferred. Examples are sale and repurchase agreements which include put and call options, and agreements whereby the seller guarantees occupancy of the property for a specified period, or guarantees a return on the purchaser's investment for a specified period. In such cases, the nature and extent of the seller's continuing involvement determines how the transaction is accounted for. It may be accounted for as a sale, or as a financing, leasing or some other profit sharing arrangement. If it is accounted for as a sale, the continuing involvement of the seller may delay the recognition of revenue.

A seller must also consider the means of payment and evidence of the purchaser's commitment to complete payment. For example, when the aggregate of the payments received, including the purchaser's initial down payment, or continuing payments by the purchaser, provide insufficient evidence of the purchaser's commitment to complete payment, revenue is recognized only to the extent cash is received.

Interest, Royalties and Dividends

25. License fees and royalties

Fees and royalties paid for the use of an entity's assets (such as trademarks, patents, software, music copyright, record masters and motion picture films) are normally recognized in accordance with the substance of the agreement. As a practical matter, this may be on a straight line basis over the life of the agreement, for example, when a licensee has the right to use certain technology for a specified period of time.

An assignment of rights for a fixed fee or non refundable guarantee under a non cancelable contract which permits the licensee to exploit those rights freely and the licensor has no remaining obligations to perform is, in substance, a sale. An example is a licensing agreement for the use of software when the licensor has no obligations subsequent to delivery. Another example is the granting of rights to exhibit a motion picture film in markets where the licensor has no control over the distributor and expects to receive no further revenues from the box office receipts. In such cases, revenue is recognized at the time of sale.

In some cases, whether or not a license fee or royalty will be received is contingent on the occurrence of a future event. In such cases, revenue is recognized only when it is probable that the fee or royalty will be received, which is normally when the event has occurred.

Comparison with IAS 18

IPSAS 9, “Revenue From Exchange Transactions” is drawn primarily from IAS 18, “Revenue.” The main differences between IPSAS 9 and IAS 18 are as follows:

- The title of IPSAS 9 differs from that of IAS 18 and this difference clarifies that IPSAS 9 does not deal with revenue from non-exchange transactions.
- The definition of revenue adopted in IPSAS 9 is similar to the definition adopted in IAS 18. The main difference is that the definition in IAS 18 refers to ordinary activities.
- At the time of issuing this Standard, the Public Sector Committee has not considered the applicability of IAS 41, “Agriculture” to public sector entities, therefore IPSAS 9 does not reflect amendments made to IAS 18 consequent upon the issuing of IAS 41.
- Commentary additional to that in IAS 18 has also been included in IPSAS 9 to clarify the applicability of the standards to accounting by public sector entities.

IPSAS 9 uses different terminology, in certain instances, from IAS 18. The most significant examples are the use of the terms entity, statement of financial position and net assets/equity in IPSAS 9. The equivalent terms in IAS 18 are enterprise, balance sheet and equity.