PBE IPSAS 9: REVENUE FROM EXCHANGE TRANSACTIONS

Version 1: 2014

Effective Periods Beginning
1 July 2014

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.

Revenue is the gross inflow of economic benefits (cash, receivables, other assets) 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.

MEASUREMENT

- Revenue is measured at the **fair value** of the consideration received or receivable. (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.)
- If the inflow of cash or cash equivalents is **deferred**, the fair value of the consideration receivable is less than the nominal amount of cash and cash equivalents to be received, and discounting is appropriate. Examples of this are if the seller is providing interest-free credit to the buyer or is charging a below-market rate of interest. Interest must be imputed based on market rates.
- An exchange for goods or services of a similar nature and value is not regarded as a transaction that generates revenue. However, an exchange for a dissimilar item is regarded as generating revenue.

RECOGNITION

SALE OF GOODS

Revenue arising from the sale of goods is recognised when all of the following criteria have been satisfied:

- The significant **risks** and **rewards** of ownership are transferred to the purchaser.
- Entity does **not** have continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
- The amount of revenue can be **measured reliably**.
- It is **probable** that the economic benefits associated with the transaction will flow to the seller; and
- The **costs** incurred or to be incurred in respect of the transaction can be **measured reliably**.

RENDERING OF SERVICES

When the outcome of a transaction can be estimated reliably, revenue is recognised by reference to the stage of completion of the transaction at the reporting date, provided that all of the following criteria are met:

- The amount of revenue can be **measured reliably**.;
- It is **probable** that the **economic benefits** will flow to the entity;
- The **stage of completion** at the reporting date can be **measured reliably**; and
- The **costs** incurred, or to be incurred, in respect of the transaction can be **measured reliably**.

When the outcome of a transaction cannot be estimated reliably, revenue arising from the rendering of services is recognised only to the extent the expenses recognised are recoverable.

INTEREST, ROYALTIES AND DIVIDENDS

For interest, royalties and dividends, if it is **probable** that the economic benefits will flow to the entity and the amount of revenue can be **measured reliably**, revenue should be recognised as follows:

- **Interest:** on a time proportion basis that takes into account the effective yield.
- **Royalties:** on an accruals basis in accordance with the substance of the relevant agreement; and
- **Dividends or similar distributions:** when the shareholder's or the entity's right to receive payment is established.

DISCLOSURES

- The accounting policy adopted for recognising each type of revenue.
- For each significant category of revenue, disclose the amount of revenue from exchanges of goods or services.
- The amount of each significant category of revenue, including:
  - Sale of goods.
  - Rendering of services.
  - Interest.
  - Royalties.
  - Dividends.
  - Members' fees or subscriptions.

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