This accounting policy paper is based on IPSAS 9 Revenue from Exchange Transactions, as adopted by the Treasury of the Republic of Cyprus.

Revenue from Exchange Transactions

IPSAS Project Team
(by Despina Stavrou)
The Treasury of the Republic of Cyprus

Date: 30 April 2018

TABLE OF CONTENTS

1. INTRODUCTION 2
   1.1 Revenue 2
   1.2 Objectives 2
   1.3 Scope 3
   1.4 Definitions 4
   1.5 Exchange Transactions 5
   1.6 Revenue 5
   1.7 Principal Versus Agent Considerations 5
2. RECOGNITION OF REVENUE FROM EXCHANGE TRANSACTIONS 7
   2.1 General 7
   2.2 Rendering of Services 8
   2.3 Sale of Goods 10
   2.4 Interest, Royalties, and Dividents or Similar Distributions 12
3. MEASUREMENT OF REVENUE FROM EXCHANGE TRANSACTIONS 13
4. ACCRUED AND DEFERRED REVENUE 14
5. DISCLOSURES 14
6. TRANSITIONAL PROVISIONS 15
7. EFFECTIVE DATE 15
8. REFERENCES 15
9. APPENDIX 16
   Recognition of Revenue From Exchange Transactions 16

1. INTRODUCTION

1.1 REVENUE

Revenue is increases in the net financial position of the entity, other than increases arising from ownership contributions.[1]

Revenues received by public sector entities arise from both exchange and 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 revenue from exchange transactions include the sale of goods (e.g. sale of publications) and the rendering of services (e.g. management of water facilities, provision of social housing facilities against rental payments, provision of medical services in public hospitals against payment). The services may be rendered within a single period, or over more than one periods.

An analysis of revenue classified by nature is provided on the face of the Statement of Financial Performance (as per Accounting Policy on Presentation of Financial Statements).

1.2 OBJECTIVES

The objective of this accounting policy is to propose the accounting treatment and disclosure for revenue arising from exchange transactions and events. This accounting policy deals with the primary issue for revenue, that is to determine when to recognise revenue. The aim of this policy is to provide technical accounting guidance for the preparation of financial statements regarding revenue from exchange transactions, so as to enable the financial statements to give a true and fair view of the financial performance and financial position of the entity. The aforementioned policy is prepared following guidance from all relevant International Public Sector Accounting Standards (IPSASs).

[1] *Definition of revenue as per the "Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities".*

1.3 SCOPE

1. This accounting policy applies to the accounting treatment of all revenue arising from exchange transactions in the financial statements of the government of the Republic of Cyprus and its consolidated entities. Revenue arising from exchange transactions are defined in this accounting policy and include:
   (a) The rendering of services;
   (b) The sale of goods; and
   (c) The use by others of entity assets yielding interest, royalties, and dividends or similar distributions.

2. Revenue arising from non-exchange transactions are outside the scope of this accounting policy (see Accounting Policy on Revenue from Non-Exchange Transactions (Taxes and Transfers)).

3. This accounting policy does not deal with revenues arising from:
   (a) Lease agreements (see Accounting Policy on Leases);
   (b) Dividends or similar distributions arising from investments that are accounted for under the equity method (see Accounting Policy on Investments in Associates and Joint Ventures);
   (c) Gains from the sale of property, plant and equipment (see Accounting Policy on Property, Plant and Equipment);
   (d) Changes in the fair value of financial assets and financial liabilities or their disposal (guidance on the recognition and measurement of financial instruments can be found in the Accounting Policy on Financial Instruments);
   (e) Changes in the value of other current assets;
   (f) The extraction of mineral ores; and
   (g) Agreements for rendering of services that are directly related to Construction Contracts, such as project manager and architect services (see Accounting Policy on Construction Contracts).

1.4 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.

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.

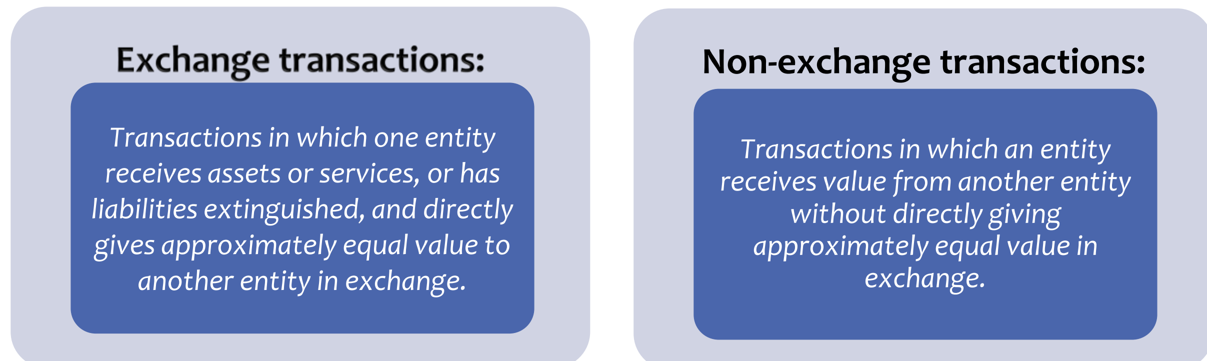
Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Revenue is increases in the net financial position of the entity, other than increases arising from ownership contributions.

Any other terms defined in other accounting policies that have been adopted by the government of the Republic of Cyprus, are used in this accounting policy with the same meaning as in those accounting policies.

1.5 EXCHANGE TRANSACTIONS

Public sector entities receive revenue from exchange and non-exchange transactions.



Revenue arising from non-exchange transactions, (e.g. direct and indirect taxes, duties, fines, donations, grants), is addressed in the Accounting Policy on Revenue from Non-Exchange Transactions (Taxes and Transfers).

Examples of revenue from exchange transactions the public sector entities may report include, but are not limited to, the following:

- The sale of goods/services
- Rendering of services, such as the provision of housing and the management of water facilities.

In distinguishing between exchange and non-exchange revenues, substance rather than the form of the transaction should be considered.

1.6 REVENUE

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

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

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

(b) they 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.

1.7 PRINCIPAL VERSUS AGENT CONSIDERATIONS

Amounts collected as an agent of other parties will not give rise to an increase in net assets or revenue of the agent.

In an agency relationship, the gross inflows of economic benefits or service potential include amounts collected on behalf of the principal. These amounts are not economic benefits or service potential that flow to the entity, and do not result in increases in net assets/equity (increases in assets or decreases in liabilities) for the entity. Therefore, these amounts that are 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.

2. RECOGNITION OF REVENUE FROM EXCHANGE TRANSACTIONS

2.1 GENERAL

1. The recognition criteria in this accounting policy 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 recognised 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.

2. The graph in the ***Appendix*** summarises the general as well as the specific requirements for the recognition of revenue from exchange transactions under this accounting policy.

3. Under the general recognition requirements illustrated in the Appendix, revenue is recognised only when:
   a) The amount of revenue can be measured reliably; and
   b) It is probable that the economic benefits or service potential associated with the transaction will flow to the entity.
      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 recognised as an expense, rather than as an adjustment of the amount of revenue originally recognised.

   However, in order to define the recognition date, the specific requirements for the relevant category of revenue must also be fulfilled.

2.2 RENDERING OF SERVICES

1. When the outcome of a transaction involving the rendering of services can be estimated reliably[2], revenue associated with the transaction **shall be recognised 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** *(Percentage of Completion – see paragraph 2.2(2) below)***; and**
   d) **The costs incurred for the transaction and the costs to complete the transaction can be measured reliably.**

2. *Percentage of Completion:*
   Under this basis, revenue is recognised in ***the reporting periods in which the services are rendered***. For example, an entity providing property valuation services would recognise revenue as the individual valuations are completed, since progress payments and/or advances often do not reflect the services performed.
   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:
   - Surveys of work performed;
   - Services performed to date as a percentage of total services to be performed; or
   - 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.

   Accounting Policy on Construction Contracts also requires the recognition of revenue on this basis. The requirements of that Policy are generally applicable to the recognition of revenue and the associated expenses for a transaction involving the rendering of services.

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

[2] *Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent.*

- Each party's enforceable rights regarding the service to be provided and received by the parties;
- The consideration to be exchanged; and
- The manner and terms of settlement.

4. When services are performed by an indeterminate number of acts over a ***specified time frame***, revenue shall be recognised 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.

5. When the ***outcome of the transaction*** involving the rendering of services ***cannot be estimated reliably***, revenue shall be recognised only to the extent of the expenses recognised that are recoverable**.**

6. When (a) the ***outcome of a transaction cannot be estimated reliably***, and (b) it is ***not probable*** that the costs incurred will be recovered, revenue is not recognised and the costs incurred are recognised as an expense. When the uncertainties that prevented the outcome of the contract being estimated reliably no longer exist, revenue is recognised in accordance with paragraph 2.2(1).

2.3 SALE OF GOODS

1. Revenue from the sale of goods shall be recognised when ***all* the following conditions** are 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.**

2. 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.

3. When the entity retains significant risks of ownership, the transaction is not a sale, and revenue is not recognised. 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 upon the purchaser's revenue that is derived from the sale of the goods (e.g. 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 that has not yet been completed by the entity; and
   d) When the purchaser has the right to cancel the purchase for a reason specified in the sales contract, and the entity is uncertain about the probability of return.

4. If an entity ***retains only an insignificant risk of ownership***, the transaction is a sale and revenue is recognised. 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 recognised. 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 recognised at the time of sale, provided the seller can reliably estimate future returns and recognises a liability for returns based on previous experience and other relevant factors.

5. In accordance with paragraph 2.3(1)(d), revenue is recognised 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 recognised.

2.4 INTEREST, ROYALTIES, AND DIVIDENTS OR SIMILAR DISTRIBUTIONS

1. Revenue arising from the use by others of entity assets yielding interest, royalties, and dividends or similar distributions shall be **recognised** using the accounting treatments set out in paragraph 2.4(2) below 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.**

2. Revenue shall be recognised using the following accounting treatments:

> - ***Interest** shall be recognised on a time proportion basis that takes into account the effective yield on the asset;*
> - ***Royalties** shall be recognised as they are earned in accordance with the substance of the relevant agreement; and*
> - ***Dividends or similar distributions** shall be recognised when the shareholder's or the entity's right to receive payment is established.*

3. 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.

4. 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 recognised as revenue. When dividends or similar distributions on equity securities are declared from pre-acquisition net surplus, those dividends or similar distributions are deducted from the cost of the securities. If it is difficult to make such an allocation except on an arbitrary basis, dividends or similar distributions are recognised as revenue unless they clearly represent a recovery of part of the cost of the equity securities.

5. Royalties, such as petroleum royalties, accrue in accordance with the terms of the relevant agreement, and are usually recognised on that basis unless, having regard to the substance of the agreement, it is more appropriate to recognise revenue on some other systematic and rational basis.

3. MEASUREMENT OF REVENUE FROM EXCHANGE TRANSACTIONS

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

1. The amount of revenue arising on a transaction is usually determined in the agreement between the entity and the purchaser or user of the asset/service. Any amounts for trade discounts and volume rebates allowed by the entity are taken into account upon the measurement of the fair value of the consideration.

2. When the consideration is in the form of cash or cash equivalents, then 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 recognised as interest revenue in accordance with paragraphs 2.4(1) and 2.4(2).

3. When goods or services are exchanged or swapped for goods or services that are of a **similar nature and value**, the exchange is not regarded as a transaction that generates revenue.

4. When goods are sold or services are rendered in exchange for **dissimilar goods or services**, the exchange is regarded as a transaction that 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, 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.

4. ACCRUED AND DEFERRED REVENUE

Accrued Revenue

Accrued revenue is revenue that has been earned but has not been received yet (e.g. interest receivable). Accrued revenue will be received in a subsequent period(s). Therefore, accrued revenue shall be recognised in the reporting period in which it is earned rather than in the subsequent period(s) in which it will be received.

Deferred Revenue

Deferred revenue is revenue that has been received in advance, but has not been earned yet. Deferred revenue must not be recognised in the reporting period in which it is received. It shall be recognised in the subsequent reporting period(s) in which the services or obligations in respect of the deferred revenue have been performed. Therefore, entities shall recognise a liability in respect of revenue received in advance, until the time they have supplied the service or the performance obligation that is due from their part has been satisfied.

5. DISCLOSURES

1. 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 recognised 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.

2. Guidance on disclosure of any contingent assets and contingent liabilities can be found in the Accounting Policy on Provisions, Contingent Liabilities and Contingent Assets. Contingent assets and contingent liabilities may arise from items such as warranty costs, claims, penalties, or possible losses.

6. TRANSITIONAL PROVISIONS

No transitional exemptions are elected to be applied on the adoption of IPSAS 9 "Revenue from Exchange Transactions".

7. EFFECTIVE DATE

The rules mentioned above shall be effective for annual financial statements covering periods beginning on or after 1 January 2020.

8. REFERENCES

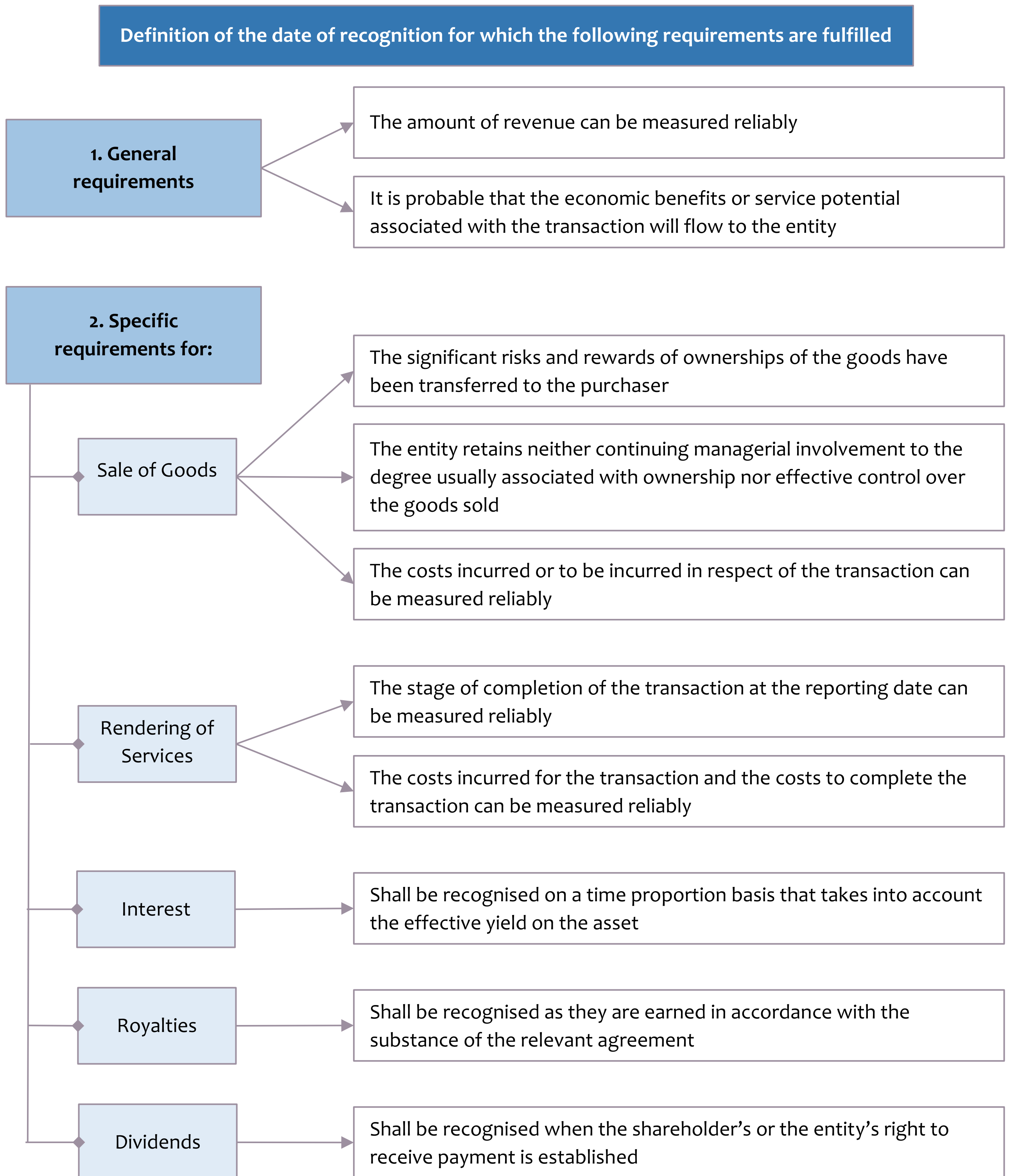
This accounting policy is based on the following:

IPSAS 9 Revenue from Exchange Transactions

IPSAS 33 First Time Adoption of Accrual Basis IPSASs

9. APPENDIX

Recognition of Revenue From Exchange Transactions



Source: T. Müller-Marqués Berger – Ernst &Young, IPSAS Explained: A summary of International Public Sector Accounting Standards (Second Edition). The graph is illustrative only; it does not take the place of this accounting policy. It is provided as an aid for interpreting this accounting policy.