



6.0 ACCOUNTING FOR REVENUE (NON-EXCHANGE TRANSACTIONS)

6.1 Introduction

This Chapter covers the following:

- a. Applicable Terms
- b. Applicable Standard
- c. Key IPSAS Provisions
- d. Applicable Accounting Codes
- e. Accounting Documentations
- f. Accounting Procedures
- g. Accounting Treatments
- h. Illustrations

6.2 Applicable Terms

Revenue comprises gross inflows of economic benefits or service potential received and receivable by the reporting entity, which represents an increase in net assets/equity, other than increases relating to contributions from owners.

Non-exchange Revenues are revenues from non-exchange transactions.

Non-exchange Transaction are transactions in which an entity either receives value from another entity without directly giving appropriately equal value in exchange or gives value to another entity without directly receiving appropriately equal value in exchange.

In these type of transactions, an entity will receive resources, values, benefits etc and provide no or nominal consideration directly in return. For example, taxpayers pay taxes because the tax law mandates the payment of those taxes, while the taxing government will provide a variety of goods and/or services to general public. If however, the transaction is conducted at

a subsidized price, that is, a price that is not approximately equal to the fair value of the goods sold, that transaction falls within the definition of a non-exchange transaction.

The main sources of non-exchange revenues are:

- a. Taxes
- b. Transfers (donations, grants etc)

Taxes are economic benefits or service potential compulsorily paid or payable to public sector entities, in accordance with laws and/or regulations, established to provide revenue to the government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potentials from non-exchange transactions other than taxes e.g. debt forgiveness and assumption of liabilities, aid, donations, grants, bequests, concessionary loans, service-in-kind.

Exception:

Fines are economic benefits or service potential received or receivable by public sector entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Some transactions are made up of an exchange component and a non-exchange component. The entity should split the exchange component from the non-exchange component. Both components should be accounted for using their own specific recognition criteria.

6.3 Relevant Standard

The relevant Standard is **IPSAS 23**-Revenue from Non-exchange Transactions (Taxes and Transfers).

6.4 Key IPSAS Provisions

Recognition

Generally, the criteria for recognition of Revenue from non- exchange transactions are:

- a. It is probable that the future economic benefits or service potential associated with the resource will flow to the entity;
- b. The fair value of the inflows can be measured reliably;
- c. The entity has the ability to exclude or regulate the access of others to the benefits of the resource. This is an essential element of control that distinguishes an entity's resource from those public goods that all entities have access to and benefit from; and
- d. An inflow of resources is probable when the inflow is more likely than not to occur. The entity bases this determination on its past experience with similar types of flows of resources and its expectations regarding the taxpayer or transferor that is Government.

Specifically, revenues from taxes are recognized together when a taxable event occurs.

Find below types of taxes, taxable events and timing for recognition:

Type of Tax	Taxable Event	Timing for Recognition
Income Tax: <ul style="list-style-type: none"> • Individual • Corporate • Petroleum 	Earning of assessable income during the taxation period	-Income tax deductions received through the Pay As You Earn (PAYE) is recognized at the point of receipt. -Recognized by reference to the earning of assessable income by the taxpayers
Value Added Tax (VAT)	Undertaking of taxable activity during the taxation period	Point of sale of taxable goods and services.
Customs Duty	Movement of dutiable goods across the customs boundary	Point of the movement of dutiable goods across custom boundaries and custom controlled warehouses.
Property Tax	Passing of the date on which the tax is levied or the period for which the tax is levied	Point of occurrence of taxable event

While **revenues from transfers** are recognized when the transferred resources meet the definition and the recognition criteria

Find below types of transfers, triggering, and timing for recognition:

Type of transfer	Triggering events for recognition	Timing for recognition
Grant	Receipt of grant or enforceable claim to receive it	Point of receipt of grant or enforceable claim to receive it e.g. when the amount is pledged, memorandum of understanding signed.
Fine	Breach of law or regulation giving rise to the fine	Point of fine/penalty being imposed
Bequest	Death of the testator or granting of probate	Point of granting of probate
Gift and Donation, including Goods in-kind	<ul style="list-style-type: none"> - Receipt of the gift or donation and transfer of legal title. - For goods in kind, receipt of the goods in-kind or binding agreement to receive them 	Point of future economic benefits or service potential flows to the entity and the fair value can be measured reliably, e.g. when the amount is pledged, memorandum of understanding signed

Debt forgiveness is recognized as revenue at the carrying amount of the debt forgiven when the liability that was previously recognized is extinguished.

An entity is required to recognize service-in-kind in its financial statements. It shall recognize revenue and a corresponding expense at the fair value of the service received during the period in which the service is received (if such a value can be established).

Concessionary loans are given and received at below market value, the portion of the loan that is repayable, along with any interest payments, is an exchange transaction. However, the difference between the transaction price (loan proceeds) and the fair value of the loan on initial recognition is non-exchange revenue that should be recognized and accounted for as such.

There are instances where a transaction can be a combination of exchange and non-exchange transactions. In these instances the entity needs to determine what portion of the transaction is an exchange transaction and what portion is a non-exchange transaction and then recognize it separately.

Measurement

Revenue from non-exchange transactions shall be measured at the amount of the increase in net assets recognized by the entity i.e. at the fair value of the consideration received or receivable.

Disclosures

- A. Revenues shall be recognized in the financial statements of the periods to which they relate.
- B. In addition, an entity shall disclose by way of notes to the GPFS with respect to revenues from non-exchange transactions:
 - 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;
 - c. The amount of liabilities recognized in respect of transferred assets subject to conditions;
 - d. The amount of liabilities recognized in respect of concessionary loans that are subject to conditions on transferred assets
 - e. The amount of assets recognized that are subject to restrictions and the nature of those restrictions;

- f. The existence and amounts of any advance receipts in respect of non-exchange transactions; and
- g. The amount of any liabilities forgiven.
- h. The accounting policies adopted for the recognition of revenue from non-exchange transactions;
- i. For major classes of revenue from non-exchange transactions, the basis on which the fair value of inflowing resources was measured;
- j. For major classes of tax revenue that the entity cannot measure reliably during the period in which the taxable event occurs, information about the nature of the tax; and
- k. The nature and type of major classes of bequests, gifts, and donations, showing separately major classes of goods in-kind received.

6.5 Accounting Codes

NCOA Code	Description
1202	Non-Tax Revenue
120101	Personal Taxes
120102	Corporate Taxes
1301	Aid And Grants
130101	Domestic Aid
130102	Foreign Aid
130203	Domestic Grants
130204	Foreign Grants
1404	Debt Forgiveness
140401	Foreign Debt Forgiveness
140402	Domestic Debt Forgiveness

6.6 Accounting Documentations

- a. Cash book
- b. Receipt Vouchers
- c. Journal Vouchers
- d. Subsidiary Ledgers
- e. General Ledger
- f. Assets Transfer Forms
- g. Tax Assessment Forms
- h. Memorandum of Understanding (MoU)/Agreement

6.7 Accounting Procedures

Taxes

- a. Ascertain the assessed amount
- b. Recognize the assessed amount in the books
- c. Issue receipt voucher when taxes are collected
- d. Post cash receipts to cash books /General Ledger/Subsidiary

Transfers

Aid & Grants, Debt Forgiveness, Fines, Bequests, Gifts and Donations, Goods and Services In-kind and Off Market Portion of Concessionary Loans

Aid and Grants (Covered under Accounting for Aid and Grants in chapter 7)

a. Debt Forgiveness (without Condition)

The Appropriate accounting procedures are:

- i. Determine the amount of debt forgiven
- ii. Raise adjustment journal for the same to reduce the level of the liability and increase the revenue (net assets)
- iii. Ensure necessary approval by appropriate officers
- iv. Raise and post the journal to recognize the debt forgiven

b. Debt Forgiveness (with Condition)

The Appropriate accounting procedures are:

- i. Determine the amount of debt forgiven
- ii. Raise adjustment journal for the same to reduce the level of the liability and increase the revenue (net assets)
- iii. Ensure necessary approval by appropriate officers
- iv. Raise and post the journal to recognize the debt forgiven on fulfillment of the condition

Goods and/or Services in-kind, Gifts & Donations

The appropriate accounting procedures for recognition are as follows:

- i. Determine the fair value of goods and/or services
- ii. Raise adjustment journal for same to recognize the value of goods and/or services in-kind received
- iii. Ensure necessary approval by appropriate officers
- iv. Post the journal to the relevant ledgers

Fines

Appropriate Accounting Procedures are:

- i. Ascertain the amount of fine determined by appropriate authorities
- ii. Recognize the assessed amount in the books
- iii. Issue receipt voucher when revenues are received
- iv. Post cash receipts to cash books /general ledger/subsidiary

Bequests

- i. Determine the fair value of Bequests at the date of acquisition
- ii. Raise adjustment journal for same to recognize the value of Bequests received
- iii. Ensure necessary approval by appropriate officers
- iv. Post the journal to the relevant ledgers

6.8 Accounting Treatment

The specific accounting treatment for each of the identified Non - Exchange Transactions are as follows.

S/No	Details	Remark
i	Recognition of Tax Revenue:	
1	Dr Accounts Receivables Cr Relevant Revenue Items	With the value of the assessed revenue
	Dr Cash/ Bank Cr Accounts Receivables	When the revenue is received
ii	Revenue arising from Debt Forgiveness:	
2	Dr Liability (Debt) Cr Revenue	If the Debt forgiveness is without condition
iii	Goods and/or Services in-kind:	
3	Dr Assets/Expenditure Cr Donation Received	With the fair value of goods and/or services rendered
iv	Recognition of Fines:	
4	Dr Accounts Receivables Cr Relevant Revenue Items	With the assessed Amounts
	Dr Cash/Bank Cr Accounts Receivables	When the revenue is received
v	Bequests:	
5	Dr Assets Cr Donation	With the fair value of the Bequests

6.9 Illustration

Agency IJK has raised tax assessment notices amounting to ₦500,000. It has received payment of ₦300,000 while the balance was not received as at the end of the year.

Accounting Entries

S/No	Details	Code	Dr (₦)	Cr (₦)	Remark
1	Accounts Receivable	3XXXXXXXX	500,000		To recognize total tax assessed.
	Tax Revenue	1XXXXXXXX		500,000	
2	Cash/Bank	3XXXXXXXX	300,000		To recognize receipt of the Assessment payment
	Accounts Receivable	3XXXXXXXX		300,000	