



5.0 ACCOUNTING FOR REVENUE (EXCHANGE TRANSACTIONS)

5.1 Introduction

This chapter covers the following:

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

5.2 Applicable Terms

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.

It includes only the gross inflow of economic benefits or service potential received or is receivable by the entity on its own account. Those amounts collected as an agent of the government/organization or on behalf of third parties are not considered as revenue. For example, the collection of union dues from employees on behalf of the Union is not revenue to the entity and shall therefore be excluded from its revenue.

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.

Exchange Transactions covers

a. **The Rendering of services:**

This includes the provision of housing, management of water facilities, management of toll roads and management of transfer payments.

b. The Sale of Goods:

This includes goods produced by the entity for the purpose of sale, such as publications; goods purchased for resale; such as merchandise or land and other property held for resale; and the lease of property; plant and equipment at market rates.

c. The use by others of an entity's assets yielding interest, royalties and dividends or similar distributions:

This covers Interest - e.g. bank commissions; Royalties – e.g. patents, trademarks, copyrights; Dividends or similar distributions - e.g. equities, debentures and term-deposits.

Non-exchange Revenue are revenues from transactions in which 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. Typical examples of non-exchange revenues are taxes and dues, transfers and donations. See chapter 6 (Accounting for Non-exchange Transactions)

5.3 Applicable Standard

IPSAS - 9: Revenues from Exchange Transactions

5.4 Key IPSAS Provisions

Recognition

Revenues are recognised when the outcome of a transaction involving the rendering of services can be estimated reliably. The outcome of a transaction can be measured reliably when:

- a. It is probable that the economic benefits or service potential associated with the transaction will flow to the entity
- b. The following can be measured reliably:
 - i. The amount of the revenue
 - ii. The stage of completion of the transaction at the reporting date
 - iii. The costs incurred and the costs to complete

Revenue under accrual basis of accounting shall be recognized when it is earned and not only when cash or its equivalent is received.

Sale of Goods

The sale of goods shall be recognized when all the following conditions have also been 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 entity has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- d. The entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

Revenue from the Provision of Services

Revenue from the provision of services shall be recognized when all the following conditions are also 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.

Revenue arising from the use by others of an entity's assets yielding:

a. Interest

Interest shall be recognized on a time proportion basis that takes into account the effective yield on the asset; the amount of revenue can be measured reliably; and it is probable that the economic benefits or service potential associated with the transaction will flow to the entity.

b. Royalties

Royalties shall be recognized as they are earned in accordance with the substance of the relevant agreement; the amount of revenue can be measured reliably; and it is probable that the economic benefits or service potential associated with the transaction will flow to the entity.

c. Dividends or similar distributions

Dividends or similar distributions shall be recognized when the shareholder's or the entity's right to receive payment is established; the amount of revenue can be measured reliably; it is probable that the economic benefits or service potential associated with the transaction will flow to the entity.

Some revenue from exchange services requiring special recognition includes, but not restricted to the following:

Revenue from Rent of Government Buildings: Rental income from government buildings shall be recognized as earned in accordance with the terms of the tenancy agreement. This is in addition to its measurability and derivation of economic benefits;

Revenue from Transportation: Revenue from fares charged to passengers for the provision of transport is recognized as the transport is provided. This is also in addition to its measurability and derivation of economic benefits;

Revenue from 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; the amount of revenue can be measured reliably; and it is probable that the economic benefits or service potential associated with the transaction will flow to the entity.

Revenue from Management of Toll Roads: Revenue from the management of toll roads is recognized as it is earned based on the usage of the roads; the amount of revenue can be measured reliably; and it is probable that the economic benefits or service potential associated with the transaction will flow to the entity.

Revenue from 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 this case they are recognized when the goods are sold.

Measurement

Revenue shall be measured at the fair value of the consideration received or receivable and includes only the gross inflows of economic benefits or service potential received and receivable by the entity on its own account taking into account the amount of any trade discounts and rebates allowed by the entity.

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.

Transactions shall be measured in cash or cash equivalents and the amount of revenue is the amount of cash or cash equivalents received or receivable.

Revenues from transactions can be in Local Currency or Foreign Currency, when the revenue is in a foreign currency, the spot exchange rate as provided in **IPSAS 4** (The effects of changes in foreign exchange rate) shall apply.

- a. **Exchange of Similar Goods and Services:** Goods or services exchanged or swapped for goods or services that are of a similar nature and value, **is not to be regarded as a transaction that generates revenue** e.g. when services or similar inventories are exchanged or swapped by entities in various locations to fulfill demand on a timely basis in a particular location.
- b. **Exchange of Dissimilar Goods and Services:** When goods are sold or services are rendered in exchange for dissimilar goods or services, the exchange shall be regarded as a transaction that generates revenue.

Disclosure

- a. Revenues from exchange transactions and events shall be recognized in the financial statements (Statement of Financial Performance) of the periods to which they relate.
- b. An entity shall disclose by way of notes to the GPFS
 - i. The accounting policies adopted for the recognition of the various revenue types and their measurements shall be stated in the notes to the financial statements.
 - ii. Significant exchange revenues shall be disclosed under Revenues in the financial statement of an entity under the following categories:
Non-Tax Revenue; Investment Income, Interest Earned, Other capital receipts.

5.5 Applicable Accounting Codes

NCOA Code	Description
1202	Non-Tax Revenue
120201	Licenses – General
120202	Mining Rents
120203	Royalties
120204	Fees – General
120206	Sales – General
120207	Earnings – General

120208	Rent on Government Buildings – General
120209	Rent on Land and Others – General
120211	Investment Income
120212	Interest Earned
120213	Re-Imbursement General

See the individual line items for each revenue code as contained in the NCOA.

5.6 Accounting Documentations

In documenting Exchange Revenue under accrual, the following are relevant:

Source Documents

- a. Invoice,
- b. Receipt Voucher,
- c. Valuation certificate and any other document as contained in the Financial Regulations/ Financial Instruction/ Financial Memoranda.

Prime Books

- a. Sales Day Book,
- b. Purchases Day Book,
- c. General ledger,
- d. Cashbook,
- e. Sales ledger,
- f. Purchases ledger,
- g. Returns Inward Ledger or others as prescribed in the Financial Regulations/Financial Instruction/ Financial Memoranda.

5.7 Accounting Procedures

- a. Ascertain whether the Revenue from Exchange Transaction meets the Recognition criteria.
- b. Recognize the transaction in the Books
- c. Issue Receipt voucher when revenue is received
- d. Post Cash receipts to the Cash book/General/subsidiary Ledger

5.8 Accounting Treatment

S/No	Details	Remark
i	Recognition of Revenue	
1	Dr Cash/Bank Cr Relevant Revenue Items	When revenue is determined and received cash
	Dr Accounts Receivable Cr Relevant Revenue Items	When revenue is accrued but cash not received
ii	Exchange of Dissimilar Goods and Services	
2	Dr Accounts Receivable (Receiver) Cr Relevant Goods/Service Account	When Goods or Services (Assets) is given
	Dr New Goods or services Account Cr Accounts Receivable (Receiver) Cr Revenue (Exchange Difference)	When Goods or Services is Received

5.9 Illustrations

An Entity sells products worth ₱150,000 to a customer on the 1st January, 20x1. The Customer paid ₱100,000 on receipt of the product while the balance was paid in February, 20X1.

Accounting Entries:

S/No	Details	Code	Dr (₦)	Cr (₦)	Remark
1	Cash/Bank	3102XXXX	100,000		To recognize cash receipts from the Customer
	Non-Taxable Revenue -Sales	1202XXXX		100,000	
2	Accounts Receivable	3XXXXXXXX	50,000		Accrue for portion of credit sales.
	Non- Taxable Revenue- Sales	1202XXXX		50,000	
3	Cash/Bank	3102XXXX	50,000		On receipt of the balance from the Customer.
	Accounts Receivable	3XXXXXXXX		50,000	

Agency XXX agreed to offer airtime on its popular news channel in exchange for hotel accommodation from XYZ Agency on a barter arrangement. During the year, the cost of airtime amounted to ₦345,000 while cost of hotel accommodation amounted to ₦545,000.

Accounting Entries- Agency XXX

S/No	Details	Code	Dr (₦)	Cr (₦)	Remark
1	Dr Accounts Receivable	3XXXXXXXX	345,000		To recognize airtime services rendered.
	Cr Sales – Airtime	1XXXXXXXX		345,000	
2	Dr Travel Expenses (Hotels)	2XXXXXXXX	545,000		To recognize accommodation services received.
	Cr Accounts Receivable	3XXXXXXX		345,000	
	Cr Revenue (Exchange Difference)	1XXXXXXXX		200,000	

Accounting Entries - Agency XYZ

S/No	Details	Code	Dr (₦)	Cr (₦)	Remark
1	Dr Cost of advert (Airtime) Cr A/C Payable	2XXXXXXXX 4XXXXXXXX	345,000	345,000	To recognize airtime services received
2	Dr A/C Payable Dr Loss on Exchange	4XXXXXXXX 2XXXXXXXX	345,000 200,000		To recognize accommod ation services rendered.
	CR Revenue- Accommodation	1202XXXX		545,000	