ACCOUNTING STANDARDS BOARD

STANDARD OF GENERALLY RECOGNISED ACCOUNTING PRACTICE

REVENUE FROM EXCHANGE TRANSACTIONS

(GRAP 9)

Issued by the
Accounting Standards Board

February 2010

Acknowledgement

The Standard of Generally Recognised Accounting Practice (GRAP) on *Revenue from Exchange Transactions* is based on the International Public Sector Accounting Standard (IPSAS) 9 on *Revenue from Exchange Transactions* from the *Handbook of International Public Sector Accounting Pronouncements* of the International Public Sector Accounting Standards Board (IPSASB), published by the International Federation of Accountants (IFAC) and is used with the permission of the IFAC.

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REVENUE FROM EXCHANGE TRANSACTIONS

This Standard was originally issued by the Accounting Standards Board (the Board) in May 2006. Since then, it has been amended by:

- Improvements to the Standards of GRAP, issued by the Board in February 2010.
- Consequential amendments when the following Standards of GRAP became effective:
  - GRAP 23 *Revenue from Non-exchange Transactions (Taxes and Transfers)*
  - GRAP 104 *Financial Instruments*
- Improvements to the Standards of GRAP, issued by the Board in March 2012.
- Consequential amendments when the following Standards of GRAP became effective:
  - GRAP 108 *Statutory Receivables*
  - GRAP 109 *Accounting by Principals and Agents*
- Consequential amendments when the following Standard of GRAP became effective:
  - GRAP 37 *Joint Arrangements*

Introduction

This pronouncement is set out in paragraphs .01 to .45. All paragraphs in this pronouncement have equal authority. The status and authority of appendices are dealt with in the preamble to each appendix. This pronouncement should be read in the context of its objective, its basis for conclusions and/or the basis for conclusions of its international equivalent, if applicable, the *Preface to the Standards of GRAP* and the *Framework for the Preparation and Presentation of Financial Statements*[1].

Standards of GRAP and Interpretations of the Standards of GRAP should also be read in conjunction with any directives issued by the Board prescribing transitional provisions, as well as any regulations issued by the Minister of Finance regarding the effective dates of the Standards, published in the Government Gazette.

Directives should be read in conjunction with the applicable Standards of GRAP and Interpretations of the Standards of GRAP.

[1] In June 2017, the Board replaced the *Framework for the Preparation and Presentation of Financial Statements* with the *Conceptual Framework for General Purpose Financial Reporting*.

Objective

.01 The *Framework for the Preparation and Presentation of Financial Statements*[2] defines revenue as "the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners". This Standard uses the term "revenue" which encompasses both revenue and gains. Certain specific items to be recognised 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 the Standard of GRAP on *Property, Plant and Equipment* and are not covered in this Standard.

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

.03 The primary issue in accounting for revenue is determining when to recognise revenue. Revenue is recognised 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 recognised. It also provides practical guidance on the application of these criteria.

Scope

.04 An entity that prepares and presents financial statements under the accrual basis of accounting shall 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.

(c) The use by others of entity assets yielding interest, royalties and dividends or similar distributions.

.05 This Standard does not deal with revenue arising from non-exchange transactions (see the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers)).

.06 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

[2] In June 2017, the Board replaced the *Framework for the Preparation and Presentation of Financial Statements* with the *Conceptual Framework for General Purpose Financial Reporting*.

(b) the lease of property, plant and equipment, at market rates.

.07 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. Interest arising on exchange and non-exchange transactions is classified on the basis of the underlying transaction. As a result, interest can be exchange or non-exchange, depending on whether the underlying transaction from which it arises is exchange or non-exchange.

.08 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 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 the Standard of GRAP on *Construction Contracts* (GRAP 11).

.09 Goods include 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.

.10 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 similar distributions - distributions of surpluses to owners in proportion to their holdings of a particular class of capital.

.11 This Standard does not deal with revenues arising from:

(a) lease agreements (see the Standard of GRAP on *Leases* (GRAP 13));

(b) dividends or similar distributions arising from investments that are accounted for under the equity method (see the Standard of GRAP on *Investments in Associates and Joint Ventures*);

(c) insurance contracts within the scope of the IFRS Accounting Standard(s) on insurance;

(d) changes in the fair value of financial assets and financial liabilities or their disposal (see the relevant Standard of GRAP on *Financial Instruments* (GRAP 104));

(e) changes in the value of other current assets,

(f) initial recognition and from changes in the fair value of biological assets related to agricultural activity (see the Standard of GRAP on *Agriculture* (GRAP 27));

(g) initial recognition and from changes in the fair value of biological assets related to agricultural activity (see GRAP 27);

(h) initial recognition of agricultural produce (see GRAP 27); and

(i) the extraction of mineral ores.

Definitions

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

<u>Exchange transactions</u> 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.

<u>Fair value</u> is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

<u>Non-exchange transactions</u> 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.

<u>Revenue</u> is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Terms defined in other Standards of GRAP are used in this Standard with the same meaning as in those other Standards.

Revenue

.13 Revenue includes only the gross inflows of economic benefits or service potential received and receivable by the entity for its own account. In a principal-agent arrangement, 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 for the entity. The amounts collected on behalf of the principal are not revenue. Instead, revenue is the amount of any commission, fee or other compensation received or receivable for the collection or handling of the gross flows. The Standard of GRAP on *Accounting by Principals and Agents* (GRAP 109) sets out the criteria an entity applies in assessing whether it is a principal or agent in a principal-agent arrangement.

.14 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. Financing inflows are taken directly to the statement of financial position and added to the balances of assets and liabilities.

Measurement of revenue

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

Measurement of revenue arising from contractual arrangements

.16 The amount of revenue arising on a transaction which is contractual in nature 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.

.17 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 recognised as interest revenue in accordance with paragraphs .34 and .35 and in accordance with GRAP 104.

.18 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 that generates revenue. This is often the case with commodities like oil or milk where suppliers exchange or swap inventories in various locations to fulfil 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 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, 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.

Measurement of revenue arising from statutory (non-contractual) arrangements

.18A The amount of revenue arising on a transaction which is statutory (non-contractual) in nature is usually measured by reference to the relevant legislation, regulation or similar means. The fee structure, tariffs or calculation basis specified in legislation, regulation or similar means is used to determine the amount of revenue that should be recognised. This amount represents the fair value, on initial measurement, of the consideration received or receivable for revenue that arises from a statutory (non-contractual) arrangement (see the Standard of GRAP on *Statutory Receivables* (GRAP 108)).

Identification of the transaction

.19 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 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. 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

.20 When the outcome of a transaction involving the rendering of services can be estimated reliably, 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; and

(d) the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

.21 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 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. The recognition of revenue on this basis provides useful information on the extent of service activity and performance during a period. GRAP 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.

.22 Revenue is recognised 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 uncollectible 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.

.23 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.

.24 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.

.25 For practical purposes, when services are performed by an indeterminate number of acts over a specified time frame, revenue is 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.

.26 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.

.27 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 recognised 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 recognised.

.28 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 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 .20 rather than in accordance with paragraph .26.

Sale of goods

.29 Revenue from the sale of goods shall be recognised 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.

.30 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.

.31 If the entity retains significant risks of ownership, the transaction is not a sale and revenue is not recognised. 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.

.32 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.

.33 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. However, when an uncertainty arises about the collectability of an amount already included in revenue, the uncollectible 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.

Interest, royalties and dividends or similar distributions

.34 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 .35 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.***

.35 ***Revenue shall be recognised using the following accounting treatments:***

(a) ***interest shall be recognised using the methods set out in GRAP 104 and GRAP 108;***

(b) ***royalties shall be recognised as they are earned in accordance with the substance of the relevant agreement; and***

(c) ***dividends or similar distributions shall be recognised when the owner's right to receive payment is established.***

.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 recognised as revenue. When dividends or similar distributions are declared from pre-acquisition surpluses, those dividends or similar distributions are deducted from the cost of the contributed capital. 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 contributed capital.

.37 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.

.38 Revenue is recognised 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 uncollectible 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.

Disclosure

.39 ***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.

.40 Guidance on disclosure of any contingent assets and contingent liabilities can be found in the Standard of GRAP on *Provisions, Contingent Liabilities and Contingent Assets*. Contingent assets and contingent liabilities may arise from transactions such as warranty costs, claims, penalties or possible losses.

Transitional provisions

Initial adoption of the Standards of GRAP

.41 The transitional provisions to be applied by entities on the initial adoption of this Standard are prescribed in a directive(s). The provisions of this Standard should be read in conjunction with each applicable directive.

Amendments to Standards of GRAP

.42 Paragraphs .11 and .13 were amended by the Improvements to the Standards of GRAP issued on 1 April 2012. An entity shall apply these amendments retrospectively in accordance with the Standard of GRAP on Accounting Policies, Changes in Estimates and Errors (GRAP 3).

Effective date

Initial adoption of the Standards of GRAP

.43 An entity shall apply this Standard for annual financial statements covering periods beginning on or after a date to be determined by the Minister of Finance in a regulation to be published in accordance with section 91(1)(b) of the Public Finance Management Act, Act No. 1 of 1999, as amended.

Entities already applying Standards of GRAP

.44 An entity shall apply amendments to this Standard for annual financial statements covering periods beginning on or after 1 April 2013. Earlier application is encouraged. If an entity applies this Standard for a period beginning before 1 April 2013, it shall disclose that fact.

.44A Paragraphs .07, .16 and .35 were amended and paragraph .18A was added by GRAP 108 issued September 2013. Paragraph .13 was amended by GRAP 109 issued July 2015. An entity shall apply these amendments for annual financial statements covering periods beginning on or after 1 April 2019. Earlier application is encouraged. If an entity applies the amendment for a period beginning before 1 April 2019, it shall disclose that fact.

.44B Paragraph .11 is amended by the Standard of GRAP on Joint Arrangements issued March 2017. An entity shall apply this amendment retrospectively for annual financial periods beginning on or after 1 April 2020. If an entity elects to apply this amendment earlier, it shall disclose this fact.

Withdrawal of the Standard of GRAP on *Revenue from Exchange Transactions* (2006)

.45 This Standard supersedes the Standard of GRAP on *Revenue from Exchange Transactions* issued in 2006.

Appendix

This appendix is illustrative only and does not form part of this Standard. The purpose of this appendix is to illustrate the application of this Standard and to assist in clarifying its meaning.

The examples focus on particular aspects of a transaction and are not a comprehensive discussion of all the relevant factors that 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 this Standard.

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 entities; and

(c) the use by others of entity assets yielding interest, royalties, dividends or similar distributions.

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

(a) applicable laws, which determine the point in time at which an 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 those laws; 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 recognise revenue).

Rendering of services

A1. School transport

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

A2. Management of toll roads

Revenue from the management of toll roads is recognised as it is earned.

A3. Management of facilities, assets or services

Revenue from the management of facilities, assets or services is recognised over the term of the contract as the management services are provided.

A4. Science and technology research

Revenue received from clients from contracts for undertaking science and technology research is recognised by reference to the stage of completion on individual projects.

A5. Installation fees

Installation fees are recognised 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 recognised when the goods are sold.

A6. 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 recognised 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.

A7. Insurance agency commissions

Insurance agency commissions received or receivable, which do not require the agent to render further service, are recognised 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 recognised as revenue over the period during which the policy is in force.

A8. 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 that are an integral part of the effective yield of a financial instrument, fees that are earned as services are provided, and fees that are earned on the execution of a significant act.

(a) Fees that are an integral part of the effective interest rate of a financial instrument

Such fees are generally treated as an adjustment to the effective interest rate. However, when the financial instrument is measured at fair value with the change in fair value recognised in surplus or deficit, the fees are recognised as revenue when the instrument is initially recognised.

(i) *Origination fees received by the entity relating to the creation or acquisition of a financial asset other than one where changes in fair value are recognised in surplus or deficit*

Such fees may include compensation for activities such as evaluating the borrower's financial condition, evaluating and recording guarantees, collateral and other security arrangements, negotiating the terms of the instrument, preparing and processing documents and closing the transaction. These fees are an integral part of generating an involvement with the resulting financial instrument and, together with the related transaction costs (as defined in GRAP 104), are deferred and recognised as an adjustment to the effective interest rate.

(ii) *Commitment fees received by the entity to originate a loan*

If it is probable that the entity will enter into a specific lending arrangement (loan commitment), the commitment fee received is regarded as compensation for an ongoing involvement with the acquisition of a financial instrument and, together with the related transaction costs (as defined in GRAP 104), is deferred and recognised as an adjustment to the effective interest rate. If the commitment expires without the entity making the loan, the fee is recognised as revenue on expiry.

(iii) *Origination fees received on issuing financial liabilities measured at amortised cost*

These fees are an integral part of generating an involvement with a financial liability. When a financial liability is subsequently measured at amortised cost, the origination fees received are included, with the related transaction costs (as defined in GRAP 104) incurred, in the initial carrying amount of the financial liability and recognised as an adjustment to the effective interest rate. An entity distinguishes fees and costs that are an integral part of the effective interest rate for the financial liability from origination fees and transaction costs relating to the right to provide services, such as investment management services.

(b) *Fees earned as services are provided*

(i) *Fees charged for servicing a loan*

Fees charged by an entity for servicing a loan are recognised as revenue as the services are provided.

(ii) *Commitment fees to originate a loan commitment*

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

(iii) *Investment management fees*

Fees charged for managing investments are recognised as revenue as the services are provided.

Incremental costs that are directly attributable to securing an investment management contract are recognised as an asset if they can be identified separately and measured reliably and if it is probable that they will be recovered. As in GRAP 104, an incremental cost is one that would not have been incurred if the entity had not secured the investment management contract. The asset represents the entity's contractual right to benefit from providing investment management services, and is amortised as the entity recognises the related revenue. If the entity has a portfolio of investment management contracts, it may assess their recoverability on a portfolio basis.

Some financial services contracts involve both the origination of one or more financial instruments and the provision of investment management services. An example is a long-term monthly saving contract linked to the management of a pool of net assets. The provider of the contract distinguishes the transaction costs relating to the origination of the financial instrument from the costs of securing the right to provide investment management services.

(c) *Fees that are earned on the execution of a significant act*

The fees are recognised as revenue when the significant act has been completed, as in the examples below.

(i) *Placement fees for arranging a loan between a borrower and an investor*

The fee is recognised as revenue when the loan has been arranged.

(ii) *Loan syndication fees*

A syndication fee received by an entity that arranges a loan and retains no part of the loan package for itself (or retains a part at the same effective interest rate for comparable risk as other participants) is compensation for the service of syndication. Such a fee is recognised as revenue when the syndication has been completed.

A9. Admission fees

Revenue from artistic performances, banquets and other special events is recognised 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 that reflects the extent to which services are performed at each event.

A10. Tuition fees

Revenue is recognised over the period of instruction.

A11. 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 recognised 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 recognised on a basis that reflects the timing, nature and value of the benefits provided.

A12. Fees from the development of customised software

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

A13. Service charges

There are two usual types of service charges: flat rate service charges and services based on consumption. Flat rate service charges relate to the levying of a fixed amount for the rendering of services, regardless of consumption (for example, the basic charge levied for the removals of domestic refuse). Consumption based service charges are based on the consumption by consumers/users (for example, the consumption of water).

Flat rate service charges and consumption-based service charges should be recognised 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.

Usually consumption-based service charges earned by municipalities are based on meter readings. Where meter readings are done frequently, the revenue can be measured reliably. However, it is common practice for entities to read meters on a quarterly or less frequent basis. Consumers are invoiced based on estimates of consumption where no meter reading has taken place during the billing period. These invoices are best estimates and enable revenue to be measured reliably. Ideally, internal records should be maintained whereby actual consumption is compared to estimated consumption to provide additional assurance that significant adjustments are not required to reverse excessive estimates. Reference should be made to GRAP 3 for guidance on the accounting treatment of changes in accounting estimates.

Sale of goods

A14. "Bill and hold" sales, in which delivery is delayed at the purchaser's request but the purchaser takes title and accepts billing

Revenue is recognised 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 recognised;

(c) the purchaser specifically acknowledges the deferred delivery instructions; and

(d) the usual payment terms apply.

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

A15. Goods shipped subject to conditions

(a) *Installation and inspection*

Revenue is normally recognised when the purchaser accepts delivery, and installation and inspection are complete. However, revenue is recognised 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 recognised 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 recognised by the shipper when the goods are sold by the recipient to a third party.

(d) *Cash on delivery sales*

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

A16. Lay-bye sales under which the goods are delivered only when the purchaser makes the final payment in a series of instalments

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

A17. 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 recognised when the goods are delivered to the purchaser.

A18. 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 analysed to ascertain whether, in substance, the seller has transferred the risks and rewards of ownership to the purchaser and hence revenue is recognised. 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.

A19. Sales to intermediate parties, such as distributors, dealers or others for resale

Revenue from such sales is generally recognised when the risks and rewards of ownership have passed. However, when the purchaser is acting, in substance, as an agent in accordance with GRAP 109, the sale is treated as a consignment sale.

A20. Subscriptions to publications and similar items

When the items involved are of similar value in each time period, revenue is recognised 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 recognised 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.

A21. Instalment sales, under which the consideration is receivable in instalments

Revenue attributable to the sales price, exclusive of interest, is recognised at the date of sale. The sale price is the present value of the consideration, determined by discounting the instalments receivable at the imputed rate of interest. The interest element is recognised as revenue as it is earned, using the effective interest rate method.

A22. Inception fees

A contractual arrangement may require the payment of a fee at inception that permits the customer to purchase goods over a period of time. In determining when the seller should recognise revenue attributable to the fee, it should determine whether or not the fee and the charges for goods operate independently of each other. An example would be the municipal electricity connection fees that are levied by the distributor and are applied to all new electricity services.

The fee and the charges for goods may often together provide the seller's return on the contract as a whole. This may be the case, for example, where payment of the fee entitles the customer to purchase goods or services at lower prices than would otherwise be payable. In these circumstances, the seller should record the fee as revenue on a systematic basis over the average period in which goods are expected to be provided to the customer. Before the seller has provided goods, it should report a liability for the fee to the extent that this has not been included in revenue.

Where it can be demonstrated that the seller has no further obligations to the customer in respect of the fee, the seller should record the fee as revenue on the date on which it becomes entitled to it. This may be the case, for example, where, notwithstanding payment of the fee, the customer is required to pay for all goods or services supplied under the arrangement at the current commercial rate.

A23. Separation and linking of contractual arrangements

Components operate independently of each other

Where a contractual arrangement consists of various components that operate independently of each other and a reliable fair value can be attributed to every component, the seller should recognise changes in its assets or liabilities and related revenue, in respect of its right to consideration for each component, as if it were an individual contractual arrangement.

Where reliable fair values can be attributed only to the uncompleted component(s), the fair value of the uncompleted component(s) should be deducted from the total fair value of the contract to derive the amount of revenue attributable to the completed component(s). Where reliable fair values cannot be attributed to the uncompleted component(s), particular care must be taken to ensure that revenue is not overstated for the completed components.

Where reliable fair values cannot be attributed to individual completed or uncompleted components, the seller should recognise changes in its assets or liabilities and revenue, for those components as a single, bundled, contractual arrangement. For example, where a contractual arrangement consists of three components and a reliable fair value can be attributed only to the second and third components combined, and not to any components individually, a fair value should be attributed to the first component. The second and third components are then viewed together when determining the point at which changes in its assets or liabilities and revenue, attributable to those components should be recognised by the seller.

Components do not operate independently of each other

Where a contractual arrangement consists of various components that do not operate independently of each other, the seller should account for them together to reflect the seller's performance of its obligations as a whole in obtaining the right to consideration.

Interest, royalties and dividends or similar distributions

A24. Licence 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 recognised 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 cancellable 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 the Taxi Owner Operating Licence fee that is levied by the Department of Transport on taxi owners to confine taxi operations to a specific route, which may be renewed after a certain number of years. Another example is fishing levies payable to the

Department of Environment Affairs and Tourism for the granting of long-term commercial fishing rights granted for the orderly exploitation of marine living resources. In such cases, revenue is recognised at the time of sale.

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

Comparison with the International Public Sector Accounting Standard on *Revenue from Exchange Transactions* (July 2001)

This Standard is drawn primarily from the International Public Sector Accounting Standard on *Revenue from Exchange Transactions* (IPSAS 9). The main differences between this Standard and IPSAS 9 are as follows:

- This Standard makes reference to GRAP 109, which provides further public-sector specific guidance on identifying when an entity is a principal or agent and prescribes additional disclosure requirements.
- This Standard does not contain guidance on recognising revenue from franchise fees, as these transactions do not commonly occur in the South African public sector. The example relating to rental from housing has also been deleted so as to avoid any confusion with the application of GRAP 13.
- IPSAS 9 describes the residual of total assets after deducting total liabilities as “net assets/equity” whereas this Standard refers to “net assets” only.
- The appendix to this Standard includes additional guidance on accounting for service charges as adopted from the Standard of Generally Accepted Municipal Accounting Practice on *Revenue*, while other examples have been deleted from the Appendix.
- Transitional provisions to this Standard are dealt with differently than in IPSAS 9.