



PUBLIC BENEFIT ENTITY INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 9 REVENUE FROM EXCHANGE TRANSACTIONS (PBE IPSAS 9)

Issued September 2014 and incorporates amendments to 31 January 2021 other than consequential amendments resulting from adoption of PBE IFRS 17 *Insurance Contracts*

This Standard was issued on 11 September 2014 by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on 9 October 2014.

Reporting entities that are subject to this Standard are required to apply it in accordance with the effective dates in paragraphs 42.1 to 42.5.

In finalising this Standard, the New Zealand Accounting Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Tier 1 and Tier 2 PBE Standard has been issued as part of a revised full set of PBE Standards that incorporate enhancements for not-for-profit public benefit entities.

This Standard, when applied, supersedes PBE IPSAS 9 *Revenue from Exchange Transactions* issued in May 2013.

<p>Note for not-for-profit entities that apply PBE IFRS 17 <i>Insurance Contracts</i> (i.e., not-for-profit entities that issue insurance contracts or issue/hold reinsurance contracts)</p>

<p>Please read this Standard in conjunction with Appendix D of PBE IFRS 17 <i>Insurance Contracts</i>, which contains amendments to this Standard. Those amendments are applicable only to Tier 1 and Tier 2 not-for-profit public benefit entities that apply PBE IFRS 17.</p>

<p>The amendments introduced by PBE IFRS 17 will be compiled into this Standard together with the amending standard <i>Insurance Contracts in the Public Sector</i>.</p>
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PBE IPSAS 9 REVENUE FROM EXCHANGE TRANSACTIONS

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ISBN 978-1-927292-30-3

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The following is available on the XRB website as additional material:

IPSASB Basis for Conclusions

Public Benefit Entity International Public Sector Accounting Standard 9 *Revenue from Exchange Transactions*, is set out in the objective and paragraphs 1–43. All the paragraphs have equal authority. PBE IPSAS 9 should be read in the context of its objective, the NZASB’s Basis for Conclusions on PBE IPSAS 9, the *Public Benefit Entities’ Conceptual Framework* and Standard XRB A1 *Application of the Accounting Standards Framework*. PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

The term “revenue,” as defined in PBE Standards, encompasses both revenues 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 standards on property, plant and equipment and are not covered in this Standard.

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

The primary issue in accounting for revenue is determining when to recognise revenue. Revenue is recognised when it is probable that (a) future economic benefits or service potential will flow to the entity, and (b) these benefits can be measured reliably.¹ 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

1. **An entity that prepares and presents financial statements 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; and**
 - (c) **The use by others of entity assets yielding royalties.**
2. [Not used]
- 2.1 **This Standard applies to Tier 1 and Tier 2 public benefit entities.**
3. [Not used]
4. This Standard does not deal with revenue arising from non-exchange transactions. PBE IPSAS 23 *Revenue from Non-Exchange Transactions* prescribes requirements for the financial reporting of revenue arising from non-exchange transactions.
5. 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
 - (b) The lease of property, plant and equipment at market rates; or
 - (c) The receipt of members’ fees or subscriptions, (excluding any donation element).
6. 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, fundraising appeals and donations (including donations and bequests with and without conditions attached).
7. 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 public sector 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. Examples of services rendered by a not-for-profit entity for which revenue is typically received in exchange may include the provision of health services, education services and member services. 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

¹ 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. Paragraph BC10 of PBE IPSAS 1 *Presentation of Financial Reports* discusses the transitional approach to the explanation of reliability.

agreements is not dealt with in this Standard, but is dealt with in accordance with the requirements for construction contracts as specified in PBE IPSAS 11 *Construction Contracts*.

8. Goods includes (a) goods produced by the entity for the purpose of sale, such as publications, and (b) goods purchased, donated or otherwise acquired for resale, such as merchandise or land and other property held for resale.
9. 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 holders of equity investments in proportion to their holdings of a particular class of capital.

Interest and dividends or similar distributions are accounted for in accordance with PBE IPSAS 41 *Financial Instruments*.

10. This Standard does not deal with revenues arising from:
 - (a) Lease agreements (see PBE IPSAS 13 *Leases*);
 - (b) Dividends or similar distributions arising from investments that are accounted for under the equity method (see PBE IPSAS 36 *Investments in Associates and Joint Ventures*);
 - (c) Gains from the sale of property, plant and equipment (which are dealt with in PBE IPSAS 17 *Property, Plant and Equipment*);
 - (d) Insurance contracts within the scope of PBE IFRS 4 *Insurance Contracts*;
 - (e) Interest, dividends or similar distributions or changes in the fair value of financial assets and financial liabilities or their disposal (see PBE IPSAS 41);
 - (f) Changes in the value of other current assets;
 - (g) Initial recognition, and from changes in the fair value of biological assets related to agricultural activity (see PBE IPSAS 27 *Agriculture*);
 - (gA) Initial recognition of agricultural produce (see PBE IPSAS 27); and
 - (h) The extraction of mineral ores.

Definitions

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

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.

Terms defined in other PBE Standards are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately.

Revenue

12. Revenue includes only the gross inflows of economic benefits or service potential received and receivable by the entity on its own account. Amounts collected as an agent of the government or another government organisation or on behalf of other third parties; for example, the collection of telephone and electricity payments by the post office on behalf of entities providing such services are not economic benefits or

service potential that flow to the entity, and do not result in increases in assets or decreases in liabilities. Therefore, they are excluded from revenue. Similarly, in an agency relationship, the gross inflows of economic benefits or service potential include amounts collected on behalf of the principal that do not result in increases in net assets/equity for the entity. The amounts 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.

13. Financing inflows, notably borrowings, do not meet the definition of revenue because they (a) result in an equal change in both assets, and liabilities and (b) 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.

Measurement of Revenue

14. **Revenue shall be measured at the fair value of the consideration received or receivable.**
15. 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. 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.
16. 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 PBE IPSAS 41.

17. 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. 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.

Identification of the Transaction

18. 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

19. **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.**
20. 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. This may also occur, for example, in an entity that charges subscriptions relating to the rendering of services evenly over the calendar year but has a financial year end of 30 June, or in a not-for-profit entity that receives annual subscriptions throughout the financial year for a service that is provided intermittently, as and when it is needed by the subscriber. The recognition of revenue on this basis provides useful information on the extent of service activity and performance during a period. PBE IPSAS 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.
21. 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 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.
22. 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.
23. 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.

24. 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. For example, if services to members of an entity are provided evenly throughout the year, it is common practice to recognise one-twelfth of the annual subscription as revenue each month.

25. **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.**
26. 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.
27. 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 19 rather than in accordance with paragraph 25.

Sale of Goods

28. **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.**
29. 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.
30. 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, or where an entity sends out goods 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 rescind the purchase for a reason specified in the sales contract, and the entity is uncertain about the probability of return.
31. 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.

32. 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 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.

Royalties

33. **Revenue arising from the use by others of entity assets yielding royalties shall be recognised as they are earned in accordance with the substance of the relevant agreement.**
- 34–36. [Deleted by NZASB]
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 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.

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) [Deleted by NZASB]
 - (iv) **Royalties;**
 - (v) [Deleted by NZASB]
 - (vi) **Members' fees or subscriptions (exchange component); and**
 - (b) **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 PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*. Contingent assets and contingent liabilities may arise from items such as warranty costs, claims, penalties, or possible losses.

Effective Date

41–42. [Not used]

- 42.1 **A public benefit entity shall apply this Standard for annual financial statements covering periods beginning on or after 1 April 2015. Earlier application is permitted for not-for-profit public benefit entities as long as the full suite of PBE Standards is applied at the same time.**

- 42.2 **2016 Omnibus Amendments to PBE Standards**, issued in January 2017, added a footnote to the objective. An entity shall apply that amendment for annual financial statements covering periods beginning on or after 1 January 2017.
- 42.3 **PBE IPSAS 37 Joint Arrangements**, issued in January 2017, amended paragraph 10. An entity shall apply that amendment when it applies PBE IPSAS 37.
- 42.4 **PBE IFRS 9 Financial Instruments**, issued in January 2017, amended paragraph 10. An entity shall apply that amendment when it applies PBE IFRS 9.¹
- 42.5 **PBE IPSAS 41**, issued in March 2019, amended paragraphs 1, 9, 10, 16, 33, 39 and 42.4 and deleted paragraphs 34-36. An entity shall apply those amendments when it applies PBE IPSAS 41.
- 42.6 [See PBE IFRS 17 *Insurance Contracts*]

Withdrawal and Replacement of PBE IPSAS 9 (May 2013)

43. This Standard, when applied, supersedes PBE IPSAS 9 *Revenue from Exchange Transactions* issued in May 2013.

¹ PBE IFRS 9 was subsequently withdrawn by PBE IPSAS 41. The amendments in Appendix D of PBE IFRS 9 were not compiled.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, PBE IPSAS 9.

BC1. The New Zealand Accounting Standards Board (NZASB) has modified IPSAS 9 *Revenue from Exchange Transactions* for application by Tier 1 and Tier 2 public benefit entities. Where applicable, disclosure concessions have been identified for Tier 2 entities, the language generalised for use by public benefit entities and implementation guidance added for not-for-profit entities. The NZASB considered that the requirements of IPSAS 9 are generally appropriate for application by public benefit entities.

Interpretations

BC2. The NZASB agreed not to incorporate guidance from interpretations relating to NZ IAS 18 *Revenue* in PBE IPSAS 9. The NZASB considered that these interpretations deal with issues that do not commonly occur in the public benefit entity context and did not expect the absence of such guidance to lead to a change in practice.

Implementation Guidance

This guidance accompanies, but is not part of, PBE IPSAS 9.

- IG1. Entities derive revenues from exchange or non-exchange transactions. This Standard deals only with revenue arising from exchange transactions including the following:
- (a) Sale of goods or provision of services to third parties or members of the organisation;
 - (b) Sale of goods or provision of services to government agencies;
 - (c) The use by others of entity assets yielding royalties; and
 - (d) Subscriptions or levies on members of the organisation (excluding any donation element).
- IG2. The application of the recognition criteria to particular transactions may be affected by:
- (a) The law in different countries, which may determine the point in time at which the entity transfers the significant risks and rewards of ownership. Therefore, the examples in this section of the implementation guidance need to be read in the context of the laws in the country in which the transaction takes place; 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

Housing

- IG3. Rental income from the provision of housing is recognised as the income is earned in accordance with the terms of the tenancy agreement.

School Transport

- IG4. Revenue from fares charged to passengers for the provision of school transport is recognised as the transport is provided.

Management of Toll Roads

- IG5. Revenue from the management of toll roads is recognised as it is earned, based on the usage of the roads.

Processing of Court Cases

- IG6. Revenue from the processing of court cases can be recognised either by reference to the stage of completion of the processing, or based on the periods during which the courts are in session.

Management of Facilities, Assets, or Services

- IG7. Revenue from the management of facilities, assets, or services is recognised over the term of the contract as the management services are provided.

Science and Technology Research

- IG8. Revenue received from clients from contracts for undertaking science and technology research is recognised by reference to the stage of completion on individual projects.

Installation Fees

- IG9. 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.

Servicing Fees Included in the Price of the Product

- IG10. 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.

Insurance Agency Commissions

IG11. Insurance agency commissions received or receivable that 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.

Financial Service Fees

IG12. The recognition of revenue for financial service fees depends on (a) the purposes for which the fees are assessed, and (b) 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 interest rate (see PBE IPSAS 41 *Financial Instruments*) 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) [Deleted by NZASB]

(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 when the loan commitment is outside the scope of PBE IPSAS 41*

If it is unlikely that a specific lending arrangement will be entered into and the loan commitment is outside the scope of PBE IPSAS 41, the commitment fee is recognised as revenue on a time proportion basis over the commitment period. Loan commitments that are within the scope of PBE IPSAS 41 are accounted for as derivatives and measured at fair value.

(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 PBE IPSAS 41, 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 equity securities. 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) Commission on the allotment of shares to a client

The commission is recognised as revenue when the shares have been allotted.

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

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

(iii) 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.

Admission Fees

IG13. 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.

Tuition Fees

IG14. Revenue is recognised over the period of instruction.

Initiation, Entrance, and Membership Fees

IG15. 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. For example, in the case of an annual fee for membership services the entity would recognise one twelfth as revenue each month.

Franchise or Concession Fees

IG16. Franchise or concession fees may cover the supply of initial and subsequent services, equipment and other tangible assets, and know-how. Accordingly, franchise or concession fees are recognised as revenue on a basis that reflects the purpose for which the fees were charged. The following methods of franchise or concession fee recognition are appropriate:

(a) Supplies of Equipment and Other Tangible Assets

The amount, based on the fair value of the assets sold, is recognised as revenue when the items are delivered or title passes.

(b) Supplies of Initial and Subsequent Services

Fees for the provision of continuing services, whether part of the initial fee or a separate fee, are recognised as revenue as the services are rendered. When the separate fee does not cover the cost of continuing services together with a reasonable return, part of the initial fee, sufficient to cover the costs of continuing services and to provide a reasonable return on those services, is deferred and recognised as revenue as the services are rendered.

(c) Continuing Franchise or Concession Fees

Fees charged for the use of continuing rights granted by the agreement, or for other services provided during the period of the agreement, are recognised as revenue as the services are provided or the rights used.

(d) Agency Transactions

Transactions may take place between the franchisor and the franchisee that, in substance, involve the franchisor acting as agent for the franchisee. For example, the franchisor may order supplies and arrange for their delivery to the franchisee at no return. Such transactions do not give rise to revenue.

Fees from the Development of Customised Software

IG17. 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.

Sale of Goods*“Bill and Hold” Sales, in Which Delivery is Delayed at the Purchaser’s Request but the Purchaser Takes Title and Accepts Billing*

IG18. 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.

IG19. *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.

Layby Sales under Which the Goods are Delivered Only when the Purchaser Makes the Final Payment in a Series of Instalments

IG20. 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.

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

IG21. Revenue is recognised when the goods are delivered to the purchaser.

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

IG22. 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.

Sales to Intermediate Parties, Such as Distributors, Dealers, or Others for Resale

IG23. 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, the sale is treated as a consignment sale.

Subscriptions to Publications and Similar Items

IG24. 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.

Instalment Sales, under Which the Consideration is Receivable in Instalments

IG25. 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, on a basis that takes into account the imputed rate of interest in accordance with PBE IPSAS 41.

Real Estate Sales

IG26. Revenue is normally recognised when legal title passes to the purchaser. However, in some jurisdictions the equitable interest in a property may vest in the purchaser before legal title passes, and therefore the risks and rewards of ownership have been transferred at that stage. In such cases, provided that the seller has no further substantial acts to complete under the contract, it may be appropriate to recognise revenue. In either case, if the seller is obliged to perform any significant acts after the transfer of the equitable and/or legal title, revenue is recognised as the acts are performed. An example is a building or other facility on which construction has not been completed.

IG27. In some cases, real estate may be sold with a degree of continuing involvement by the seller, such that the risks and rewards of ownership have not been transferred. Examples are (a) sale and repurchase agreements that include put and call options, and (b) agreements whereby the seller guarantees occupancy of the property for a specified period, or guarantees a return on the purchaser's investment for a specified period. In such cases, the nature and extent of the seller's continuing involvement determines how the transaction is accounted for. It may be accounted for as a sale, or as a financing, leasing, or some other profit-sharing arrangement. If it is accounted for as a sale, the continuing involvement of the seller may delay the recognition of revenue.

IG28. A seller must also consider the means of payment and evidence of the purchaser's commitment to complete payment. For example, when the aggregate of the payments received, including the purchaser's initial down payment, or continuing payments by the purchaser, provide insufficient evidence of the purchaser's commitment to complete payment, revenue is recognised only to the extent cash is received.

Royalties

Licence Fees and Royalties

IG29. 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.

IG30. An assignment of rights for a fixed fee or non-refundable guarantee under a non-cancellable contract that (a) permits the licensee to exploit those rights freely and (b) the licensor has no remaining obligations to

perform is, in substance, a sale. An example is a licensing agreement for the use of software when the licensor has no obligations subsequent to delivery. Another example is the granting of rights to exhibit a motion picture film in markets where the licensor has no control over the distributor, and expects to receive no further revenues from the box office receipts. In such cases, revenue is recognised at the time of sale.

IG31. 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.

Recognition and Measurement

Determining whether an entity is acting as a principal or as an agent

IG32. Paragraph 12 states that “in an agency relationship, 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/equity for the entity. The amounts 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.” Determining whether an entity is acting as a principal or as an agent requires judgement and consideration of all relevant facts and circumstances.

IG33. An entity is acting as a principal when it has exposure to the significant risks and rewards associated with the sale of goods or the rendering of services. Features that indicate that an entity is acting as a principal include:

- (a) The entity has the primary responsibility for providing the goods or services to the customer or for fulfilling the order, for example by being responsible for the acceptability of the products or services ordered or purchased by the customer;
- (b) The entity has inventory risk before or after the customer order, during shipping or on return;
- (c) The entity has latitude in establishing prices, either directly or indirectly, for example by providing additional goods or services; and
- (d) The entity bears the customer’s credit risk for the amount receivable from the customer.

IG34. An entity is acting as an agent when it does not have exposure to the significant risks and rewards associated with the sale of goods or the rendering of services. One feature indicating that an entity is acting as an agent is that the amount the entity earns is predetermined, being either a fixed fee per transaction or a stated percentage of the amount billed to the customer.

Comparison with IPSAS 9

PBE IPSAS 9 *Revenue from Exchange Transactions* is drawn from IPSAS 9 *Revenue from Exchange Transactions*. The scope of the two standards differ. Revenue from interest and dividends or similar distributions are outside the scope of PBE IPSAS 9, but within the scope of IPSAS 9.

History of Amendments

PBE IPSAS 9 *Revenue from Exchange Transactions* was issued in September 2014.

This table lists the pronouncements establishing and substantially amending PBE IPSAS 9. The table is based on amendments issued as at 31 January 2021 other than consequential amendments resulting from adoption of PBE IFRS 17 *Insurance Contracts*.

Pronouncements	Date issued	Early operative date	Effective date (annual financial statements ... on or after ...)
PBE IPSAS 9 <i>Revenue from Exchange Transactions</i>	Sept 2014	Early application is permitted for not-for-profit public benefit entities	1 Apr 2015
<i>2016 Omnibus Amendments to PBE Standards</i>	Jan 2017	–	1 Jan 2017
PBE IPSAS 37 <i>Joint Arrangements</i>	Jan 2017	Early application is permitted	1 Jan 2019
PBE IFRS 9 <i>Financial Instruments</i>	Jan 2017	Early application is permitted	1 Jan 2022 ¹
PBE FRS 48 <i>Service Performance Reporting</i>	Nov 2017	Early application is permitted	1 Jan 2022 ²
PBE IPSAS 41 <i>Financial Instruments</i>	Mar 2019	Early application is permitted	1 Jan 2022
PBE IFRS 17 <i>Insurance Contracts</i>	July 2019	Early application is permitted	1 Jan 2023 ³

Table of Amended Paragraphs in PBE IPSAS 9		
Paragraph affected	How affected	By ... [date]
Objective	Amended	<i>2016 Omnibus Amendments to PBE Standards</i> [Jan 2017]
Objective	Amended	PBE FRS 48 [Nov 2017]
Paragraph 1	Amended	PBE IPSAS 41 [Mar 2019]
Paragraph 9	Amended	PBE IPSAS 41 [Mar 2019]
Paragraph 10	Amended	PBE IPSAS 37 [Jan 2017]
Paragraph 10	Amended	PBE IPSAS 41 [Mar 2019]

¹ PBE IFRS 9 was subsequently withdrawn by PBE IPSAS 41. The amendments in Appendix D of PBE IFRS 9 were not compiled. *Effective Date of PBE IFRS 9*, issued in March 2019, deferred the effective date of PBE IFRS 9 from 1 January 2021 to 1 January 2022.

² *2020 Amendments to PBE FRS 48*, issued in August 2020, deferred the effective date of PBE FRS 48 from 1 January 2021 to 1 January 2022.

³ PBE IFRS 17 has not been compiled. *Amendments to PBE IFRS 17*, issued in August 2020, deferred the effective date of PBE IFRS 17 from 1 January 2022 to 1 January 2023.

Table of Amended Paragraphs in PBE IPSAS 9		
Paragraph affected	How affected	By ... [date]
Paragraph 16	Amended	PBE IPSAS 41 [Mar 2019]
Paragraph 33	Amended	PBE IPSAS 41 [Mar 2019]
Paragraphs 34–36	Deleted	PBE IPSAS 41 [Mar 2019]
Paragraph 39	Amended	PBE IPSAS 41 [Mar 2019]
Paragraph 42.2	Added	<i>2016 Omnibus Amendments to PBE Standards</i> [Jan 2017]
Paragraph 42.3	Added	PBE IPSAS 37 [Jan 2017]
Paragraph 42.4	Added	PBE IFRS 9 [Jan 2017]
Paragraph 42.4	Amended	PBE IPSAS 41 [Mar 2019]
Paragraph 42.5	Added	PBE IPSAS 41 [Mar 2019]
Paragraph 42.6	Added	PBE IFRS 17 [July 2019]