Accounting Standard for Local Bodies (ASLB) 9

Revenue from Exchange Transactions

Contents

Accounting Standard for Local Bodies (ASLB) 9

Revenue from Exchange Transactions

*(This Accounting Standard includes paragraphs set in **bold italic** type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. This Accounting Standard should be read in the context of its objective and the Preface to the Accounting Standards for Local Bodies[1])*

The Accounting Standard for Local Bodies (ASLB) 9, '*Revenue from Exchange Transactions*', issued by the Council of the Institute of Chartered Accountants of India, will be recommendatory in nature in the initial years for use by the local bodies. This Standard will be mandatory for Local Bodies in a State from the date specified in this regard by the State Government concerned[2].

The following is the text of the Accounting Standard for Local Bodies.

Objective

This Standard uses the term "revenue", which encompasses both revenues and gains, in place of the term "income". 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 will be specifically addressed in the Standard 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 future economic benefits or service potential will flow to the entity and these benefits can be measured reliably. This Standard identifies

[1] Attention is specifically drawn to paragraph 4.2 of the '*Preface to the Accounting Standards for Local Bodies*',according to which Accounting Standards are intended to apply only to items which are material.

[2] Reference may be made to the paragraph 7.1 of the '*Preface to the Accounting Standards for Local Bodies*' providing the discussion on the compliance with the Accounting Standards for Local Bodies.

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 which prepares and presents financial statements under the accrual basis of accounting should apply this Standard in accounting for revenue arising from the following exchange transactions and events:

(a) The rendering of services yielding revenue;

(b) The sale of goods; and

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

2. This Standard applies to the entities described as Local Bodies in the Preface to the Accounting Standards for Local Bodies[3].

3. [Refer to Appendix 1]

4. This Standard does not deal with revenue arising from non-exchange transactions. Revenue arising from non-exchange transactions will be dealt with in the proposed Standard on '*Revenue from Non-exchange Transactions*'[4]. Examples of non-exchange transactions include revenue from the use of statutory powers (for example, taxes, duties, and fines), grants and donations.

5. Local Bodies may derive revenues from exchange or non-exchange transactions. An exchange transaction is one in which the entity transfers goods or services, or use of assets, and receives some value (primarily in the form of cash, goods, services or has liabilities extinguished) from the other party in exchange. Examples of exchange transactions include:

(a) The purchase or sale of goods or services; or

[3] Refer paragraph 1.3 of the '*Preface to the Accounting Standards for Local Bodies*'.

[4] The proposed ASLB on '*Revenue from Non-Exchange Transactions'* is under preparation.

(b) The lease of property, plant and equipment

6. [Refer to Appendix 1]

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 local bodies for which revenue is typically received in exchange may include the provision of housing and shopping complexes, management of water facilities, management of toll roads, and management of transfer payments. Some agreements for rendering of services are directly related to the construction contracts. Revenue arising from construction contracts is dealt in accordance with the ASLB 11, '*Construction Contracts'.*

8. Goods includes goods produced by the entity for the purpose of sale, such as publications, and goods purchased for resale, such as merchandise or building 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 equivalents — distributions of surpluses to holders of equity investments in proportion to their holdings of a particular class of capital.

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

(a) Addressed in other Accounting Standards for Local Bodies, including:

(i) Lease agreements (Guidance on accounting for revenue arising from lease agreements can be found in Accounting Standard (AS) 19, '*Leases',* until the ASLB on this subject is formulated);

(ii) Dividends from investments which are accounted for under the equity method in Consolidated Financial Statements (Guidance on accounting for associates can be found in Accounting Standard (AS) 23, '*Accounting for Investments in Associates in Consolidated Financial Statements',* until the ASLB on this subject is formulated);

(iii) Gains from the sale of property, plant and equipment (which is dealt with in ASLB 17, '*Property, Plant and Equipment'*).

(b) Insurance contracts of insurance entities;

(c) Changes in the fair value of financial assets and financial liabilities or their disposal (Guidance on accounting for financial instruments can be found in Accounting Standard 30, *'Financial Instruments: Recognition and Measurement'* until the ASLB on this subject is formulated);

(d) Changes in the value of other current assets;

(e) Natural increases in herds, and agricultural and forest products; and

(f) Extraction of mineral ores.

Definitions

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

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.

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

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 agent of the government or another government organisation or on behalf of other third parties are not economic benefits or service potential which flow to the entity and do not result in increases in assets or decreases in liabilities. Therefore, they are excluded from revenue. Similarly, in a custodial or 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.

13. 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/equity. Financing inflows are taken directly to the balance sheet and added to the balances of assets and liabilities.

Measurement of Revenue

14. Revenue should 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, where the effect of time value of money is material. Ordinarily, when the inflow of cash or cash equivalents is deferred beyond a period of twelve months, the effect of time value of money is likely to be material. 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 33 and 34.

17. 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 which generates revenue. This is often the case with commodities where suppliers exchange or swap inventories in various locations to fulfill 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 which 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 should 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 consultancy 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.

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.

25. ***When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue should 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 recoverable. As the outcome of the transaction cannot be estimated reliably, no surplus is recognised.

27. 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 19 rather than in accordance with paragraph 25.

Sale of Goods

28. Revenue from the sale of goods should 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 local body 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.

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.

Interest, Royalties and Dividends

33. ***Revenue arising from the use by others of entity assets yielding interest, royalties and dividends should be recognised using the accounting treatments set out in paragraph 34 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.***

34. Revenue should be recognised using the following accounting treatments:

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

35. The effective yield on an asset is the rate of interest required to discount the stream of future cash receipts expected over the life of the asset to equate to

the initial carrying amount of the asset. Interest revenue includes the amount of amortisation of any discount, premium or other difference between the initial carrying amount of a debt security and its amount at maturity. The calculation of effective yield rate and its application is illustrated in Appendix A.

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

37. 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 should 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 yielding revenue;***

(ii) The sale of goods;

(iii) Interest;

(iv) Royalties; and

(v) Dividends or their equivalents; and

(c) The amount of revenue arising from exchange 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 ASLB 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.

41-42. [Refer to Appendix 1]

Appendix A

The appendix is illustrative only and does not form part of the Standard. The purpose of the appendix is to illustrate the application of the Standard to assist in clarifying its meaning in a number of situations. The examples focus on particular aspects of a transaction and are not a comprehensive discussion of all the relevant factors which 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 the Standard.

Local Bodies 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 government agencies; and

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

Rendering of Services

1. *Rentals*

Rental income from the provision of municipal properties like shopping complexes is recognised as the income is earned in accordance with the terms of the tenancy agreement.

2. *Transport*

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

3. *Management of toll roads*

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

4. *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.

5. *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.

6. *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 on the sale of certain goods), 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.

7. *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 which reflects the extent to which services are performed at each event.

8. *Tuition fees*

Revenue is recognised over the period of instruction.

9. *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 e.g. library fees, 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.

10. *Franchise or concession fees*

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 which, 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.

Sale of Goods

11. "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 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.

12. *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.

13. *Lay away sales under which the goods are delivered only when the purchaser makes the final payment in a series of installments*

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.

14. *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.

15. *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.

16. *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, the sale is treated as a consignment sale.

17. *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.

18. *Installment sales, under which the consideration is receivable in installments*

Revenue attributable to the sales price, exclusive of interest, is recognised at the date of sale. The sale price is value of the consideration, determined by discounting the installments receivable at the imputed rate of interest. The interest element is recognised as revenue as it is earned, on a time proportion basis that takes into account the imputed rate of interest.

19. *Real estate sales*

Revenue is normally recognised when legal title passes to the purchaser. However, where the equitable interest in a property may vest in the purchaser before legal title passes and therefore the risks and rewards of ownership have 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.

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 sale and repurchase agreements which include put and call options, and 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.

A seller must also consider the means of payment and evidence of the purchaser's 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.

Interest, Royalties and Dividends

20. *License fees and royalties*

Fees and royalties paid for the use of an entity's assets (such as trademarks, patents, software) 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 cancelable contract which permits the licensee to exploit those rights freely and the licensor has no remaining obligations to perform is, in substance, a sale.

In some cases, whether or not a license 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.

21. *Effective yield on an Asset*

When calculating the effective interest/yield rate, an entity should estimate cash flows considering all contractual terms of the financial asset. The calculation includes all fees paid or received that are an integral part of the effective interest rate, directly attributable transaction cost and all other premiums or discounts.

For example, Local Body XYZ purchases a 5-year bond carrying 4.7% interest (paid annually) with a face value of Rs. 1,250, for Rs. 1,000 (including transaction costs).

The effective yield rate method is applied as follow:

Effective Yield Computation

Years	**Cash inflows / (outflows)**
Year 0	(1,000)
Year 1	59
Year 2	59
Year 3	59
Year 4	59
Year 5	59+1250
Effective Yield Rate	**10%**

Year	**(a) Amortised cost at the beginning of the year**	**(b=a*10%) Interest income**	**(c) Cash flows**	**(d=a+b–c) Amortised cost at the end of the year**
Year 1	1,000	100	59	1,041
Year 2	1,041	104	59	1,086
Year 3	1,086	109	59	1,136
Year 4	1,136	113	59	1,190
Year 5	1,190	119	1,250 + 59	-

As per the effective yield method, the amount of interest to be recognised in Year 1 to Year 5 would be Rs. 100, Rs. 104, Rs. 109, Rs. 113 and Rs. 119 respectively.

Appendix 1

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this appendix is only to bring out the major differences between this Accounting Standard for Local Bodies (ASLB) and the corresponding International Public Sector Accounting Standard (IPSAS) 9, Revenue from Exchange Transactions.

COMPARISON WITH IPSAS 9, REVENUE FROM EXCHANGE TRANSACTION*S*

1. Definition of the term 'Exchange Transactions'

International Public Sector Accounting Standard (IPSAS) 9, *'Revenue from Exchange Transactions'* issued by International Public Sector Accounting Standards Board (IPSASB) defines a transaction as an exchange transaction, in which one entity receives assets or services, or has liabilities extinguished and directly gives approximately equal value to other party in exchange. For determining whether there is exchange of approximately equal value requires determining the fair value of the consideration given and received.

The ASLB 9 however describes an exchange transaction as one in which the entity transfers goods or services or use of assets and receives some value instead of equal value.

The ASLB 9 has changed the definition of 'Exchange Transaction' because in India most of the transactions undertaken by Local Bodies providing goods and services at subsidised prices does not involve the exchange of equal value and would not be covered under exchange transactions. Since the Local Bodies in India are at a very early stage of adoption of accrual basis of accounting, it would be difficult for the Local Bodies to determine the fair value for deciding whether there is exchange of approximately equal value for a transaction. Consequent to the above, other changes have also been incorporated in this Standard.

2. Materiality of the effect of time value of money

The ASLB 9 '*Revenue from Exchange Transactions*' requires to measure revenue at fair value of the consideration received or receivable as provided in International Public Sector Accounting Standard (IPSAS) 9, *'Revenue from Exchange Transactions'* issued by the International Public Sector Accounting Standards Board (IPSASB). 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, in case of the financing transactions, where the inflow or outflow of cash or cash equivalents is deferred, IPSAS 9 requires to measure the fair value of the consideration by discounting all future receipts using an imputed rate of interest. However, ASLB 9 requires discounting of cash receipts only when the time value of money is material. It also provides that ordinarily, when the inflow of cash or cash equivalents is deferred beyond a period of twelve months, the effect of time value of money is material.

3. Paragraph Deleted

Following paragraphs have been deleted in ASLB 9. However, their numbers have been retained in order to maintain consistency with the corresponding IPSAS 9.

Paragraph 3 : Paragraph pertaining to Government Business Enterprises (GBEs) has been deleted.

Paragraph 6 : Explaination regarding revenue from non-exchange transaction has been dealt in paragraph 4.

Paragraphs 41 and 42 : Paragraphs pertaining to effective date have been deleted as the ASLBs would become mandatory for Local Bodies in a State from the date specified by the State Government concerned.