GASAB

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Accrual Exposure Draft (AED) 3

# Revenue from Exchange transactions

**Proposed Indian Government Financial Reporting Standard (IGFRS)**

Issued for Comments by
Government Accounting Standards Advisory Board

# Request for comments

Government Accounting Standards Advisory Board (GASAB), constituted by the Comptroller and Auditor General of India, with the support of Government of India, to formulate and recommend Standards, approved this Accrual Exposure Draft, **Revenue from Exchange Transactions** for publication. The proposals in this Exposure Draft may be modified in the final Standard in the light of comments received.

The Standard will be initially recommendatory for use during the pilot studies on accrual accounting at Union Government and the State Governments. It shall be mandatory with effect for the financial reports covering period subsequent to the notification by Government.

Please submit your comments so that they will be received by **February 14, 2009. A**ll comments will be considered a matter of public record.

Comments should be addressed to:

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Copies of this exposure draft may be downloaded free-of-charge from the GASAB website at http://www.gasab.gov.in

Government Accounting in India follows cash basis of accounting. Government Accounting Standards Advisory Board (GASAB) constituted by Comptroller and Auditor General of India with the support of Government of India has been working on migration to accrual basis accounting in Union and States. Any decision on change in basis of accounting (from cash to accrual) would essentially be based on a decision of President of India on the advise of Comptroller and Auditor General of India as per Constitutional provisions. However, there is a much felt need for accounting framework and accounting standards on accrual basis to facilitate the pilot studies and research efforts on migration to accrual accounting at Union and State level.

To facilitate the pilot studies, GASAB decided to develop accrual basis accounting standards alongside with cash basis standards. This is based on the need expressed by many stakeholders. The accrual basis standards will be issued under the title ***'Indian Government Financial Reporting Standards (IGFRS)'***

These standards will initially be issued as recommendatory for the pilot studies on accrual accounting and will be mandatory with effect from the date of notification as such by Government of India.

This Accrual Exposure Draft (AED) is issued to elicit responses from stakeholders on the accounting treatment proposed for revenue from exchange transactions under accrual basis accounting. The AED attempts to customise IPSAS 9 to Indian requirements. Response is sought on any of the paragraph or accounting treatment proposed by the standard. Further, response is specifically sought on the following distinct items where the standard differs with IPSAS:

1. Exchange Transactions – conceptual distinction with non exchange transactions

   IPSAS 9 'Revenue from Exchange Transactions', issued by IPSAS Board 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. Approximate equal value basically requires the determination of the fair value of consideration given or received. If approximately equal value is not exchanged, it will not be treated as an exchange transaction.

   It is felt that Governments in India would find it difficult to calculate the fair value in case of each transaction to determine whether the transaction is an exchange transaction. On the other hand, it is also felt that if incomparable values are exchanged, it should not be treated as an exchange transaction. In this background, AED uses the term 'approximately comparable value' instead of 'equal value' with the intention that accounting authority can take a subject decision, where necessary, without working the details of value in monetary terms.

Another option for definition of exchange transactions that could be considered is that any transaction where 'some value' exists is a exchange transaction. In this model, all transactions where some value or some amount is exchanged will be considered as exchange transactions. While this may be completely a deviation from IPSAS, it would serve practical considerations.

*Which option do you suggest for inclusion in IGFRS – viz., (i) approximately equal value, (ii) approximately comparable value or (iii) some value for exchange transactions?*

2. Since the accrual standards are essentially for facilitating pilot studies for accrual basis accounting at Union and the States in India, the standard would be treated as recommendatory from the date of issue by GASAB after approval by CAG of India. This is distinct to the cash based IGAS which become applicable only on notification by the Government of India.

   *Do you agree with this recommendatory applicability clause incorporated specifically to facilitate migration to accrual basis accounting?*

3. In case of revenue arising from use by others of assets yielding interest, IPSAS requires interest recognition on a time proportion basis that takes into account the effective yield on assets.

   It is felt that it would be difficult for Governments particularly taking into account the complexity of the use of effective yield method in which interest includes the amout of amortization of any discount, premium or other differences between initial carrying amount of a debt security and its amount at maturity. Hence the AED merely requires that interest recognition shall be on a time proportion basis. The requirement of effective yield on assets has been ignored.

   *Do you agree with the treatment of recognition of interest prescribed taking into account the need for a simple procedure without calculation complexities.*

4. IPSAS 9 lays down the procedure requiring allocation of interest received between pre-acquisition and post acquisition periods with only the latter being treated as revenue and the former a reduction from the cost of securities. IPSAS requires this as a usual procedure unless it is difficult to do so.

   AED assumes inherent difficulty in such computation excludes the narration relating to such apportionment. AED requires that all dividends are recognised as revenue unless they clearly represent a recovery of part of the cost of equity securities. Therefore the default assumption of dividends as revenue is established.

*Do you agree with the proposed dilution with accepted international practice for purposes of simplicity?*

Revenue from Exchange Transactions

*The standards, which have been set in bold italic type, should be read in the context of the explanatory paragraphs in this Standard, which are in plain type. The Indian Government Financial Reporting Standards are not intended to apply to immaterial items.*

**Objective**

1. The primary activities of Government encompass sovereign functions like the defence, developing infrastructure, social welfare programmes. The revenue is essentially realised from taxation, which is essentially a non-exchange transaction. Governments also realise revenue from exchange transactions and the number of such transactions is on increase. Example, sale of forest produce, user charges for services, school fees, interest etc. Since exchange transactions are comparable to their counterpart in case of commercial entities, the accounting treatment also needs to be similar in nature. This standard lays down the principles to be followed for recognition of revenue by Governments under accrual basis accounting. This standard excludes from its scope revenue recognition principles relating to specific items (eg: Income from sale of Plant, Property and equipment) which are covered in other standards.

2. This Accounting Standard is applicable to Governments at Union and States and also their sub-entities like departments or offices where the later are treated as reporting entities for financial statements. The Accounting Standard is applicable to all such entities following accrual basis accounting.

3. The Accounting Standard is essentially an adaptation of International Public Sector Accounting Standard (IPSAS 9) issued by IFAC on Revenue on Exchange transactions to Indian requirements.

4. As India is in the process of migration to accrual basis accounting, many pilot studies are being undertaken at Union and States. Government Accounting Standards Advisory Board (GASAB) issues Indian Government Financial Reporting Standards (IGFRS) on accrual basis to facilitate the migration to accrual basis.

5. The Standard is envisaged to provide guidance to the pilot studies and eventual development of a common reporting framework under accrual basis for Union and the States. The IGFRS could be revised by GASAB based on experiences with pilot studies.

6. The key issue in accounting for revenue is determining when to recognize 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. The standard

identifies the circumstances in which these criteria will be met and accordingly recognises revenue.

**Scope**

7. **An entity which prepares and presents financial statements as per IGFRS 1 under accrual basis accounting should apply this standard in accounting for revenue arising from the following exchange transactions and events:**
    a. **Rendering services yielding revenue**
    b. **Sale of goods**
    c. **Use by others of entity assets yielding interest, royalty and dividends.**

8. This Standard does not apply to Government Business Enterprises (GBE) ie., Public Sector Enterprises like Indian Oil Corporation, BHEL etc. GBEs are required to comply with Accounting Standards issued by the Institute of Chartered Accountants of India and notified by Government of India as per Section of Companies Act.

9. Governments 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 comparable value (primarily in the form of goods, services or use of assets) to the other party in exchange. Examples of exchange transactions include:
    a. Purchase or sale of goods or services; or
    b. Lease of property, plant and equipment at usual market rates.

10. Examples of non-exchange transactions include revenue from the use of sovereign powers (for example, direct and indirect taxes, and fines), grants and donations.

11. 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 Governments for which revenue is typically received in exchange may include the provision of housing, management of water facilities, providing exclusive police protection on request from the organisers of events, management of toll roads.

12. Goods include goods produced by the entity for the purpose of sale, such as publications, and goods purchased for resale, such as merchandise or land and other property held for resale.

13. The use of 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 in proportion to their holdings of a particular class of capital.

14. This Standard does not deal with revenues:
    a. Specifically dealt with other Indian Government Financial Reporting Standards, including:
        i. Gains from sale of property, plant and equipment (which is dealt with in IGFRS 2),
    b. Lease agreements (IPSAS 13 may provide guidance till formulation of specific IGFRS)
    c. Dividends from investments which are accounted for under the equity method (IPSAS 7 may provide guidance till formulation of specific IGFRS)
    d. Revenues from changes in fair value of financial assets and financial liabilities or their disposal (IPSAS 39 may provide guidance till formulation of specific IGFRS);
    e. Revenue arising from changes in the value of other current assets;
    f. Revenue due to natural increases in herds, and agricultural and forest products; and
    g. Revenue from extraction of mineral ores

**Definitions**

**15. The following terms are used in this Standard with the meanings specified:**
**<u>Fair value</u> is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.**

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

**Revenue**

16. 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 organization or on behalf of other third partiesare 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.

17. Financing inflows, notably borrowings, do not meet the definition of revenue. Financing inflows are taken directly to the statement of financial position and added to the balances of assets and liabilities.

**Measurement of Revenue**

***18. Revenue should be measured at the fair value of the consideration received or receivable.***

19. 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.

20. 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. 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 recognized as interest revenue in accordance with paragraphs 31 and 32.

21. 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. 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**

22. 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. 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.

**Rendering of Services**

***23. When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction should be recognized 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.***

24. 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 recognized in the reporting periods in which the services are rendered. The recognition of revenue on this basis provides useful information on the extent of service activity and performance during a period.

25. Revenue is recognized 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 recognized as an expense, rather than as an adjustment of the amount of revenue originally recognized.

26. 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.

27. 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.

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

**29. When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue should be recognized only to the extent of the expenses recognized that are recoverable.**

30. 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 recognized 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 recognized.

31. 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 recognized and the costs incurred are recognized as an expense. When the uncertainties that prevented the outcome of the contract being estimated reliably no longer exist, revenue is recognized in accordance with paragraph 23 rather than in accordance with paragraph 29.

**Sale of Goods**

32. **Revenue from the sale of goods should be recognized 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.**

33. 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.

34. If the entity retains significant risks of ownership, the transaction is not a sale and revenue is not recognized. An entity may retain a significant risk of ownership in a number of ways. Examples of situations in which the entity may retain the significant risks and rewards of ownership are:

    a. When the entity retains an obligation for unsatisfactory performance not covered by normal warranty provisions;
    b. When the receipt of the revenue from a particular sale is contingent on the derivation of revenue by the purchaser from its sale of the goods (for example, where a government publishing operation distributes educational material to schools on a sale or return basis);
    c. When the goods are shipped subject to installation and the installation is a significant part of the contract which has not yet been completed by the entity; and
    d. When the purchaser has the right to rescind the purchase for a reason specified in the sales contract and the entity is uncertain about the probability of return.

35. If an entity retains only an insignificant risk of ownership, the transaction is a sale and revenue is recognized. Revenue in such cases is recognized at the time of sale provided the seller can reliably estimate future returns and recognizes a liability for returns based on previous experience and other relevant factors.

36. Revenue is recognized 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. When the goods are supplied, the uncertainty is removed and revenue is recognized. 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 recognized as an expense, rather than as an adjustment of the amount of revenue originally recognized.

**Interest, Royalties and Dividends**

**37. Revenue arising from the use by others of entity assets yielding interest, royalties and dividends should be recognized using the accounting treatments set out in paragraph 38 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.**

**38. Revenue should be recognized using the following accounting treatments:**

- **a. Interest should be recognized on a time proportion basis;**
- **b. Royalties should be recognized as they are earned in accordance with the substance of the relevant agreement; and**
- **c. Dividends or their equivalents should be recognized when the shareholder's or the entity's right to receive payment is established.**

39. Dividends are recognized as revenue unless they clearly represent a recovery of part of the cost of the equity securities.

40. Royalties, such as petroleum royalties, accrue in accordance with the terms of the relevant agreement and are usually recognized on that basis unless, having regard to the substance of the agreement, it is more appropriate to recognize revenue on some other systematic and rational basis.

41. Revenue is recognized 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 recognized as an expense, rather than as an adjustment of the amount of revenue originally recognized.

**Disclosure**

**42. 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 recognized during the period including revenue arising from:**
   i. **The rendering of services;**
   ii. **The sale of goods;**
   iii. **Interest;**
   iv. **Royalties; and**
   v. **Dividends or their equivalents; and**

c. **The amount of revenue arising from exchanges of goods or services included in each significant category of revenue.**

**Effective Date**

43. **This Indian Government Financial Reporting Standard shall be recommendatory in nature with effect from the date of issue by GASAB after approval of the Comptroller and Auditor General of India. It shall be mandatory with effect for the financial reports covering periods subsequent to the date of notification by Government.**

Appendix

*The appendix is illustrative only and does not form part of the standards. The purpose of the appendix is to illustrate the application of the standards to assist in clarifying their 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 standards.*

1. *Interests*

Interest income of Government includes interest from Departmental Commercial Undertakings, interest realized on investment of cash balances, interest from public sector and other undertakings, interest from local bodies, interest from co-operative societies etc. Revenue on account of interest will be accrued based on time period irrespective of whether it is received in cash or not.

2. *Dividends*

Dividends are received from Public Sector Undertakings and from other investments. Dividends declared by the entities are accrued as revenue from the date of declaration irrespective of whether they are received in cash or not.

3. *Exam fees*

These include Examination Fees that accrues to Union Public Service Commission or State Public Service Commission. The fees are recognized as income during the period in which the examination is conducted.

4. *Police Services rendered*

These includes police supplied to other Governments, police supplied to other parties etc. These are recognized as revenue during the period in which the services are rendered.

5. *Rents from tourism and rents from buildings*

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

6. *Transport*

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

*7. Tuition fees*

It is recognized as revenue over the period of instruction

*8. Management of facilities, assets and services*

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

*9. Installation fees*

Installation fees are recognized as revenue by reference to the stage of completion of installation, unless they are incidental to the sale of a product in which case they are recognized when the goods are sold.

*10. Admission fees*

Revenue from artistic performances, banquets and other special events is recognized when the event takes place.

*11. License fees and royalties*

Fees and royalties paid for the use of an entity's assets (eg: trademarks, patents, software, music copyright, record masters and motion picture films) are normally recognsied 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. In case of situations where for example, 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, revenue is recognized at the time of sale.

*12. Servicing fees included in the price of the product*

When the selling price of a product includes an identifiable amount for subsequent servicing (example – after sales support and product enhancement on the sale of software), that amount is differed and recognized as revenue over the period during which the service is performed. The amount deferred is that will cover the expected costs of the services under the agreement, together with a reasonable return on those services.

*13. Sale of goods*

These may include sale of jail produce, stationary receipts, sale of gazattes, sale of seeds, manures & fertilizers, sale of timber and other forest produce, sale of fish, fish seed etc. For all transactions of sale of goods the following principles will apply:

13.1 “Bill and hold” sales, in which delivery is delayed at the purchaser’s request but the purchaser takes title and accepts billing.

Revenue is recognized 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 deliveryto the purchaser at the time the sale is recognized;
c. The purchaser specifically acknowledges the deferred delivery instructions; and
d. The usual payment terms apply.

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

13.2 Goods shipped subject to conditions

*a. Installation and inspection*

Revenue is normally recognized when the purchaser accepts delivery, and installation and inspection are complete. However, revenue is recognized immediately upon the purchaser’s acceptance of delivery when:

i. The installation process is simple in nature; or
ii. The inspection is performed on 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 recognized 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)*

*R*evenue is recognized by the shipper when the goods are sold by the recipient to a third party.

*d. Cash on delivery sales*

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

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

*13.4 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 recognized when the goods are delivered to the purchaser.

*13.5* *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 analyzed to ascertain whether, in substance, the seller has transferred the risks and rewards of ownership to the purchaser and hence revenue is recognized. 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.

*13.6* *Sales to intermediate parties, such as distributors, dealers or others for resale*

Revenue from such sales is generally recognized 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.

13.7 *Subscriptions to publications and similar items*

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

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

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

13.9 *Real estate sales*

Revenue is normally recognized 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 recognize 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 recognized 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 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 recognized only to the extent cash is received.