Republic of Kenya

PSASB

PUBLIC SECTOR ACCOUNTING STANDARDS BOARD (KENYA)

IPSAS 47

REVENUE GUIDELINE

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Promoting Sound Financial Reporting and Internal Audit Standards in the Public Sector

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IPSAS 47 Revenue Guideline

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IPSAS 47 Revenue Guideline

1. INTRODUCTION

IPSASB issued International Public Sector Accounting Standard (IPSAS) 47, "Revenue," in May 2023 for the application period beginning on or after January 1, 2026. IPSAS 47 replaces IPSAS 9 'Revenue from Exchange Transactions, IPSAS 11, Construction Contracts, and IPSAS 23, Revenue from Non-Exchange Transactions (Taxes and Transfers).

The objective of this Standard is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from revenue transactions.

2. SCOPE

2.1 Scope of IPSAS 47

This Standard applies to all revenue transactions of public sector entities **using the accrual basis of accounting**, except for those explicitly scoped out and covered under other IPSAS.

2.2 Examples of Revenues in the Public Sector

- Unconditional donation, e.g., a private donor gives a vehicle with no strings attached.
- Unconditional Grant, e.g., the Central government gives funds to a municipality with no conditions.
- Conditional Pledge (Non-binding), e.g., A company pledges to fund a scholarship, but the agreement is not enforceable.
- Taxes collected by the National Government.
- Fines and levies.

3. DEFINITION OF KEY TERMS

- A **binding arrangement** is an arrangement that confers **both rights and obligations**, enforceable through legal or equivalent means, on the parties to the arrangement.
- A **binding arrangement asset** is an entity's right to consideration for satisfying its compliance obligations in compliance with the terms of the binding arrangement when that right is conditioned on something other than the passage of time (for example, the entity's future performance).
- A **binding arrangement liability** is an entity's obligation to satisfy its compliance obligation in compliance with the terms of the binding arrangement for which the entity has received consideration (or the amount is due) from the resource provider.

- From the perspective of a resource recipient, a **capital transfer** is an inflow of cash or another asset that arises from a binding arrangement with a specification that the entity acquires or constructs a non-financial asset that will be controlled by the entity.
- A **compliance obligation** is an entity's promise in a binding arrangement to either use resources internally for distinct goods or services or transfer distinct goods or services to a purchaser or third-party beneficiary.
- **A purchaser** is a resource provider that provides a resource to the entity in exchange for goods or services that are an output of an entity's activities under a binding arrangement for its own consumption.
- A **resource provider is** the party that provides a resource to the entity.
- A **transfer** is a transaction other than taxes in which an entity receives a resource from a resource provider (who may be another entity or an individual) without directly providing any good, service, or other asset in return.
- **Revenue:** Gross inflows from ordinary activities that increase net assets/equity, excluding owner contributions.
- **Tax expenditures:** Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others. Examples are allowable deductions such as mortgage interest, insurance reliefs, tax amnesty, and waivers. These are forgone revenue and not expenses.
- **Taxable event:** any action or transaction that triggers a tax liability that the government, legislature, or other authority has determined will be subject to taxation.

Identification of Transaction Type:

An entity to determine whether the revenue transaction is arising from:

- A non-binding arrangement. (Paragraphs 18-55)
- A binding arrangement. (Paragraphs 56-147)

For a binding arrangement, an entity must have at least an enforceable right and an enforceable obligation. For example, in a two-party binding arrangement:

Component	Party A	Party B
Enforceable Right	✓	✓
Enforceable Obligation	✓	✓

4. REVENUE TRANSACTIONS WITHOUT BINDING ARRANGEMENTS

4.1 Recognition

4.1.1 Recognition of an asset

An entity shall recognize an inflow of resources as an asset when:

- The entity **controls** the resource.
- The **event** giving rise to control has **occurred** (e.g., donation, tax event).
- The **value** of the asset can be reliably measured.

Control means the ability to use the resource to achieve objectives and restrict others' access to the resource. When an entity has not received an inflow of resources for a revenue transaction, it should consider whether it has a **right** to receive an inflow of goods, services, or other assets and is to be recognized as an asset based on;

- The facts and circumstances of its revenue transaction.
- Its ability to enforce.
- It's past experience with similar types of flows of resources.
- It's expectations regarding the resource provider's ability and intention to provide the resources.

4.1.2 Recognition of Contingent Assets

An item that possesses the essential characteristics of an asset but fails to satisfy the criteria for recognition may warrant disclosure in the notes as a contingent asset (see IPSAS 19).

4.1.3 Recognition of a Liability (if applicable)

If the resource comes with obligations (even without a binding agreement), recognize a **liability** when:

- The entity has a present obligation to transfer resources due to past events.
- The obligation is unavoidable.
- The obligation can be reliably measured.

4.1.4 Recognition of revenue transactions without Binding Arrangements

In view of the above, an entity shall recognize revenue.

- Over time or as obligations are fulfilled, a liability is recognized.
- Immediately, if no obligation is attached.

4.2 Measurement

4.2.1 Initial Measurement

An entity shall measure assets at their **transaction consideration** (fair value) as at the date when the asset recognition was satisfied. For **non-cash inflows (or a right to non-cash inflows)**, the entity shall use the **current value**.

Liabilities shall be measured at the **best estimate** of settlement costs, not exceeding the value of the associated asset as at the reporting date.

4.2.2 Subsequent Measurement

An entity shall subsequently measure assets by following the relevant IPSAS.

Liabilities shall be subsequently measured based on updated estimates as circumstances change.

Measurement of Revenue Transactions without Binding Arrangements

Revenue from transactions without a binding arrangement shall therefore be measured at the amount of the increase in net assets (e.g., the consideration received or receivable) recognized by the entity. When, as a result of a revenue transaction without a binding arrangement, an entity recognizes an asset, it also recognizes revenue equivalent to the amount of the asset.

4.3 Illustrative Examples for Revenue Transactions without Binding Arrangements

Example 1

A public hospital in Kenya receives an unconditional cash donation of Kshs. 50,000,000 from a well-wisher with no specific instructions or restrictions on its use. The hospital has no enforceable right to demand this donation or enforceable obligation to the donor for its use.

Determine whether this transaction is a binding or without binding arrangement.

Answer:

This is a clear example of revenue from a transaction without a binding arrangement.

Revenue is recognized immediately because no enforceable obligation is associated with the inflow of resources.

Initial Recognition (Upon receiving the donation):

Debit: Cash Kshs. 50,000,000

Credit: Revenue (Income Account) -Kshs. 50,000,000

Example 2

Scenario 1

The national government has committed a grant of Kshs. 5 million to a county government, but the funds must be used exclusively for building a market within three years. If the county fails to meet this condition, it must return the funds.

Determine whether the transaction amounts to a binding or non-binding arrangement.

Answer:

The transaction is one without a binding arrangement, since the county government has an obligation to construct the market but does not have an enforceable right to demand the funds from the National government. However, the county government should not recognize the revenue because they have not received the funds.

Scenario 2:

The National government eventually disburses Kshs. 5,000,000 to the County Government for the construction of the market. The condition is still in force.

Determine the accounting entries in the County government's books.

Answer:

The transaction postings will be as follows:

i. ***Initial Recognition (Upon receiving the grant):***
   - Debit: Cash Kshs. 5,000,000
   - Credit: Deferred Revenue (Liability Account) -Kshs. 5,000,000

ii. ***Subsequent Recognition- (As the market is constructed and conditions are met):***
   - Debit: Deferred Revenue- (Liability Account)
   - Credit: Grant Revenue -(Income Account)

Since the grant has a binding condition, revenue is recognized gradually as the county fulfills its obligation

Example 3

Conditional Grant for Specific Infrastructure Project (County Government):
A county government in Kenya receives a grant from a development partner for constructing a specific water infrastructure project. The grant agreement stipulates that the funds must only be used for this project and requires detailed reporting on expenditure; unspent funds should be transferred back.

Recognition Analysis: The county government has received an inflow of resources (cash). However, there's an enforceable obligation (a present obligation to use the funds for the specific project, which creates a liability). Revenue will be recognized *as* the county government incurs eligible expenditures on the water project (satisfies its obligation). Until then, the grant would be recognized as a liability (e.g., "Deferred Grant Revenue").

Example 4

Fines Collected by the Judiciary:
A Kenyan court levies a fine against an individual for a traffic offense. The court immediately has an enforceable right to receive the fine amount, and there's no associated obligation on the court's part for the use of this specific fine amount beyond its general mandate.

Recognition Analysis: Once the court determines it, the fine meets the definition of an asset (receivable) and can be reliably measured. Since the judiciary has no associated enforceable obligation linked directly to the receipt of this specific fine, revenue is recognized **immediately** when the fine is levied, and the asset recognition criteria are met.

Example 5
County X has been allocated KES 10 billion as per County Allocation of Revenue Act (CARA) for the financial year 2024/25. As at 30th June, 2025, The National Treasury has partially remitted the amount of KES 8 billion. Determine the accounting treatment.

Accounting Treatment:

Debit: Cash……………………….**..**8 billion
Debit: Accounts Receivable….. 2 billion
Credit: Revenue 10 billion

Revenue Recognition:

This is a transfer without a binding arrangement as it does not confer **both** rights and obligations on the parties. Though the County has a right to the funds as mandated by the CARA, there is no performance obligation on the County.

The County Government recognizes **Revenue** of KES 10 billion. Since it has a legally **enforceable right** to demand the specific unremitted amount in accordance with the law, it will recognize a **receivable** of **2 billion,** which has not been transferred.

NOTE: *The carrying out of the normal mandate of a public sector entity does not create an obligation for the entity.*

Example 6

Scenario 1- Without conditions

The "Kenya National Heritage Trust" (KNHT), a government entity responsible for preserving historical sites, receives an **unconditional cash donation of KES 10,000,000** from a philanthropic foundation, "Preserve Our Past."

Key Characteristics of the Transaction (under IPSAS 47):

- **No Binding Arrangement:** There is no legally enforceable contract or equivalent arrangement that creates specific rights and obligations for the KNHT in exchange for the donation. The foundation has not stipulated any specific project, timeline, or measurable outcomes that KNHT must deliver to "earn" or retain the donation.
- **Non-Exchange Transaction:** KNHT has received resources without directly giving approximately equal value in exchange.
- **No Enforceable Obligation (Liability):** Since the donation is unconditional, KNHT does not have an enforceable obligation (as defined by IPSAS 47) to transfer goods or services to the donor or a third party, or to use the funds for a specific purpose that would create a present obligation.

IPSAS 47 Accounting Model:

Under IPSAS 47, when an entity receives resources from a transaction **without a binding arrangement** and **without an enforceable obligation (liability)** associated with the inflow, revenue is recognized **immediately.**

Relevant Entries and Impact on Financial Statements:

Impact on the financial statements for the period in which the donation is received.

1. Initial Receipt of Cash (Assume June 1, 2025)

Journal Entry:

Account	**Debit (KES)**	**Credit (KES)**
Cash and Cash Equivalents	10,000,000	
Revenue from Donations		10,000,000
To record the receipt of an unconditional cash donation and recognition of revenue		

Impact on the Statement of Financial Performance (for the period ending June 30, 2025, or as applicable)

The full amount of the donation is recognized as revenue immediately because there is no enforceable obligation.

Statement of Financial Performance (Extract)	**For the Period Ended June 30, 2025**
Revenue	
Revenue from Donations	KES 10,000,000
Total Revenue	*KES 10,000,000*
Expenses	*(If any operating expenses occurred)*
Surplus / (Deficit) for the period	*KES 10,000,000 (assuming no other transactions)*

Explanation: The KES 10,000,000 is recognized entirely in the period it is received because, under IPSAS 47 for transactions without binding arrangements and no enforceable obligation, the revenue recognition criterion is met immediately upon receipt of the economic benefits.

Impact on the Statement of Financial Position (as at June 30, 2025, or as applicable)

The receipt of cash increases assets, and the recognition of revenue increases accumulated surplus/net assets.

Statement of Financial Position (Extract)	**As at June 30, 2025**
Assets	
Current Assets	
Cash and Cash Equivalents	KES 10,000,000
Total Assets	*KES 10,000,000*
Net Assets / Equity	

Accumulated Surplus / Net Assets	KES 10,000,000
Total Net Assets / Equity	*KES 10,000,000*

Explanation: The cash received is an asset. Since the revenue was recognized immediately, it flows through the Statement of Financial Performance to increase the Accumulated Surplus (or Net Assets/Equity) on the Statement of Financial Position. There is no unearned revenue or deferred income liability because there was no enforceable obligation that needed to be satisfied to "earn" the revenue.

Impact on the Statement of Cash Flows (for the period ended June 30, 2025, or as applicable)

The receipt of cash from an unconditional donation is typically classified as cash flow from **operating activities** in the public sector context, as it represents the core funding for the entity's operations. Some entities might classify it under investing or financing if it were specifically for capital acquisition or debt, but for general, unconditional donations for heritage preservation, operating is most common.

Statement of Cash Flows (Extract - Direct Method)	For the Period Ended June 30, 2025
Cash Flows from Operating Activities	
Cash received from donations	KES 10,000,000
Net Cash from Operating Activities	*KES 10,000,000*
Net Increase in Cash and Cash Equivalents	KES 10,000,000
Cash and Cash Equivalents at Beginning of Period	KES 0
Cash and Cash Equivalents at End of Period	KES 10,000,000

Explanation: The cash flow statement directly reflects the inflow of cash. The KES 10,000,000 is a direct cash inflow from the donation, contributing to the increase in the entity's cash balance.

Summary of Key IPSAS 47 Principles Illustrated:

This example clearly demonstrates the immediate revenue recognition principle for transactions **without binding arrangements** and **without enforceable obligations (liabilities)**. If there had been an enforceable obligation (e.g., if the donation was conditional on KNHT restoring a specific historical site within a certain timeframe, and the funds would have to be returned if not used for that specific purpose), then a liability would have been recognized initially, and revenue would only be recognized as the obligation was satisfied (i.e., as the restoration work progressed). But in this "unconditional donation" example, the immediate recognition applies.

Scenario 2- With Conditions

The "Kenya National Heritage Trust" (KNHT), a government entity responsible for preserving historical sites, receives a **conditional cash grant of KES 10,000,000** from a philanthropic foundation, "Preserve Our Past."

Conditions:

- The grant is specifically to fund the restoration of the **Old Fort Jesus Site** in Mombasa.
- KNHT must complete the restoration within a **3-year period** from the date of receiving the funds (June 1, 2025).
- If the funds are not used for this specific purpose, or if the project is not completed within the stipulated timeframe, the **funds must be returned** to the foundation.

Key Characteristics of the Transaction (under IPSAS 47):

- **No Binding Arrangement (Still):** While there are conditions, IPSAS 47 still classifies this as a transaction *without* a binding arrangement in the sense of a reciprocal exchange (like selling goods or services). The foundation is giving resources without directly receiving approximately equal value in return.
- **Non-Exchange Transaction:** KNHT has received resources without directly giving approximately equal value in exchange.
- **Enforceable Obligation (Liability):** This is the critical difference. The condition that the funds *must be returned* if not used for the specified purpose (restoring Old Fort Jesus) or within the specified timeframe creates a **present obligation** for KNHT. Until KNHT satisfies this obligation by performing the restoration work, it has a liability to the foundation.

IPSAS 47 Accounting Model:

Under IPSAS 47, when an entity receives resources from a transaction **without a binding arrangement** but **with an enforceable obligation (liability)** associated with the inflow, revenue is recognized **as (or when) the enforceable obligation is satisfied.** Until the obligation is satisfied, the inflow is recognized as a liability (e.g., "Deferred Revenue from Conditional Grants" or "Unearned Revenue from Conditional Grants").

Initial Receipt of Cash (June 1, 2025)

At this point, KNHT has the cash, but it also has an obligation to either perform the restoration or return the cash.

Journal Entry:

Account	Debit (KES)	Credit (KES)
Cash and Cash Equivalents	10,000,000	
Deferred Revenue from Conditional Grants		10,000,000
To record the receipt of a conditional cash grant, creating a liability		

Impact on the Statement of Financial Position (As at June 30, 2025 – Initial Period)

The cash increases assets, but a corresponding liability is recognized for the obligation.

Statement of Financial Position (Extract)	As at June 30, 2025
Assets	
Current Assets	
Cash and Cash Equivalents	KES 10,000,000
Total Assets	*KES 10,000,000*
Liabilities	
Current Liabilities	
Deferred Revenue from Conditional Grants	KES 10,000,000
Total Liabilities	*KES 10,000,000*
Net Assets / Equity	
Accumulated Surplus / Net Assets	KES 0
Total Net Assets / Equity	*KES 0*

Explanation: The KES 10,000,000 is reflected as cash (an asset) but also as a deferred revenue liability. This is because KNHT has not yet "earned" the revenue by satisfying the condition (performing the restoration). No revenue is recognized in the Statement of Financial Performance at this point.

Impact on the Statement of Financial Performance (for the period ending June 30, 2025 - Initial Period)

No revenue from this specific grant is recognized yet.

Statement of Financial Performance (Extract)	**For the Period Ended June 30, 2025**
Revenue	
Revenue from Conditional Grants	KES 0
Total Revenue (from this transaction)	*KES 0*
Expenses	*(If any operating expenses occurred, unrelated to this specific grant)*
Surplus / (Deficit) for the period	*KES 0 (from this transaction)*

Explanation: Revenue is not recognized upon cash receipt because KNHT has an enforceable obligation.

Impact on the Statement of Cash Flows (for the period ending June 30, 2025)

The cash inflow is recognized in the cash flow statement, regardless of whether revenue is recognized on the accrual basis. This is typically classified as **operating activities** for a grant of this nature.

Statement of Cash Flows (Extract - Direct Method)	**For the Period Ended June 30, 2025**
Cash Flows from Operating Activities	
Cash received from conditional grants	KES 10,000,000
Net Cash from Operating Activities	*KES 10,000,000*
Net Increase in Cash and Cash Equivalents	KES 10,000,000
Cash and Cash Equivalents at Beginning of Period	KES 0
Cash and Cash Equivalents at End of Period	KES 10,000,000

Explanation: The cash flow statement only reflects the movement of cash. The nature of the obligation (conditional vs. unconditional) does not change the fact that cash was received.

Subsequent Periods: As KNHT Satisfies the Obligation (e.g., Year 1: June 1, 2025 - May 31, 2026)

Let's assume KNHT incurs KES 3,000,000 of eligible restoration expenditures during the first year (Year 1) to satisfy the conditions of the grant. The expenditure represents the satisfaction of the enforceable obligation.

Journal Entry (at Year 1, May 31, 2026, or progressively as costs are incurred and conditions met):

Account	Debit (KES)	Credit (KES)
Deferred Revenue from Conditional Grants	3,000,000	
Revenue from Conditional Grants		3,000,000
To recognize revenue as the enforceable obligation is satisfied (expenditures incurred for the specified purpose)		

Impact on Statement of Financial Performance (for Year 1):

Statement of Financial Performance (Extract)	For the Period Ended May 31, 2026
Revenue	
Revenue from Conditional Grants	KES 3,000,000
Total Revenue (from this transaction)	*KES 3,000,000*
Expenses	
Restoration Expenses	KES 3,000,000
Total Expenses (from this transaction)	*KES 3,000,000*
Surplus / (Deficit) for the period	*KES 0 (from this transaction)*

Explanation: As KNHT incurs eligible expenses for the restoration, it is satisfying its enforceable obligation. Therefore, a proportional amount of the deferred revenue is recognized as actual revenue. Importantly, the expenses incurred for the restoration are also recognized, leading to a net effect of zero on the surplus from *this specific transaction* in that period, reflecting that the funds are used for the intended purpose.

Impact on Statement of Financial Position (As at May 31, 2026 - After Year 1):

Statement of Financial Position (Extract)	As at May 31, 2026
Assets	
Cash and Cash Equivalents	KES 7,000,000
Total Assets	*KES 7,000,000*
Liabilities	
Current Liabilities	
Deferred Revenue from Conditional Grants	KES 7,000,000
Total Liabilities	*KES 7,000,000*

Net Assets / Equity	
Accumulated Surplus / Net Assets	KES 0
Total Net Assets / Equity	*KES 0*

Explanation: The cash balance has decreased by KES 3,000,000 (due to restoration expenses), and the deferred revenue liability has also decreased by KES 3,000,000 as that portion was recognized as revenue. The remaining KES 7,000,000 of cash is still tied to the KES 7,000,000 remaining deferred revenue liability.

Impact on Statement of Cash Flows (for Year 1):

Statement of Cash Flows (Extract - Direct Method)	For the Period Ended May 31, 2026
Cash Flows from Operating Activities	
Cash paid for restoration expenses	(KES 3,000,000)
Net Cash from Operating Activities	*(KES 3,000,000)*
Net Decrease in Cash and Cash Equivalents	(KES 3,000,000)
Cash and Cash Equivalents at Beginning of Period	KES 10,000,000
Cash and Cash Equivalents at End of Period	KES 7,000,000

Explanation: The cash flow statement reflects the actual expenditure of cash for the restoration work.

This conditional grant example clearly illustrates how the existence of an **enforceable obligation** under IPSAS 47 impacts revenue recognition.

- **Initial Receipt:**

No revenue is recognized; instead, a **liability** is established. The Statement of Financial Position shows increased cash and an equal increase in deferred revenue liability. The Cash Flow Statement shows an inflow of cash.

- **Subsequent Periods:**

Revenue is recognized **as the conditions are met** (i.e., as the entity performs the required activities or incurs eligible expenses). The liability is reduced proportionally. This typically results in a matching of revenue and related expenses in the Statement of Financial Performance.

- **Balance Sheet:**

At any point, the remaining cash from the grant is offset by the remaining deferred revenue liability, ensuring that the net assets only increase *after* the full obligation has been met.

This distinction is fundamental for public sector entities, as many grants, donations, and even some taxes may come with specific conditions that create enforceable obligations, requiring careful assessment under IPSAS 4.

TAXES

Taxes are economic benefits or service potential compulsorily paid or payable to public sector entities, in accordance with laws and/or regulations, established to provide revenue to the government, excluding fines or other penalties imposed for breaches of laws and/or regulations.

Taxes are categorized as revenue transactions without binding arrangements because the government receives resources (money) from the public without providing a specific, directly related service or good in return; hence, no obligation is imposed on it.

4.4 Recognition

The recognition of tax revenue depends on the existence of a legally enforceable claim. IPSAS 47 emphasizes that a public sector entity must have the authority under legislation to impose and collect taxes.

This means that:

- The tax must be established by law, regulation, or ordinance.
- The entity must have the power to enforce compliance (e.g., audits, penalties, collection procedures).
- The taxpayer has little or no discretion to avoid the obligation once the taxable event has occurred.

Example: A government has passed a law imposing income tax. Once a person earns income within the tax year, the government has a legal claim on the tax due, even if it is unpaid.

Under IPSAS 47, revenue from taxes is recognized when:

- An enforceable tax arrangement exists
- The taxable event has occurred
- It is probable that an inflow of resources will occur, and
- The amount can be reliably measured.

For example:

- Income tax: Recognized when the income is earned
- Customs duties: Raising of an import entry on the importation of goods.
- VAT: Raising of an Invoice or when a sale of goods and Services is done.
- Excise Taxes: On manufacturing and provision of services

4.5 Measurement

Measurement of Assets Arising from Taxation Transactions

In the case of taxation transactions, revenue is often recognized before the actual cash is received. The tax receivables are measured:

- **Realistically:** Using the **most probable** amount the government expects to collect.
- **Conservatively:** Taking into account how **likely** it is that the taxes will actually be paid.
- **Fairly:** Reflecting the **value** of what is expected to be received.

This approach promotes transparency and reliability in public sector financial reporting, avoiding overstatement of revenue from taxes that may not be collected.

The Tax authority can measure the value of tax-related assets when there is a time lag between when a tax becomes payable (the "taxable event") and when it is actually collected. When collection is delayed, tax receivables can be measured using statistical models that factor in past collection patterns, economic conditions, and taxpayer behavior to estimate the most accurate asset value.

Example: Suppose a government imposes an income tax in the current year that is due the following year. Even before people file their returns, the government wants to record an estimate of tax revenue and receivables for the current year.

The government might use a model based on:

- Past filing and payment behavior,
- Wage and employment data from the current year,
- Taxpayer declarations from similar periods.

The Tax Authority may initially estimate tax-related assets and revenue using statistical models. Later, when more accurate data is available (e.g., taxpayer filings), they may need to revise those estimates. These revisions are handled according to IPSAS 3, which ensures that changes are appropriately reflected in the financial statements as changes in estimates, not as errors.

Example: A government estimates KES 100 million in income tax receivables for 2025 based on models.

In 2026, it turns out only KES 92 million was actually due for 2025.

Result:

- A revision is made in 2026.
- The difference (KES 8 million) is treated as a change in estimate, not an error.

If the value of tax cannot be measured reliably after the taxable event (e.g., due to a complex or volatile tax base), revenue and assets are recognized later, once measurement is possible.

Measurement of Taxes with Collection Uncertainty

The value of assets from tax transactions should only be recognized if it is highly likely that the amount would not need to be significantly reduced later when any uncertainties are resolved. To decide if it's highly probable that revenue would not be significantly reversed later, an entity must consider how likely a reversal is and how big the reversal could be.

In assessing whether it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur once the uncertainty related to the variable consideration is subsequently resolved, an entity shall consider both the likelihood and the magnitude of the revenue reversal. Factors that could increase the likelihood or the magnitude of a revenue reversal include, but are not limited to, any of the following:

a) The amount of consideration is highly susceptible to factors outside the entity's influence, e.g., volatility in a market, the judgment or actions of third parties.
b) The uncertainty about the amount of consideration is not expected to be resolved for a long period. This uncertainty may result from the amount being determined in a period subsequent to the timing of the obligating event.
c) The entity's experience (or other evidence) with similar types of arrangements is limited, or that experience (or other evidence) has limited predictive value.

d) The entity has a practice of either offering a broad range of price concessions or changing the payment terms and conditions of similar arrangements in similar circumstances.
e) The transaction has a large number and a broad range of possible consideration amounts.

4.6 Other Accounting Issues Relating to Taxes

Resources received before the taxable event are recognized as advance receipts of taxes. Tax revenue is the gross amount that is:

i. Not reduced for expenses paid through the tax system

This means that tax revenue figures do not deduct any refunds, rebates, or credits that effectively act as government spending. These are often called tax expenditures, and they include:

- Refundable tax credits (e.g., earned income tax credit)
- Tax rebates or cash payments delivered via the tax system

Even though these mechanisms reduce the net amount the government ultimately retains, they do not reduce the reported gross tax revenue. Instead, these "expenses" are accounted for separately, usually as government expenditures, not as negative revenue.

Example: If the Kenya Revenue Authority collects Kshs. 100 billion in income tax but gives out Kshs 10 billion in refundable tax credits, the gross tax revenue is still reported as Kshs. 100 billion—not Kshs. 90 billion.

ii. Not grossed up for tax expenditures

What gets reported?

- The reported gross taxation revenue is Kshs. 90 billion.
- The Kshs. 10 billion in foregone revenue due to these deductions and credits is not added back (i.e., the total is not "grossed up" to 100 billion).
- That Kshs. 10 billion might appear in a "tax expenditure report" as revenue lost due to tax policy choices, but it’s not included in revenue figures.

Note: Governments only report what they actually collect in gross taxation revenue, not what they could have collected under a theoretical, deduction-free system.

Accounting Treatment for Advance Tax Payments

Advance tax payments are amounts received before the taxable event occurs. According to IPSAS 47, such payments should not be immediately recognized as revenue. Instead, they are recognized as liabilities (advance receipts/deferred inflows) until the criteria for revenue recognition are met. Examples of Advance Tax receipts as shown in the table below;

Examples of Advance Tax Receipts

Scenario	Explanation
A taxpayer pays their **income tax** for next year in advance	The tax year hasn't begun, so the taxable event (earning income) hasn't occurred.
A business **prepays VAT** on expected imports	VAT is only recognized upon actual importation or sale; advance is not yet revenue.
A property owner **prepays land rates** before the assessment date	Revenue is deferred until the property ownership is established at the tax date.

Below is an example of their accounting Treatment.

1. **Initial Receipt of Advance Tax Payment**

Scenario: A taxpayer pays income tax in advance for the next fiscal year.

Journal Entry on Receipt of Advance Payment:

Date	Account Title	Debit (Dr)	Credit (Cr)
		Kshs.	Kshs.
	Cash/Bank	xxxx	
	Advance Tax Receipts (Liability)		xxxx
	(*Being an advance Tax receipt for Fiscal year xxx)*		

i. The amount is recorded as a liability because the taxable event (e.g., earning income) has not yet occurred.
ii. This aligns with the obligation to return or defer the use of the funds

2. **When the Taxable Event Occurs**

Journal Entry to Recognize Revenue:

Date	Account Title	Debit (Dr)	Credit (Cr)
		Kshs.	Kshs.
	Advance Tax Receipts (Liability)	xxxx	
	Tax Revenue		xxxx
	(Being recognition of Tax Revenue arising from advance Receipts in Fiscal year xxx)		

- The liability is **reversed**, and **revenue is recognized** because the criteria under IPSAS 47 are now satisfied.

Financial Statement Presentation

Statement	Impact
Statement of Financial Position	Advance tax receipts shown as **liabilities**
Statement of Financial Performance	Tax revenue recognized **only after taxable event**
Notes to Financial Statements	Policy on advance receipts and timing of recognition disclosed

Triggering Event for Taxes and Other Compulsory Contributions and Levies

The **triggering event** is an occurrence specified by the government, legislature, or other authority that gives rise to Tax liability. This depends on the Tax Laws and other legislations/ regulations.

A public sector entity recognizes **an asset** and associated **revenue** from taxes and levies **when the taxable event occurs**, and:

- The **taxpayer has no realistic alternative to avoid the obligation**, and
- The **entity has a right to receive the resources**, even if the payment is not yet made.

Examples of triggering events (i.e., when the liability to pay arises):

Type of Tax / Levy	Triggering Event
Income tax	Earning of taxable income
Property tax	Ownership of taxable property at a set date
Value-added tax (VAT)	Sale or supply of taxable goods or services
Import duties	Importation of goods
Excise Taxes	Manufacturing of goods and provision of services
Fines and penalties	Breach of law or regulation

> ***Note***
>
> *Where the Government receive mandatory payments from citizens and businesses that aren't classified as taxes, for example, fuel levies, airport taxes. Before recording this money as revenue, the government must figure out exactly when people are legally required to pay. For example, purchasing fuel and air tickets.*

Example: Fuel Tax for Road Maintenance

Suppose a government/KRA imposes a **fuel tax** and states that the funds will be used for road maintenance and infrastructure.

- This tax is **levied for a specific purpose** (roadworks).
- However, there is **no legally binding agreement** between the government/KRA and taxpayers.
- Taxpayers **cannot sue or demand** that the money be used only for roads.
- Therefore, the government has **no performance obligation**; **no liability is recorded**, and the **revenue is recognized immediately** when the tax is collected.

4.7 Illustrative Examples for Revenue Arising from Taxes

Example 1

How does an entity measure the amount of revenue it has earned from its tax transactions?

Entities may have taxation periods that differ from their reporting periods and might make estimated tax payments in instalments before the final tax amount is determined. This can lead to either additional taxes owed or refunds due. Entities must recognize an asset and related revenue in the current reporting period when the inflow of resources can be reliably measured. To do this, they should use all relevant data sources to make the best estimate. These sources include historical data (e.g., tax collection history), observable factors (e.g., economic forecasts, statistics, and instalments), and expert input.

Example 2

A national government levies a personal income tax on its residents at a rate of 25% on annual taxable income exceeding Kshs. 100,000. The tax is assessed and collected annually based on income earned in the previous calendar year. For the fiscal year ending December 31, 2025, the government estimates that it will collect Kshs. 500 million in income taxes based on tax returns filed by April 30, 2025. The government uses the accrual basis of accounting as required by IPSAS.

Answer:

Application of IPSAS 47:

a) Identification of the Transaction:

- The income tax is a revenue transaction without binding arrangements (as taxpayers do not receive direct benefits in proportion to the tax paid).
- The transaction arises when individuals earn taxable income during the 2025 calendar year, creating a legal obligation to pay taxes.

b) Recognition Criteria (IPSAS 47):

- **Control of Economic Benefits:** The government has a legal right to collect income taxes based on the tax legislation. The economic benefits (tax revenue) are controlled by the government when the taxable event occurs (i.e., when the income is earned by taxpayers in 2025).
- **Probability of Inflow:** Based on historical data and tax return filings, it is probable (highly likely) that the government will collect the estimated Kshs. 500 million.
- **Reliable Measurement:** The government can reliably estimate the tax revenue based on tax returns, economic data, and compliance rates. The amount of Kshs. 500 million is calculated using verified income reports and tax assessments.

c) Recognition in Financial Statements:

The government recognizes Kshs. 500 million as income tax revenue in its financial statements for the year 2025 (the period in which the taxable event occurs).

Journal Entries for Fiscal Year Ended December 31, 2025:

Date	Account Title	Debit (Dr)	Credit (Cr)
		Kshs.	Kshs.
31/12/2025	Taxes Receivable (Asset)	500,000,000	
	Income Tax Revenue (Revenue)		500,000,000
	(To recognize estimated income tax revenue for 2025 based on income earned)		

d) When Cash is Collected in 2026:

Assuming cash is collected when taxpayers file returns (by April 30, 2026)

Date	Account Title	Debit (Dr)	Credit (Cr)
		Kshs.	Kshs
2026-04-30	Cash	500,000,000	
	Tax Receivable		500,000,000
	(To record collection of income taxes for 2025 income)		

If some taxpayers are unlikely to pay (e.g., due to insolvency), the government estimates an allowance for doubtful debts to reflect only the probable inflow, reducing the receivable and revenue accordingly.

Example 3

An entity recognizes an asset and revenue from taxes when the taxable event subject to taxation occurs. A national government levies a tax on income at 25%. It requires taxpayers to make quarterly installments of estimated taxes payable for the tax year. Tax returns must be filed by April 30 and the balance of taxes paid by June 30 in the following year. When is the taxable event ?

a) Individuals file their annual tax returns

b) Individuals make quarterly installments

c) Individuals make their final payment

d) Individuals earn taxable income?

Answer:

The answer is (d).

Resources arising from taxes satisfy the definition of an asset when the entity controls the resources as a result of the occurrence of the taxable event that the government, legislature, or other authority has determined will be subject to taxation. Resources arising from taxes satisfy the definition of an asset when the entity controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer

1. **At the time the taxable event occurs and the revenue becomes measurable and probable:**

This is when the entity recognizes an asset (e.g., receivable) and tax revenue.

Journal Entry:

Date	Account Titles and Explanation	Debit(Dr)	Credit(Cr)
		Kshs.	Kshs.
	Taxes Receivable (Asset)	xxxx	
	Tax Revenue (Revenue)		xxxx
	(Being recognition of revenue receivable)		

Explanation:
The taxable event has occurred, and based on available evidence (e.g., taxpayer disclosure, historical collection patterns), the government recognizes that it has control over the resource and expects future economic benefits

2. **If the amount recognized is expected to be impaired (e.g., due to non-collection risk):**

An allowance for doubtful taxes receivable may be recognized.

Date	Account Title	Debit(Dr)	Credit(Cr)
		Kshs.	Kshs.
	Impairment Loss / Bad Debt Expense	xxxx	
	Allowance for Doubtful Taxes Receivable		xxxx
	(Being a record of impairment on tax receivable)		

Explanation:
Reflects a realistic estimate of collectability, adjusting the asset's carrying amount.

3. When actual cash is received from taxpayers:

Date	Account Title	Debit(Dr)	Credit(Cr)
		Kshs.	Kshs.
	Cash	xxxx	
	Taxes Receivable		xxxx
	(Being recognition of revenue collected)		

Explanation:

The receivable is settled with the actual Payment/collection.

5. REVENUE TRANSACTIONS WITH BINDING ARRANGEMENTS

To apply the binding arrangement accounting model, an entity must meet the following criteria:

a) The parties to the binding arrangement have approved the binding arrangement (in writing, orally, or in accordance with other customary practices) and are committed to performing their respective obligations.
b) The entity can identify each party's rights under the binding arrangement.
c) The entity can identify the payment terms for the satisfaction of each identified compliance obligation.
d) The binding arrangement has economic substance (i.e., the risk, timing or amount of the entity's future cash flows or service potential is expected to change as a result of the binding arrangement)
e) It is probable that the entity will collect the consideration to which it will be entitled for satisfying its compliance obligations in accordance with the terms of the binding arrangement.

When a binding arrangement does not meet all of the criteria above, the entity shall recognize any consideration received as revenue only when either of the following events has occurred:

a) The entity has fully satisfied its compliance obligation to which the consideration that has been received relates, and the consideration received from the resource provider is non-refundable; or
b) The binding arrangement has been terminated, and the consideration received from the resource provider is non-refundable.

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The following is an example of a binding arrangement in the Kenyan context;

Illustration 1

Kenya Power (a parastatal) enters into an agreement with a residential customer to provide electricity. The agreement outlines the tariff, connection terms, and service quality.

This is a binding arrangement since there is:

- **Approval of binding arrangement**: Customer and KPLC have approved the binding arrangement, and they are committed to their respective obligations when the customer applies for connection, signs the terms, and Kenya Power connects the power.
- **Identification of each party's rights**: The customer has the right to electricity and the obligation to pay; Kenya Power has the right to payment and the obligation to supply electricity.
- **Identification of payment terms**: The terms of billing have been identified.
- **The binding arrangement has economic substance**: Kenya Power expects future cash flows from the arrangement.
- **Enforceability**: Kenya Power can disconnect if the customer doesn't pay; the customer can demand service quality or complain to regulators if services are sub-standard.

5.1 Recognition

5.1.1 Initial Recognition

If the above-stated criteria are met, revenue, liability or assets are initially recognized when one party to the binding arrangement starts to satisfy its obligations under the arrangement at the transaction price. However, when a binding arrangement is wholly unsatisfied, the entity shall not recognize an asset, revenue or liability unless the binding arrangement is onerous. Onerous is where the unavoidable costs of meeting the obligations under the contract exceed the economic benefit expected to be received under it.

When an entity receives an inflow of resources in a revenue transaction with a binding arrangement that meets the definition of and recognition criteria for an asset, the entity shall recognize:

a) Revenue for any satisfied compliance obligations in respect of the same inflow; and
b) A liability for any unsatisfied compliance obligations in respect of the same inflow.

The timing of revenue recognition is determined by the nature of the requirements in a binding arrangement and their settlement. An entity shall recognize revenue from a transaction with a binding arrangement when (or as) the entity satisfies a compliance obligation by using resources in the specified manner, in compliance with the terms of the binding arrangement.

Illustration 2

Kiambu County has leased spaces in Githurai market to small traders on a finance lease.

The revenue will be recognized when either the trader makes the payment or when the County provides the space to the trader.

Illustration 3

Pwani University was awarded a grant for scientific research by the National Research Fund. The grant is disbursed in installments, with subsequent installments pegged on the university achieving specific research milestones.

The initial revenue recognized shall be the first installment disbursed after the achievement of the first milestone as per the grant agreement.

5.1.2 Assets from Revenue Transactions with Binding Arrangement Costs

When there are incremental costs of obtaining a binding arrangement, an entity shall recognize those costs as an asset if the entity expects to recover those costs. The incremental costs of obtaining a binding arrangement are those costs that an entity incurs to obtain a binding arrangement that it would not have incurred if the binding arrangement had not been obtained (for example, a sales commission).

Costs to obtain a binding arrangement that would have been incurred regardless of whether the binding arrangement was obtained shall be recognized as an expense when incurred, unless those costs are explicitly chargeable to the resource provider, regardless of whether the binding arrangement is obtained.

As a practical expedient, an entity may recognize the incremental costs of obtaining a binding arrangement as an expense when incurred if the amortization period of the asset that the entity otherwise would have recognized is one year or less.

5.1.3 Subsequent Recognition of Revenue

Subsequently, revenue requires continuous assessment of the contract terms, performance obligations, and considerations. If the stand-alone price shifts significantly, the price changes should be applied prospectively with the increase.

Modification may arise from the following.

a) **Reassessment of terms and conditions:** an entity shall account for a contract modification when parties approve changes to enforce the rights and or obligations.
b) **Update of variable considerations**: the agreement may lead to various variables, e.g., bonuses and penalties, using the expected value likely amount. However, the amount that is adjusted must be irreversible in nature.

c) **Re-adjustment of transaction price**: reallocate price changes to performance if the standalone selling price shifts significantly.
d) **Impairment of receivables**: this is where there are expected credit losses on the contract asset /liability, e.g., Nakuru County unpaid property rates amount to 10,000,000. 30% of this is unlikely to be collected. Hence, the net Debtors shall be 7,000,000.

5.2 Measurement of Revenue

5.2.1 Initial Measurement

An entity measures revenue by determining the transaction consideration, which is the amount of resources to which an entity expects to be entitled for satisfying a compliance obligation. The transaction price is allocated to each performance obligation based on relevant stand-alone values. The stand-alone value is the price of a good or service that is required to be used internally or provided separately to a purchaser or third party.

Assets may arise from Revenue under IPSAS 47 when the performance of the obligation is satisfied before billing or payment by the customer. An asset in a revenue transaction with a binding arrangement shall initially be measured by the entity at its transaction consideration as at the date on which the criteria for asset recognition are satisfied.

Illustration 3

On January 1, 2024, ICT authority enters into a binding arrangement to transfer computer software and configuration services to Baringo County in exchange for Ksh 1,000,000. The binding arrangement requires the software to be delivered first and states that payment for the delivery of the software is conditional on configuration. In other words, the consideration of Kshs1,000,000 is due only after the Agency has transferred both the software and configuration services to the county. Consequently, the Authority does not have a right to a consideration that is unconditional (a receivable) until the software is transferred to the county and configured.

The institutions agree to transfer the software and complete the configuration as separate compliance obligations and allocate Kshs 400,000 to the compliance obligation to transfer the software and Kshs 600,000 to the compliance obligation to complete the configuration on the basis of their relative stand-alone values. The Authority recognizes revenue for each respective compliance obligation when control of the product transfers to the county.

On 1st March 2024, the Authority satisfies the compliance obligation to transfer the software:

	Dr	**Cr**
Binding Arrangement Asset	**400,000**	

Revenue		**400,000**

1st May 2024 The Authority satisfies the compliance obligation to configure the software and to recognize the consideration:

	Dr	**Cr**
Binding arrangement asset	**600,000**	
Revenue		**600,000**

5.2.2 Subsequent Measurement

An entity shall subsequently measure the asset in accordance with:

a) A receivable asset:

b) Within the scope of IPSAS 41 as a financial asset in accordance with IPSAS 41; or

c) Not within the scope of IPSAS 41 on the same basis as a financial asset in accordance with IPSAS 41, by analogy.

All other assets as prescribed by the applicable IPSAS.

5.2.3 Measurement of Liabilities

The amount recognized as a liability shall be the best estimate of the amount required to settle the compliance obligation at the reporting date, limited to the asset value at initial recognition.

5.2 Illustrative Examples for Revenue Transactions with Binding Arrangements

Example 1

The Nairobi City County Government (NCCG) signed a conditional grant of KES 120,000,000 with the National Treasury on July 1, 2024, for the construction of a specific public market in Eastlands. The amount disbursed was received by NCCG on 1st July 2024. The grant agreement stipulates that the funds must be used exclusively for this market's construction, following approved designs, and NCCG must submit quarterly progress reports and detailed financial acquittals. The project is expected to take a period of 12 months. Any unspent funds or funds not used according to the conditions must be returned. The amount is to accrue evenly over the months. The FY end is 30th June 2025. Show the accounting treatment.

Analysis under IPSAS 47:

Is there a binding arrangement: Yes.

- **Mutual Approval & Commitment**: A Formal grant agreement signed by Nairobi City County Government and the National Treasury.
- **Clear Rights & Payment Terms:** National Treasury has the right to reports and specific use of funds; NCCG has the right to the funds, provided conditions are met.

- **Probable Collection:** Funds already received.
- **Enforceability:** The terms are legally binding under the PFM Act and grant regulations; non-compliance leads to administrative sanctions, audit queries, and potential clawback of funds.

The compliance obligation lies with the NCCG to construct the public market as per the approved design and timelines at a transaction consideration, that is, KES 50,000,000.

Initial recognition

Revenue Recognition: Over the 12-month period as NCCG satisfies its compliance obligation (i.e., as construction progresses), NCCG will use an input method (e.g., costs incurred or work certified) to measure progress.

Accounting Entries (Financial Year Ending June 30, 2025):

- July 1, 2024 (Initial Recognition – Receipt of Grant): NCCG receives cash before performing its obligation.

	Debit (KES)	**Credit (KES)**
Cash	**50,000,000**	
Binding Arrangement Liability		**50,000,000**

Subsequent Recognition

July 1 - June, 2025 (Subsequent Recognition – Satisfying Compliance Obligation): By June, 2025, the construction is completed.

Revenue to be recognized

	Debit (KES)	**Credit (KES)**
Binding Arrangement Liability	**50,000,000**	
Revenue from Binding Arrangements		**50,000,000**

Example 2

Jomo Kenyatta University of Agriculture and Technology (JKUAT), a public university in Kenya, charges a student for the Academic Year 2026/2027.

- Academic Year Period: September 1, 2026 – June 30, 2027 (10 months of service delivery).
- Fees Charged to a Single Student: KES 150,000 for the full academic year.
- Payment Term: Full payment of KES 150,000 is received on September 1, 2026.
- Compliance Obligations: JKUAT provides for tuition and accommodation to its students.

In line with the above, there are two distinct compliance obligations:

- Tuition Services: KES 100,000 (delivering educational courses, lectures, exams).

- Accommodation Services: KES 50,000 (providing hostel accommodation).
- Delivery Pattern: Both services are delivered evenly over the 10-month academic year.
- Financial Year-End: JKUAT's financial year ends on June 30, 2027.

Solution:

1. Compliance Obligations:

    Obligation 1: Tuition Services (KES 100,000)

    Obligation 2: Accommodation Services (KES 50,000)

2. Transaction Consideration: KES 150,000.
3. Allocation of Transaction Consideration:

    Tuition Services: KES 100,000 (allocated based on standalone value, which is proportionate to the fee charged for simplicity).

    Accommodation Services: KES 50,000 (allocated based on standalone value, which is proportionate to the fee charged for simplicity).

4. Revenue Recognition:

    Both obligations are satisfied over time as the educational and accommodation services are provided.

    JKUAT will recognize revenue proportionally over the 10-month academic year.

    Monthly revenue for Tuition = KES 100,000 / 10 months = KES 10,000

    Monthly revenue for Accommodation = KES 50,000 / 10 months = KES 5,000

    Total Monthly Revenue = KES 15,000

Accounting Entries

September 1, 2026 (Initial Recognition – Receipt of Fees): JKUAT receives the full payment upfront before delivering the services. This creates a binding arrangement liability, representing the obligation to provide education and accommodation.

	Debit (KES)	**Credit (KES)**
Cash	**150,000**	
Binding Arrangement Liability		**150,000**

September 30, 2026 (Subsequent Recognition – End of Month 1 of Service Delivery): JKUAT has provided 1 month of tuition and accommodation services.

• Revenue to recognize: KES 15,000 (KES 10,000 for tuition + KES 5,000 for accommodation).

	Debit (KES)	Credit (KES)
Binding Arrangement Liability	**15,000**	
Revenue from Binding Arrangements		**15,000**

October 31, 2026 to May 31, 2027 (Subsequent Recognition – Monthly Service Delivery): This entry would be repeated monthly for the subsequent 8 months (October to May).

• Each month: Debit Binding Arrangement Liability KES 15,000; Credit Revenue from Binding Arrangements KES 15,000.

•Total for 8 months = KES 15,000 * 8 = KES 120,000

June 30, 2027 (Subsequent Recognition – End of Month 10 of Service Delivery / Financial Year End): JKUAT has provided services for the 10th month.

• Revenue to recognize: KES 15,000

	Debit (KES)	Credit (KES)
Binding Arrangement Liability	**15,000**	
Revenue from Binding Arrangements		**15,000**

Presentation on the Financial Statements (as at June 30, 2027 - assuming only this student's transaction for simplicity):

• **Statement of Financial Position:**

Cash and Cash Equivalents: KES 150,000 (representing the initial fees collected, ignoring expenditures). Binding Arrangement Liability: KES 0 (because the full 10 months of services have been delivered by the financial year-end, so the liability is fully satisfied).

• **Statement of Financial Performance:**

Revenue from Binding Arrangements: KES 150,000 (Total KES 15,000/month * 10 months).

NOTE

The University will have a revenue recognition policy to determine at what point the fees paid by the student becomes revenue. Examples would be based on time e.g. one month, middle of the semester or other factors e.g. issuance of an exam card etc.

6. DISCLOSURES

The objective of the disclosure requirements is for an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from revenue transactions.

To achieve that objective, an entity shall disclose qualitative and quantitative information about all of the following:

(a)Its revenues from transactions without binding arrangements

(b)Its revenues from transactions with binding arrangements

(c)The significant judgments, and changes in the judgments, made in applying this Standard to those binding arrangements

(d)Any assets recognized from the costs to obtain or fulfill a binding arrangement with a resource provider.

7. FREQUENTLY ASKED QUESTIONS

a) What qualifies as a transaction without a binding arrangement under IPSAS 47?

A transaction without a binding arrangement is one where there is **no legally enforceable contract** or agreement. Common examples include **donations**, **voluntary grants**, and **contributions** without enforceable terms.

Revenue is not recognized at the time of the promise or pledge unless it is enforceable.

b) Why is the term "Binding Arrangement" so important in IPSAS 47?

It's the **fundamental unit of account** that determines how revenue is recognized. IPSAS 47 requires an entity to first assess whether a transaction is part of a binding arrangement. If it is, one accounting model applies; if not (e.g., taxes, some voluntary donations), a different model applies. This distinction is key to applying the correct revenue recognition principles.

c) How does "enforceability" differ in the public sector for IPSAS 47?

Unlike private sector contracts, where enforceability usually means recourse through courts, IPSAS 47 acknowledges that public sector entities often operate under different frameworks. **"Equivalent means"** for enforceability can include:

- **Statutes/Legislation:** A legal act that mandates certain actions or transfers.
- **Regulations/Bylaws:** Rules issued under statutory authority.
- **Executive Authority/Cabinet Directives:** Orders from high-level government officials that have binding force.

- **Policy Documents:** Formal, approved policies that dictate resource allocation and accountability.

This broader view is essential for capturing transactions like conditional grants between government levels in Kenya.

d) How do "Binding Arrangement Assets" and "Binding Arrangement Liabilities" arise?

- **Binding Arrangement Liability:** Arises when a public entity receives consideration (cash or other asset) or has an unconditional right to it *before* it satisfies its compliance obligation. It represents the entity's obligation to perform. (e.g., a hospital receiving a conditional grant before delivering the health program).
- **Binding Arrangement Asset:** Arises when a public entity satisfies a compliance obligation *before* it receives the consideration or before it has an unconditional right to it. It represents the entity's right to receive consideration. (e.g., a county government completes a road section before receiving the next tranche of a conditional grant from the national government, where the right to the tranche is dependent on completion).

e) What kind of judgment is required in applying IPSAS 47 to binding arrangements?

Significant judgment is required, especially in determining:

- Whether "equivalent means" of enforceability exist for arrangements that aren't formal contracts.
- Identifying distinct compliance obligations within complex arrangements.
- Allocating transaction consideration to multiple compliance obligations.
- Measuring progress towards satisfying compliance obligations.

f) How do binding arrangements affect revenue recognition?

The existence of a binding arrangement determines the accounting model to be applied:

- **With Binding Arrangements**: Revenue is recognized as the entity satisfies compliance obligations, following a five-step model similar to IFRS 15.
- **Without Binding Arrangements**: Revenue is recognized when the entity satisfies any obligations associated with the inflow of resources that meet the definition of a liability or immediately if there are no enforceable obligations.

g) Can a binding arrangement exist without a formal contract?

Yes, a binding arrangement can exist without a formal contract. For example, statutory mechanisms, legislative or executive authority, or ministerial directives can create enforceable obligations and rights, thus constituting a binding arrangement.

h) How does IPSAS 47 differ from IFRS 15?

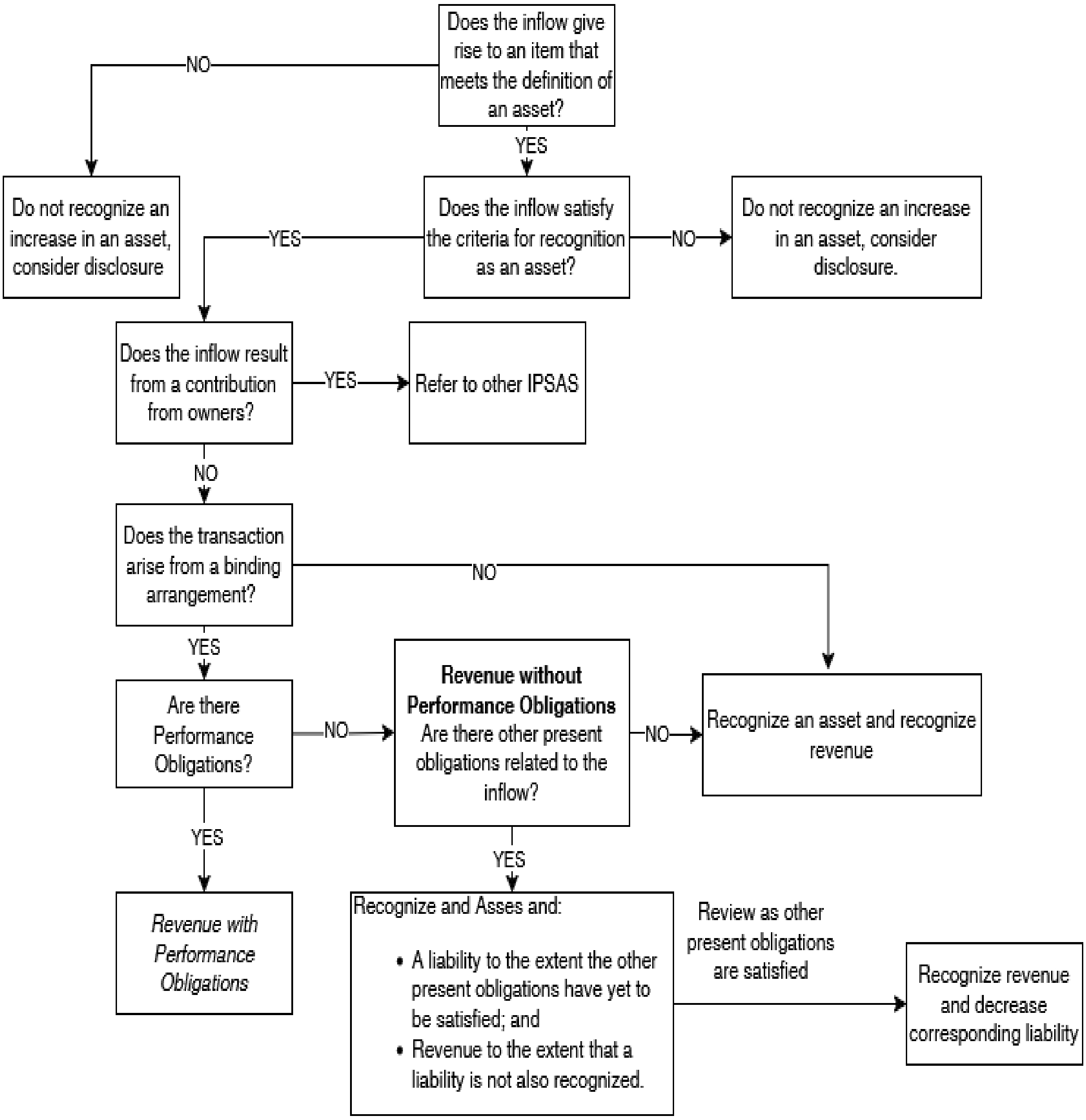
While IPSAS 47 is aligned with IFRS 15, it broadens the scope to encompass public sector transactions. Key adaptations include:

- **Binding Arrangements**: The term "binding arrangement" is used instead of "contract" to reflect the broader range of enforceable agreements in the public sector.
- **Compliance Obligations**: The concept of "compliance obligations" replaces "performance obligations" to account for public sector-specific transactions

i) What are some practical challenges in identifying and applying the binding arrangement concept?

- **Judgment Required:** Determining whether "equivalent means" of enforceability exist can require significant judgment, especially given the diverse legal and regulatory frameworks across different jurisdictions.
- **Distinguishing between models:** Clearly delineating between transactions with and without binding arrangements can be complex, especially for non-exchange revenue (e.g., taxes, grants).
- **Identifying Compliance Obligations:** In complex public sector arrangements, identifying distinct goods or services and the corresponding compliance obligations can be challenging.
- **Transition and Data Collection:** Entities transitioning to IPSAS 47 may face challenges in re-evaluating existing revenue streams and collecting the necessary data to apply the new models.

Flow Chart: Accounting for Revenue with and without Binding Arrangement



Disclaimer:

This guideline has been prepared as guidance for public sector entities in Kenya for the implementation of IPSAS 47. However, it does not serve as an advisory or complete standard documentation of revenue, nor as a replacement for IPSAS 47. For further inquiries about IPSAS 47, please reach out to us at acctstandards@psasb.go.ke.