



REPUBLIC OF KENYA

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Ref: TREASURY CIRCULAR NO.12/2025

Date: 26th November, 2025

All Accounting Officers:

Ministries, Departments, and Agencies

Constitutional Commissions and Independent Offices

County Executives, County Assemblies, and other County Government Entities

Dear **ALL**

GUIDELINES ON TRANSITION FROM CASH TO ACCRUAL ACCOUNTING: YEAR 2 – RECOGNITION AND MEASUREMENT OF INVENTORIES

1.0 INTRODUCTION

On 7th March 2024, the Cabinet approved the transition from cash to accrual accounting for the National Government, County Governments, and their respective entities. Subsequently, the transition to accrual accounting was gazetted vide Gazette Notice Number 11033, dated 30th August 2024. The Cabinet Secretary of the National Treasury and Economic Planning appointed a National Steering Committee to coordinate the transition project, which was gazetted vide Gazette Notice Number 10892, dated 30th August 2024.

The National Steering Committee approved the three-year Transition Roadmap, the Standard Chart of Accounts, Accounting Policies, the IFMIS re-engineering budget, and the public sector capacity building training plan for the next three years.

1.1.1 Cash to Accrual Accounting Transition Roadmap

The Cash-to-Accrual accounting Transition Roadmap is a phased transition expected to be completed within three years (from 1st July 2024 to 30th June 2027). The phased approach taken is in line with IPSAS 33: First-time Adoption of Accrual Basis IPSAS and outlines the assets and

liabilities to be onboarded onto an entity's balance sheet for each year during the transition phase as follows:

Year	Financial Year	Financial Statements
0	FY 2023/2024 1 st July 2024	Audited IPSAS cash-based financial statements Opening Statement of Financial Position
1	FY 2024/2025- 30 th June 2025	The first transitional IPSAS accrual financial statements include financial assets and financial liabilities. Financial assets include cash and cash equivalents, receivables, and prepayments, while financial liabilities include payables (commonly referred to as pending bills) and third-party deposits. This is mandatory for the FY 2024/2025 financial statements. Entities that will have identified some or all other assets and liabilities may include them in the first transitional IPSAS accrual Statement of Financial Position and disclose the same.
2	FY 2025/2026- 30 th June 2026	The second transitional IPSAS accrual financial statements will include, at a minimum, all financial assets and financial liabilities, and all inventories. Entities that have identified all or part of their non-financial assets and other liabilities can include them in the balance sheet and make the relevant disclosures.
3	FY 2026/2027- 30 th June 2027	Fully compliant IPSAS Accrual financial statements that include all assets and all liabilities. All exceptions will have been exhausted, and each public entity must comply with all applicable IPSAS.

For FY 2024/2025, all transitioning entities included financial assets and financial liabilities in their balance sheet. For the FY 2025/2026, transitioning entities will recognize **Inventories** together with financial assets and financial liabilities in their balance sheet. Entities are encouraged to continually identify and recognize non-financial assets and liabilities scheduled for Year 3 of the transition, to progressively move towards compliance with the IPSAS accrual reporting framework.

1.2 Purpose of this Circular

The purpose of this Circular is to:

1. Update the Accounting Officers of transitioning public entities on the National Steering Committee's progress in implementing accrual accounting and their role in the transition process.
2. Provide specific transition guidance for **Year 2** of the transition to accrual accounting project at the public entity level: the recognition of Inventories in addition to financial assets and financial liabilities.

3. To provide transitioning public entities with guidance on the identification and recognition of non-financial assets and liabilities where these elements are recognized voluntarily in **Year 2** of the transition.
4. Provide clarity on the support the National Treasury will provide to Accounting Officers during the transition period, particularly in respect of IFMIS applications and integration with e-GP.
5. Provide implementation timelines for entities to observe.

The National Steering Committee will continue to issue accounting guidelines regularly over the transition period on various matters related to the transition from cash to accrual accounting by the National Government, County Governments, and their respective entities.

2.0 SPECIFIC GUIDELINES ON TRANSITION

2.1 Guidelines On Recognition and Measurement of Inventories: Transition Roadmap for FY 2025/2026

The accounting standard for Inventories is *IPSAS 12-Inventories*. Please also note that Inventories include processed after-harvest inventories of biological assets, as per IPSAS 27.5 - Agriculture. This Circular guides on the following matters:

- Initial recognition and measurement of Inventories
- Subsequent measurement of Inventories
- Disclosures

2.1.1 Initial recognition of Inventories

2.1.1.1 Inventories are assets:

- a) in the form of materials or supplies to be consumed in the production process;
- b) in the form of material or supplies to be consumed or distributed in the rendering of services;
- c) held for sale or distribution in the ordinary course of operations; or
- d) in the process of production for sale or distribution.

Inventories for the Public Sector in Kenya may include:

- a) consumable stores;
- b) maintenance materials;
- c) spare parts for plant and equipment, other than those dealt with in IPSAS 45 – Property, Plant and Equipment;
- d) strategic stockpiles;
- e) supplies held for sale (for example, energy reserves);
- f) educational/training materials;
- g) postal stamps (valued not at face value but at production cost);
- h) stock of unissued currency (valued not at face value but at production cost);
- i) ammunition and military assets;
- j) land/property held for sale;
- k) after harvest, agricultural produce.

Since a substantial part of the public sector is in the agriculture sector, this Circular clearly distinguishes what falls under biological assets (IPSAS 27 - Agriculture) and what falls under inventories (IPSAS 12 – Inventories) as shown in the Table below:

Biological assets	Agricultural produce	After harvest produce (IPSAS 12)
Sheep	Wool	Yarn, carpet
Trees in a forest/plantation	Felled trees	Logs, lumber
Plants	Cotton/harvested cane	Thread/clothing/sugar
Dairy cattle	Milk	Cheese
Pigs	Carcass	Sausages, cured ham
Tea bushes	Leaf	Tea
Tobacco bushes	Leaf	Cured tobacco
Vines	Grapes	Wine
Fruit trees	Picked fruit	Processed fruit

Note: *Biological assets will be recognized in Year 3 (FY 2026/ 2027). Biological assets acquired during the transition period should, however, be recognized in the year of purchase or acquisition in line with IPSAS 27.*

The after-harvest produce (see column on the right) should be recognized as Inventories together with the other inventories shown above.

2.1.1.2 For service providers: For entities that provide services, inventories include the cost of the service for which revenue has not yet been recognized. These include client services, such as audits, which are provided at arm’s length.

2.1.1.3 For donations: The above inventories may be recognized from donations.

2.1.2 Measurement of Inventories

All inventories in Kenya shall be measured at the lower of historical cost and net realizable value, except for the following:

- Where inventories are acquired through a non-exchange transaction (donations), their cost shall be measured at their fair value as at the date of acquisition;
- Inventories shall be measured at the lower of historical cost and current replacement cost, where they are held for:
 - distribution at no charge or for a nominal charge; or
 - consumption in the production process of goods to be distributed at no charge or for a nominal charge.

The historical cost will apply for initial measurement and the net realizable value or current replacement cost (as appropriate) for subsequent measurement. The **historical cost** of inventories shall comprise all costs of purchase, cost of conversion, and other costs incurred in bringing the inventories to their present location and condition.

Inventories may be **donated** to the public entity through a non-exchange transaction. For example, an international aid agency may donate medical supplies to a public hospital. Under such circumstances, the inventory is carried at fair value as of the acquisition date.

Inventories from agricultural produce harvested from biological assets shall be measured on initial recognition at their fair value less costs to sell at the point of harvest.

As per the Accounting Policies for the Public Sector in Kenya, the cost of inventories shall be assigned using the First-in, First-out (FIFO) method. The FIFO method assumes that the oldest inventory items are sold first, and the newest are left in stock.

2.1.3 Inventories recognized as expenses

When inventories are sold, exchanged, or distributed, the carrying amount of those inventories shall be recognized as an expense in the period in which related revenue is recognized. If there is no related revenue, the cost is recognized when the goods are distributed or the related service is rendered. The amount of any write-down of inventories and all losses of inventories shall be recognized as an expense in the period the write-down or loss occurs.

2.1.4 Presentation of Inventories in Financial Statements – for FY 2025/2026

For FY 2025/2026, audited accrual-based comparative figures will be available (FY 2024/2025). Consequently, for FY 2025/ 2026, there will be:

- a) The Statement of Financial Position as at 30th June 2026 and a comparative year being the audited Statement of Financial Position as at 30th June, 2025. Take note that Financial assets, financial liabilities (IPSAS 41), and inventories (IPSAS 12) are being recognized fully. The Public Sector Accounting Standards Board will provide appropriate reporting templates, in line with the Public Finance Management Act, 2012, and in concurrence with the National Treasury.

The Statement of Financial Position will include the total carrying amount of inventories and disclosures on the breakdown classifications for the public sector in Kenya. Also to be disclosed is the carrying amount of donated inventories carried at fair value less cost of sale. The carrying amount of inventories pledged as security for liabilities will be disclosed in the Notes.

- b) The Statement of Financial Performance for FY 2025/ 2026 and a comparative year being the audited Statement of Financial Performance for FY 2024/2025. The Public Sector Accounting Standards Board will provide appropriate reporting templates, with concurrence from the National Treasury.

The Statement of Financial Performance will include the amount of inventories recognized as an expense during the year and the amount of any write-down/reversal of inventories recognized as an expense.

- c) The Statement of Changes in Net Assets/Equity beginning with the audited Statement of Changes of Net Assets/Equity for FY 2024/2025, followed by the Statement of Net Assets/Equity for FY 2025/2026.
- d) The Cash Flow Statement (direct method) for FY 2025/2026, with the audited FY 2024/2025 Cash Flow Statement as the comparative.

- e) A Statement on Budget Information that compares budget and actual amounts for the FY 2025/2026.
- f) Related accounting policies, notes, and disclosures of narrative information about material adjustments. In particular, the accounting policies adopted in measuring inventories (see above) include the cost formulas used (FIFO).

2.1.5 Accounting Policies for Inventories

The Accounting Policies for Inventories are derived from IPSAS 12 -Inventories. IPSAS 12 guides accounting for items held for sale, in production, or to be consumed in rendering services. It includes guidance in determining the cost (net realizable value) to be carried forward as an asset and when it is recognized as an expense.

Exceptions in Measurement

All Accounting Officers of public entities shall apply the guidance provided by *IPSAS 46 – Measurement* when measuring assets and/or liabilities. The Steering Committee guidance is for historical cost and or current operational value to be used for assets, and cost to fulfillment to be used for liabilities.

All public entities may need to make estimates in accordance with IPSAS during the transition period. To achieve consistency with IPSAS 14, those estimates shall reflect conditions that existed during the transition period. In particular, estimates determined by market prices, interest rates, or foreign exchange shall reflect market rates at that date. For non-financial assets, such as property, plant, and equipment, estimates about an asset's useful life, residual value, or condition reflect the public entity accounting officer's expectations and judgment during the transition period.

Fair Presentation and Compliance with IPSAS during the Transition Period

In accordance with para. 29 of IPSAS 1, fair presentation is achieved in virtually all circumstances by complying with applicable IPSAS. The exemptions provided in the table above offer relief from the recognition, measurement, presentation, and disclosure requirements under IPSAS on the date of adoption and during the transition period. Accounting Officers must, at a minimum, adopt the exemptions as per the table above. This will affect the fair presentation of financial statements. The National Steering Committee guides that the exemptions in the table above are minimum requirements. Accounting Officers can exceed these requirements and include other assets and liabilities in FY 2025/2026.

2.1.6 Opening Balances for Inventories

Appendix 1 shows the Inventory register as configured in IFMIS. There are two crucial unit costs for Inventory. One for the initial measurement (historical cost) and another for the subsequent measurement (net realizable value). Key steps to follow in populating the template in IFMIS are as follows:

- **Identify the inventory:** Select the specific inventory items using the identification criteria provided above in this Circular.

- **Determine the quantity:** Enter the physical number of units for each item that you have on hand at the start of the period.
- **Specify the unit cost:** Enter the cost per unit for each item. For this year, fill in the columns with the historical cost. Take note that the historical cost for each item is derived as per the paragraph. 2.1.2 above. IFMIS will automatically calculate the total cost based on the quantity and the unit price.
- **Enter the transaction:** IFMIS remains on a cash basis until 1st July 2026. Therefore, you enter a journal entry debiting Inventory line items (as per SCOA) and crediting Retained Earnings to recognize the opening balances for the inventories.
- **Ensure consistency:** The total value entered in the inventory opening balance must match the balance for the inventory assets for FY 2024/2025, which must be verifiable through an audit of the opening balance. Subsequently, inventory balances should be presented consistently across the financial periods.

2.1.7 Risks in Inventory Accounting

Risks in inventory accounting may include measurement inaccuracies in inventory stock balances, as well as operational risks such as theft, non-delivery, damage, and obsolescence. Other key risks include poor demand forecasting, leading to overstocking; supply chain disruptions, resulting in understocking; and record-keeping errors, all of which can lead to financial losses, wasted resources, and poor service delivery.

Other risks include regulatory and compliance risks associated with processed agricultural products and medical supplies. Environmental factors, such as natural disasters or fires, can damage or destroy inventory.

Accounting Officers are encouraged to mitigate these risks by ensuring all transactions are based on an approved procurement plan and the appropriated budget. All processing must be through e-GP and IFMIS. Accountants and procurement officers deployed in these systems must be cognizant of the content of this Circular and avoid administrative errors in data entry, receipt of goods, counting, handling, or tracking inventories. Physical spaces and rooms where the inventory is received and stored must ensure that proper ventilation, fire-fighting equipment, anti-flooding measures, and security arrangements are in place.

2.2 IDENTIFICATION AND RECOGNITION OF NON-FINANCIAL ASSETS AND LIABILITIES ACQUIRED DURING FY 2025/2026

Transitioning entities are encouraged to continually identify and recognize non-financial assets and liabilities over the remaining transition. With respect to this, entities are guided as follows:

- a) Transitioning entities should continue to identify and record their financial statements in their fixed assets registers within the IFMIS system. Entities should disclose these assets in the financial statements where they have not yet been recognized.
- b) All assets acquired and liabilities incurred during **Year 2** of transition should be recognized in the statement of financial position at the acquisition cost.

- c) Entities are encouraged to recognize assets acquired in the past, and whose data on cost or valuation is available in their statement of financial position, and make the relevant disclosures.
- d) The depreciation of the assets recognized above is outlined in the transition roadmap, which is available on the National Treasury's website.

2.3 INTEGRATED FINANCIAL MANAGEMENT INFORMATION SYSTEM (IFMIS)

IFMIS is an Oracle-based system currently configured to support the cash basis of accounting. To support the transition from cash to accrual accounting, the IFMIS system is undergoing a re-engineering process. The reengineering process has commenced, and the accrual-based system is expected to go live starting 1st July, 2026.

Transitioning entities are required to prepare transitional IPSAS financial statements by capturing cash-basis figures in IFMIS and adjusting them for accrued amounts. To facilitate this process,

PSASB and the National Treasury have provided templates for accrual-based financial reporting in MS Word and MS Excel. These templates can be accessed on the PSASB and National Treasury websites, and officers from the Accounting Services Department are available to provide further guidance and support. You can send your support request to ipsasaccrual@treasury.go.ke.

2.4 ACCRUAL- BASED FINANCIAL REPORTING TEMPLATES

The Public Sector Accounting Standards Board developed the accrual-based financial reporting templates, which were issued vide letter dated 3rd October, 2024. These templates guided FY 2024/2025 reporting, the **Year 1** of the transition. Quarterly reporting templates for **Year 2** of the transition have been revised to include new and applicable standards, while the annual financial reporting templates will be revised in Q3 of the financial year and issued through a National Treasury Circular.

The transition is phased and requires entities to capture financial assets and financial liabilities in **Year 1**, inventories in **Year 2**, and all the other assets and liabilities in **Year 3**. It is important to note that the financial reporting templates will be comprehensive, allowing entities to capture all assets and liabilities with verifiable information over the transition period.

PSASB will continue to revise the templates to incorporate recommendations from users and other stakeholders, as well as changes to accounting standards. The templates are available in MS Word and MS Excel formats on the National Treasury website (www.treasury.go.ke, Accountant General's Desk) and the PSASB website.

2.5 TRAINING COMMUNICATION AND SUPPORT

2.5.1 Training and Sensitization

The Steering Committee will sensitize key stakeholders to create awareness about the transition project. Several training sessions have since been conducted for financial statement preparers. The training will use various modalities, including physical workshops, virtual forums, eLearning platforms, and on-the-job training.

The National Treasury and PSASB, among other stakeholders, will continue to collaborate to ensure that transitioning entities are well-trained and sensitized in all areas of the transition.

The targeted groups include the leadership of transitioning entities, accountants, auditors, and other officers involved in the PFM implementation cycle.

A training calendar will be released each year and communicated to the transitioning entities.

2.5.2 Technical Support

The National Treasury, through the Accounting Services Directorate, has technical officers assigned to support implementing entities in financial reporting. Transitioning entities are urged to contact the officers for technical support in accrual accounting. Additionally, PSASB has released several guidelines on specific IPSAS standards, which are available on its website.

2.5.3 Trainers of Trainees (TOTs)

To ensure the knowledge on the accrual basis of accounting is disseminated to all relevant stakeholders, the Steering Committee has trained a pool of TOTs who will train financial statement preparers. The trainers consist of officers from PSASB, the National Treasury, the Office of the Auditor General, and other public entities.

2.5.4 Communication

Over the transition period, the Steering Committee will provide regular updates and guidelines on the transition process through the following media of communication:

1. Circulars
2. Dedicated website for transition to accrual accounting
3. Social media pages for quick updates
4. Emails
5. Posting of guidance materials through the dedicated website
6. Print media communication
7. Newsletters and publications

2.5.5 Clarifications and Access to Accrual-Based Documents

To access documents related to the transition from cash to accrual basis, entities can log in to the National Treasury website and click the accrual accounting link under the Accountant General Desk <https://www.treasury.go.ke/accountant-generals-desk/> and www.psasb.go.ke.

Transitioning entities are encouraged to contact the Steering Committee at ipsasaccrual@treasury.go.ke for further clarification and feedback.

Yours



DR. CHRIS KIPTOO, CBS
CHAIRMAN, NATIONAL STEERING COMMITTEE
PRINCIPAL SECRETARY/THE NATIONAL TREASURY

Copy to:

Cabinet Secretary

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NAIROBI

Auditor-General

Office of the Auditor-General

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NAIROBI

APPENDIX 1: STORES LEDGER AND STOCKS CONTROL CARD

FORM S3

**GOVERNMENT OF KENYA
STORES LEDGER AND STOCKS CONTROL CARD
VOTE 1012 Office of the Deputy President**

Ministry	Inventory Organization	Inventory Organization Name	Store Location
Office of the Deputy President	ODP	Office of the Deputy President	CABA GEN

Period Start Date	11/3/2025 0:00
Period End Date	11/3/2025 23:59

Item Code	Item Description	Unit of Issue
M000002524	Toner; CE 410	Each

Transaction Date	Receipt (\$12) / S11 Number	Supplier/ Requisitioning Office	Receipts			Issues	Stock Count Adjustments		Others	Balances	Net Replacemnt Value	Value
			Quantity	Invoice Unit Price / Historical Cost	Value		Quantity	Positive Stock Adjustments				
17-Jan-2024 11:24:54	611	PEER PERFORMANCE LIMITED	15	25,750	386,250					15	24,000.00	360,000
20-Feb-2024 09:35:00	1234	IFMIS Department				4				11	24,000.00	264,000
	C/F									11	24,000.00	264,000

Item Code	Item Description	Unit of Issue
M000980024	Purchase of Assorted Tonners	Each

Transaction Date	Receipt / S11 Number	Supplier/ Requisitioning Office	Receipts			Issues	Stock Count Adjustments		Others	Balances	Net Replacemnt Value	Value
			Quantity	Invoice Unit Price	Value		Quantity	Positive Stock Adjustments				
30-Aug-2024 14:14:22	1846	PROFULGENT ENTERPRISES	1	803,000	803,000					1		803,000
	C/F									1		803,000

Grand Total	1,067,000
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Note: FIFO Measurement

