FINANCIAL REPORTING (ACCOUNTING FOR REVENUE IPSAS FRAMEWORK) GUIDANCE 2023

FINANCIAL REPORTING COUNCIL

3rd Floor, Anglo Mauritius House, Intendance Street, Port Louis
Website: http://frc.govmu.org
Email: frc.mauritius@intnet.mu

Introduction

This Financial Reporting (Accounting for Revenue IPSAS Framework) Guidance 2023 ("Guidance on Revenue IPSAS Framework'') is issued pursuant to Sections 6(2)(f) and 75 of the Financial Reporting Act.

The Financial Reporting Council (FRC) is operated with a view to encouraging quality reporting and making financial statements of State-Owned Enterprises (SOEs), more transparent and comparable.

The Financial Reporting Council (FRC) has taken note of the challenges faced by various SOEs on the accounting treatment of revenue from exchange and non-exchange transactions as per IPSAS requirement and has come up with a guidance on Revenue IPSAS Framework.

Purpose of this Guidance

The purpose of this document is to provide guidance on the accounting treatment of revenue from exchange and non-exchange transactions. The contents should be read in conjunction with IPSAS 9 *Revenue from Exchange Transactions* and IPSAS 23-*Revenue from Non-Exchange Transactions.*

Scope of this Guidance

This guidance applies to all entities complying with IPSAS in preparing their Financial Statements under accrual based IPSAS.

Methodology used in the preparation of the Guidance on Revenue IPSAS Framework

Following the recommendation by the Council to prepare a guidance on the accounting treatment of revenue from exchange and non-exchange transactions for SOEs, this matter was brought to the attention of the Standard Review Panel (SRP), a Panel of the Financial Reporting Council (FRC). A Sub Group of the SRP ('SRP IPSAS Sub Group'') was then established to monitor the development of this guidance.

The guidance on Revenue IPSAS Framework followed the following due process which started in June 2021:

1. Internal Consultation

   A number of internal consultations through meetings of the sub-group members were held to address the challenges faced by SOEs in the accounting treatment of revenue from exchange and non-exchange transactions.

2. Draft of the Guidance on Revenue IPSAS Framework

   The SRP IPSAS Sub Group together with the staff of the FRC drafted a preliminary draft of the guidance for discussion among members. Several meetings were held to brainstorm on the preliminary document so as to ensure that it was sensible and in line with the Council's expectations.

3. Finalisation of the Guidance

   In June 2022, the Guidance on Revenue was finalised by the Standard Review Panel, for consultation.

4. External Consultation

   In July 2022, a draft of the Guidance was circularised to stakeholders to obtain the views from all interested parties. The aim is to evaluate the results of this public consultation for evaluation (both in terms of value relevance and validity) so as to finalise the Guidance on Revenue.

5. Council Approval

   The final version of the Guidance on Revenue IPSAS Framework was submitted to the Council for approval on 27 February 2023.

6. Dissemination of the final Guidance on Revenue IPSAS Framework

   Following the approval of the Council, the Guidance is being disseminated to the key stakeholders.

7. The Guidance on Revenue IPSAS Framework is enclosed.

Prepared by the Financial Reporting Council
February 2023

Financial Reporting (Accounting for Revenue IPSAS Framework) Guidance 2023

Guidance issued by the Financial Reporting Council under sections 6(2)(f) and 24 of the Financial Reporting Act

TABLE OF CONTENTS

1. Short title

This Guidance may be cited as the **Financial Reporting (Accounting for Revenue IPSAS Framework) Guidance 2023**.

2. Definitions

The following terms are used in this guidance with the meanings specified:

(a) Best estimate of the expenditure required to settle the present obligation is the amount that an entity would rationally pay to settle the obligation at the reporting date or to transfer it to a third party at that time.

(b) Cash comprises cash on hand and demand deposits.

(c) Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(d) Conditions on transferred assets are stipulations that specify that the future economic benefits embodied in the asset is required to be consumed by the recipient as specified or future economic benefits must be returned to the transferor.

(e) Control of an asset arises when the entity can use or otherwise benefit from the asset in pursuit of its objectives, and can exclude or otherwise regulate the access of others to that benefit.

(f) Deferred inflow is an inflow of service potential or economic benefits provided to the entity for use in a specified future reporting period that results from a non-exchange transaction and increases the net assets.

(g) Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

(h) Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

(i) Material: Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature and size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.

(j) Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

(k) Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits is required to be returned to the transferor if not deployed as specified.

(l) Revenue is inflows during the current reporting period, which increase the net assets of an entity other than ownership contributions and increases in deferred inflow; and inflows during the current reporting period that result from decreases in deferred inflows.

(m) Stipulations on transferred assets are terms in laws or regulations, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the Entities complying with IPSAS.

3. Purpose of the guidance

The purpose of this document is to provide guidance on the accounting treatment of revenue from exchange and non-exchange transactions. The contents should be read in conjunction with IPSAS 9- Revenue from Exchange Transactions and IPSAS 23-Revenue from Non-Exchange Transactions.

It is to be noted that the impact of the COVID-19 crisis and the related government measures might have a major negative impact on the business activities of State-Owned Enterprises (SOEs). In light of this pandemic, it is important that the financial statements of these SOEs be reported in a transparent and comparable way taking into consideration this guidance and IPSAS requirements.

4. Scope of the guidance

This guidance applies to all entities complying with IPSAS in preparing their Financial Statements under accrual based IPSAS. While the guidance focuses on the recognition, measurement, and disclosure of exchange and non-exchange revenue as presented in annual IPSAS financial statements, it does not necessarily address all accounting matters nor all the challenges faced in practice, including those that may be specific to a particular entity. In such cases, the entities should refer to IPSAS 9- Revenue from Exchange Transactions and IPSAS 23-Revenue from Non-Exchange Transactions for detailed information on recognition, measurement and disclosure of revenue.

5. Revenue under IPSAS 9 and IPSAS 23

5.1 Definition of revenue

IPSAS 9 *Revenue from Exchange Transactions* and IPSAS 23 *Revenue from Non-Exchange Transactions* prescribe requirements for the financial reporting of revenue arising from exchange and non-exchange transactions.

Revenue under IPSAS 23 *Revenue from Non-Exchange Transactions* '*comprises gross inflows of economic benefits or service potential received and receivable by the reporting entity, which represents an increase in net assets/equity, other than increases relating to contributions from* *owners*. In contrast, amounts collected as an agent on behalf of the government, another government organisation or other third parties are not revenue.

Revenue under IPSAS 9 *Revenue from Exchange Transactions 'includes only the gross inflows of economic benefits or service potential received and receivable by the entity on its own account'.*

5.2 Sources of revenue

Revenue for IPSAS compliant entities comprises of:

(a) Revenue from Non-Exchange Transactions

This arises when an entity receives resources and provides no or nominal consideration in return (IPSAS 23.9).

IPSAS 23 distinguishes between two major types of non-exchange revenue: taxes and transfers.

- Taxes are defined as economic benefits compulsorily paid or payable to public sector entities, in accordance with laws or regulation, established to provide revenue to the government, excluding fines or other penalties imposed for breaches of laws or regulation (IPSAS 23.7).

- Transfers (whether cash or noncash), including grants, debt forgiveness, fines, bequests, gifts, donations, goods and services in-kind, and the off-market portion of concessionary loans received. All these items have the common attribute that they transfer resources from one entity to another without providing approximately equal value in exchange, and are not taxes as defined in this Standard.

(b) Revenue from exchange transactions

This arises when the entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services, or use of assets) to the other party in exchange (IPSAS 9.5).

(c) Revenue from both exchange and non-exchange transactions

There might also be combinations of exchange and non-exchange transactions. In such cases, the entity provides goods or services in return for the resources received, but the fair value of these goods or services does not approximate the fair value of the resources received (e.g. a loan at an interest rate below market terms). In such a transaction, the exchange and the non-exchange components should be accounted for separately (IPSAS 23.10; regarding concessionary loans: IPSAS 23.105A).

For identifying and separating an exchange component and a non-exchange component, significant judgement is required.

In these cases, an examination of the substance of the transaction will determine if they are exchange or non-exchange transactions. For example, the sale of goods is normally classified as an exchange transaction. If, however, the transaction is conducted at a subsidized price, that is, a price that is not approximately equal to the fair value of the goods sold, that transaction falls within the definition of a non-exchange transaction. In determining whether the substance of a transaction is that of a non-exchange or an exchange transaction, professional judgment is exercised. In addition, entities may receive trade discounts, quantity discounts, or other reductions in the quoted price of assets for a variety of reasons. These reductions in price do not necessarily mean that the transaction is a non-exchange transaction.

5.3 Revenue recognition as per IPSAS

5.3.1 Revenue arising from exchange transactions

IPSAS 9 bases the revenue recognition on the type of transaction, for example, whether revenue relates to the provision of goods, services, interest, royalties or dividends.

The recognition criteria for each type of exchange transactions are as follows:

- Sale of goods

  Revenue from the sale of goods shall be recognized when all the following conditions have been satisfied (IPSAS 9):

  (a) the entity has transferred to the buyer 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 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.

- Rendering of services

  While the recognition of revenue arising from the sale of goods depends on transferring the significant risks and rewards of ownership of goods to the customer, the revenues associated with the rendering of services shall be recognized by reference to the stage of completion of the transaction at the end of the reporting period. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied (IPSAS 9):

  (a) the amount of revenue can be measured reliably;
  (b) it is probable that the economic benefits associated with the transaction will flow to the entity;
  (c) the stage of completion of the transaction at the end of the reporting period can be measured reliably; and

(d) the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

- Interest, royalties and dividends

  For the interest, royalties and dividends: Revenue shall be recognized on the following (IPSAS 9):

  (a) interest shall be recognized on a time proportion basis that takes into account the effective yield on the asset;
  (b) rental income is recognised as the income is earned in accordance with the terms of the tenancy;
  (c) royalties shall be recognized on an accrual basis in accordance with the substance of the relevant agreement; and
  (d) dividends shall be recognized when the shareholder's right to receive payment is established.

5.3.2 Revenue from non-exchange transactions

IPSAS 23 set out the application of the assets-liabilities approach to the public sector entities for the recognition of revenues arising from the non-exchange transactions. This assets-liabilities approach with respect to recognition of revenues works as follows:

1. Determine if the entity can recognize an asset from a non-exchange transaction.
2. Identify the stipulations attached to the transaction or arrangement and determine if they give rise to conditions or restrictions.
3. Recognize revenue to the extent that an asset is recognized, and any present obligation is satisfied (i.e. to the extent that conditions are met).
4. Measure revenue at the amount of the increase in net assets recognized by the entity.

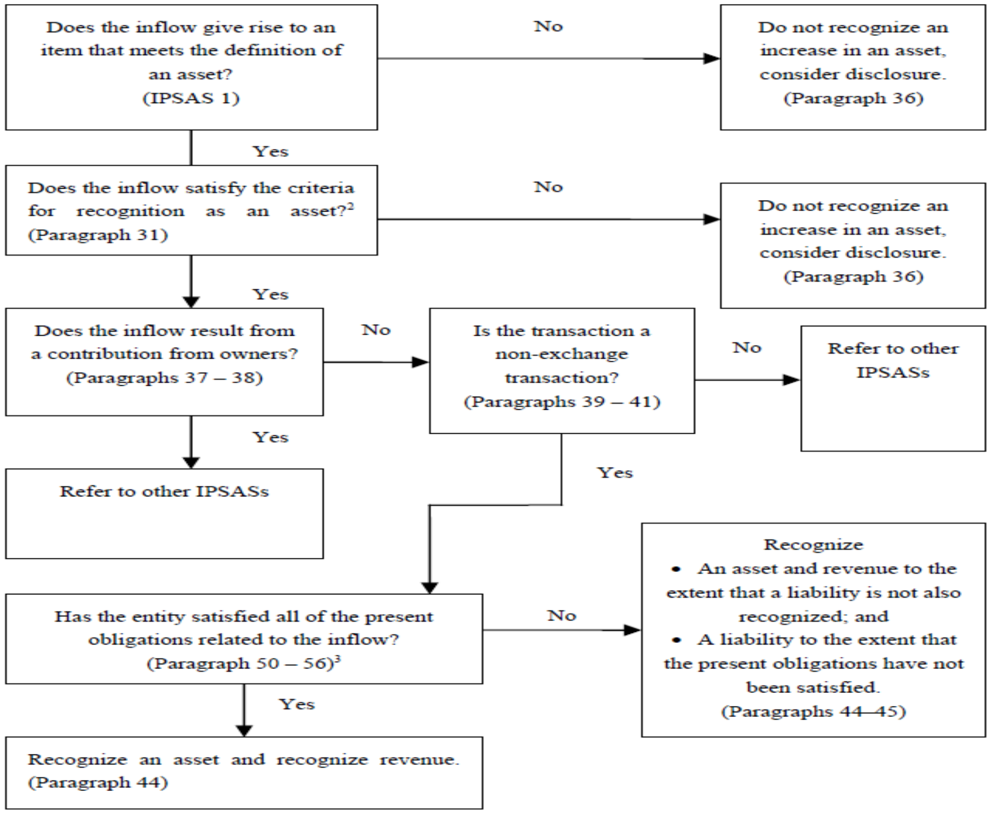
This means that under the assets-liabilities approach, described in IPSAS 23, the starting point of the revenue recognition is the determining whether an arrangement gives a right to receive resources that would meet the definition of an asset. Once the right to receive resources is confirmed, the public sector entity is required to determine whether it controls such a resource and otherwise meets the definition of an asset.

Once the contribution receivable has been recognised as an asset, a corresponding revenue is recognised unless stipulations qualifying as 'conditions over transferred assets' (IPSAS 23.17) exist in the binding agreement. In the presence of qualifying conditions, the recipient incurs a present (return) obligation on initial recognition that is recognised as a liability.

Revenue recognition is deferred until such conditions and present obligations are met. This has no impact on asset recognition. The carrying amount of the liability is subsequently reduced when the present obligation is satisfied. A reduction in the liability also leads to the recognition of revenue (IPSAS 23.45).

The following flow chart illustrates the analytic process an entity undertakes when there is an inflow of resources to determine whether revenue arises:

Illustration of the Initial Analysis of Inflows of Resources[1]



(source: IPSAS 23 Revenue from Non-Exchange Transactions)

Please refer to *Annex 1* for overview of revenue recognition for IPSAS compliant entities.

5.4 Measurement of revenue

5.4.1 Measurement of revenue from exchange transactions

Revenue should be measured at the fair value of the consideration received or receivable (IPSAS 9.14).

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 considering the amount of any trade discounts and volume rebates allowed by the entity.

In most cases, the consideration is in the form of cash or cash equivalents and the amount of revenue is the amount of cash or cash equivalents received or receivable. However, when the inflow of cash or cash equivalents is deferred, the fair value of the consideration may be less than the nominal amount of cash received or receivable. For example, an entity may provide interest free credit to the purchaser or accept a note receivable bearing a below-market interest rate from the purchaser as consideration for the sale of goods. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest (for example Govt of Mauritius 5-year Bond rate, Treasury notes rate or Internal Rate of Return).

5.4.2 Measurement of revenue from non-exchange transactions

If an asset acquired through a non-exchange transaction is recognised, it is initially measured at its fair value as at the date of acquisition (IPSAS 23.42).

Revenue from non-exchange transactions is measured at the amount of the increase in net assets (IPSAS 23.48). Therefore, the amount of revenue that is recognised depends on the initial measurement of the asset acquired and of the amount of the potential liability for any present obligation in respect of the same inflow.

The liability that reflects the present obligation arising from a non-exchange transaction is initially measured at the best estimate of the amount required to settle the present obligation at the reporting date (IPSAS 23.55). Revenue is then recognised to the extent that the conditions attached to the grant or transfer have been fulfilled and the liability is derecognised and recycled through non-exchange revenue.

Refer to *Annex 2* for examples.

5.5 Recognition and measurement principles relating to grants and other transfers

5.5.1 Recognition principles relating to grants and other transfers

IPSAS 23 includes guidance how to apply the revenue recognition to some specific types of non-exchange transactions. The specific provisions regarding transfers are discussed below.

(a) Debt forgiveness: revenue is recognised when the former debt is derecognised (IPSAS 23.85) and measured at the carrying amount of the debt forgiven (IPSAS 23.87).
(b) Fines: revenue is recognised when the fine receivable meets the definition of an asset and satisfies the criteria for recognition as an asset (IPSAS 23.89).
(c) Bequests: revenue can only be recognised when the entity has an enforceable claim (e.g. on the death of the testator or the granting of probate) (IPSAS 23.90). Revenue is measured at the fair value of the resources received or receivable (IPSAS 23.92).
(d) Gifts and donations: revenue is typically recognised when the entity receives the gift or donation (IPSAS 23.93). Regarding the gift or donation of goods in-kind, this might already be the case when there is a binding agreement to receive the goods (IPSAS 23.96). Goods in kind might, however, be subject to stipulations, which might defer revenue recognition (IPSAS 23.94 and 96).

If an entity receives services in-kind, it 'may but is not required to recognise services in-kind as revenue and as an asset' (IPSAS 23.98). Due to the many uncertainties surrounding services in-kind, including the ability to exercise control over the services, and measuring the fair value of the services, IPSAS 23 does not require the recognition of services in-kind. An asset resulting from services in-kind is in practice most often directly consumed, which then results in an expense being recognised together with revenue.

Moreover, IPSAS 23.104 clarifies that pledged items are not recognised as assets or revenue by the recipient entity as the control criteria have not been fulfilled.

5.5.2 Measurement of grants and other transfers

If an asset acquired through a non-exchange transaction is recognised, it is initially measured at its fair value as at the date of acquisition (IPSAS 23.42).

Revenue from non-exchange transactions is measured at the amount of the increase in net assets (IPSAS 23.48). Therefore, the amount of revenue that is recognised depends on the initial measurement of the asset acquired and of the amount of the potential liability for any present obligation in respect of the same inflow.

The liability that reflects the present obligation arising from a non-exchange transaction is initially measured at the best estimate of the amount required to settle the present obligation at the reporting date (IPSAS 23.55). Revenue is then recognised to the extent that the conditions attached to the grant or transfer have been fulfilled and the liability is derecognised and recycled through non-exchange revenue.

6. Policy guidance on Revenue recognition and relevant disclosures for entities complying with IPSAS

6.1 Revenue recognition

All revenue from Exchange and Non-Exchange transactions should be recorded on accrual basis as per the requirements of IPSAS. In this regard, a policy for revenue recognition should be devised by all entities complying with IPSAS.

6.2 Recognition of receivables

Accrued revenue is a product of the revenue recognition principle which requires that revenue be recorded in the period in which it is earned.

Receivables should include uncollected revenue from assessed and voluntary amounts committed to the entity based on enforceable commitments. These non-exchange receivables are stated at nominal value, unless the impact of discounting future contractual cash flows is material, less impairment for estimated irrecoverable amounts.

6.3 Disclosures required under IPSAS 9 & 23

An entity shall disclose the following:

(i) Either on the face of or in the Notes to accounts:

- Amount of revenue arising from exchanges of goods or services;
- Amount of receivables recognised in respect of exchange and non-exchange Revenue;
- Amount of liabilities in respect of transferred assets subject to conditions;
- The amount of liabilities recognised in respect of concessionary loans that are subject to conditions;
- The existence and amount of any advance receipt in respect of non-exchange transactions; and

- Amount of any liabilities forgiven.

(ii) In the Notes to accounts:

- Accounting policies adopted for recognition of revenue;
- Amount of each significant category of revenue recognised during the period;
- Measurement basis of fair value of inflowing resources; and
- Nature and type of donated assets/goods in-kind.

The disclosure of information about services in-kind is encouraged.

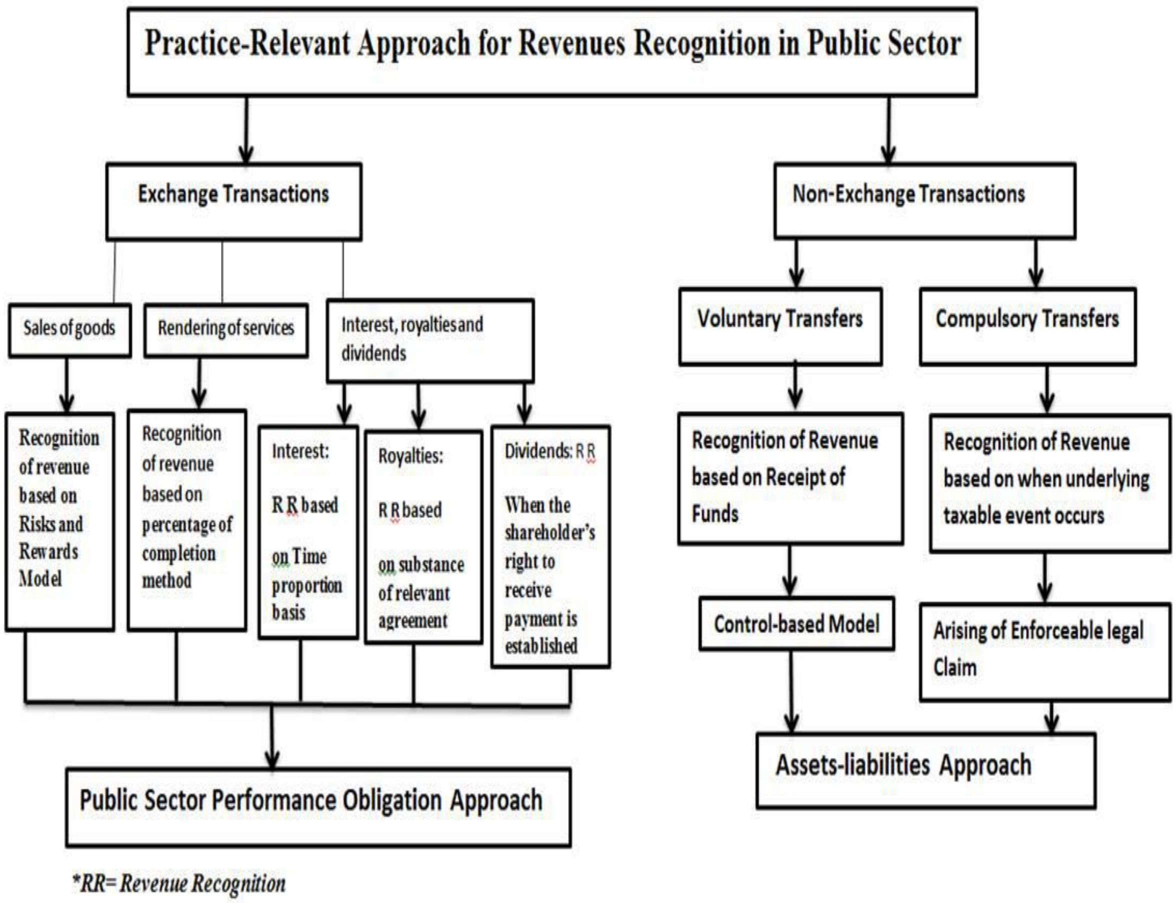
7.0 Effective date

This Guidance shall become effective for accounting periods beginning on/after 01 July 2021.

Made by the Council on 27 February 2023.

Annex 1

Figure 1: Overview of revenue recognition in the public sector



Annex 2

<u>Example 1: Grant with no Conditions</u>

The government (transferor) grants Rs 10 million to a local authority (reporting entity) for its recurrent expenditure. There are no stipulations attached to the grant.

How should the local authority account for the transaction?

Answer:

There are no stipulations attached to these grants and no performance obligation, so the transfers are recognised as assets and revenue in the general purpose financial statements of the Local Authority in the period they are received or receivable by the Local Authority.

Accounting Entries:
Dr Bank
Cr Revenue from Non-Exchange Transactions (Grant Revenue)

Example 2: Grant with Conditions

The government (transferor) grants Rs 10 million to a local authority (reporting entity) to be used to improve and maintain roads. Specifically, the money is required to be used as follows:

40% for existing roads

60% for new roads

Under the terms of the grant, the money can only be used as stipulated, and the local authority is required to include a note in its audited general purpose financial statements detailing how the grant money was spent. The agreement requires the grant to be spent as specified or be returned to the government.

Assuming grant meant for existing roads have been utilised while the grant meant for new roads have not been utilised, how should the local authority account for the transaction?

Answer:

Initial Recognition:

The local authority government recognises the grant money as an asset.

The local authority also recognises a liability in respect of the condition attached to the grant.

Accounting Entries:

Dr Bank –Rs 10 M (total grant received)

Cr Deferred revenue-Rs 10 M (total grant received)

At Year End:

As the local authority satisfies the condition, that is, as it makes authorised expenditures, it reduces the liability and recognises revenue in the statement of financial performance of the reporting period in which the liability is discharged.

Accounting Entries:

Dr Deferred revenue- Rs 4M (40% of Rs 10 M)

Cr Revenue from Non-Exchange Transactions (Grant Revenue) – Rs 4M (40% of Rs 10 M)

Example 3: Receipt of a Concessionary Loan

A Statutory Body receives loan funding of MUR 5 million from the Government for the replacement of pipes project. The agreement stipulates that the loan is to repaid over the 5-year period as follows:

Year 1:	0	no principal repayments
Year 2:	10%	of principal
Year 3:	20%	of principal
Year 4:	30%	of principal
Year 5:	40%	of principal
Total	**100%**	**of principal**

Interest is paid annually in arrears, at a rate of 5% per annum on the outstanding balance of the loan.

How should the Statutory Body account for the loan?

Answer:

1. The Statutory Body determines the market interest rate of similar loan. This is determined to be 10%.

   The difference between the proceeds of the loan and the present value of contractual payments in terms of the loan agreement, discounted using the market-related rate of interest is recognised as non-exchange revenue.

Table 1: Amortisation Schedule (Using Contractual Repayments at 5% Interest)

	Year 0 Rs	Year 1 Rs	Year 2 Rs	Year 3 Rs	Year 4 Rs	Year 5 Rs
Principal	5,000,000	5,000,000	5,000,000	4,500,000	3,500,000	2,000,000
Interest (Interest rate as per contract X Balance)	-	250,000	250,000	225,000	175,000	100,000
Payments (Principal + Interest)	-	(250,000)	(750,000)	(1,225,000)	(1,675,000)	(2,100,000)
Balance	**5,000,000**	**5,000,000**	**4,500,000**	**3,500,000**	**2,000,000**	**-**

Table 2: Discounting Contractual Cash flows (Based on market rate of 10%)

	Year 1	Year 2	Year 3	Year 4	Year 5
	1	2	3	4	5
	Rs	Rs	Rs	Rs	Rs
Principal Balance	5,000,000	4,500,000	3,500,000	2,000,000	-
Interest payable	250,000	250,000	225,000	175,000	100,000
Total Payments (Principal and Interest)	250,000	750,000	1,225,000	1,675,000	2,100,000
Present Value of Payments	227,273	619,835	920,361	1,144,048	1,303,935
Total Present Value of Payments					**4,215,450**

Proceeds Received	5,000,000
Less: Present Value of outflows (fair value of loan on initial recognition)	4,215,450
Off-market portion of loan to be recognised as non-exchange revenue	784,550

Table 3: Calculation of Loan Balance and Interest

Using the Effective Interest Method

	Year 1	Year 2	Year 3	Year 4	Year 5
	1	2	3	4	5
	Rs	Rs	Rs	Rs	Rs
Principal	4,215,450	4,386,995	4,075,695	3,258,264	1,909,091
Interest accrual (Principal X market-related rate)	421,545	438,700	407,569	325,826	190,909
Interest payments	(250,000)	(250,000)	(225,000)	(175,000)	(100,000)
Principal payments	-	(500,000)	(1,000,000)	(1,500,000)	(2,000,000)
Balance	**4,386,995**	**4,075,695**	**3,258,264**	**1,909,091**	**-**

1. On **initial recognition**, the entity recognises the following:

DR	Bank	5,000,000	
CR	Loan (Refer to Table 2)		4,215,450
CR	Non exchange revenue (Refer to Table 2)		784,550

Recognition of the receipt of the loan at fair value

2. Year 1: The entity recognises the following:

DR	Interest (Refer to Table 3)	421,545	
CR	Loan		421,545

Recognition of interest using the effective interest method (Rs 4,215,450 x 10 %)

DR	Loan (Refer to Table 1)	250,000	
CR	Bank		250,000

Recognition of interest paid on outstanding balance (Rs 5m x 5%)

3. Year 2: The entity recognises the following:

DR	Interest (Refer to Table 3)	438,700	
CR	Loan		438,700

Recognition of interest using the effective interest method (Rs 4,386,995 x 10 %)

DR	Loan (Refer to Table 1)	750,000	
CR	Bank		750,000

Recognition of interest and principal paid on outstanding balance (Rs 5m x 5%+ Rs 500,000)

4. Year 3: The entity recognises the following:

DR	Interest (Refer to Table 3)	407,569	
CR	Loan		407,569

Recognition of interest using the effective interest method (Rs 4,075,695 x 10 %)

DR	Loan (Refer to Table 1)	1,225,000	
CR	Bank		1,225,000

Recognition of interest and principal paid on outstanding balance (Rs 4.5m x 5%+ Rs 1m)

5. Year 4: The entity recognises the following:

DR	Interest (Refer to Table 3)	325,826	
CR	Loan		325,826

Recognition of interest using the effective interest method (Rs 3,258,264 x 10 %)

DR	Loan (Refer to Table 1)	1,675,000	
CR	Bank		1,675,000

Recognition of interest and principal paid on outstanding balance (Rs 3.5m x 5%+ Rs 1.5m)

6. Year 5: The entity recognises the following:

DR	Interest (Refer to Table 3)	190,909	
CR	Loan		190,909

Recognition of interest using the effective interest method (Rs 1,909,091 x 10 %)

DR	Loan (Refer to Table 1)	2,100,000	
CR	Bank		2,100,000

Recognition of interest and principal paid on outstanding balance (Rs 2m x 5%+ Rs 2m)