# Report
# on
# Review of the Guidelines for Accounting and Recognition of Non-Tax Revenue

## 16 January 2023

Casey Barnett
Advisor
Accounting and Auditing Regulator (ACAR)

**Summary**

A review of the Ministry of Economy and Finance draft Guidelines for Accounting and Recognition of Non-Tax Revenue was conducted to achieve compliance with IPSAS. Although the guidelines were drafted with an aim to achieve compliance with IPSAS ED70, it was found that the guidelines were broadly in line with IPSAS which is currently in effect. No changes are recommended to achieve alignment with IPSAS 9, however, some examples in the guidelines currently conflict with both IPSAS 9 and ED70 in that they recognize revenue on issuance of an invoice rather than during the period the revenue is earned; to solve this issue, ACAR may develop a policy on how to record end of period accrued revenue. A number of other minor improvements are also advised.

**Scope of Work**

This review was a desk review of the draft Guidelines for Accounting and Recognition of Non-Tax Revenue to achieve compliance with IPSAS currently in effect, including IPSAS 9. Stakeholders were not interviewed and there was no review of policies or practices currently in place. As a result, this review gives no comment on whether the examples in the text of the guidelines sufficiently reflect the transactions to be recorded.

**IPSAS 9 vs. ED70**

In the guidelines, there are no adjustments required to reconcile accounting for revenue under IPSAS 9 and ED70, except to remove references to ED70. It may be noted that section 2.1.2 introduces the recognition steps that are in ED70 but not in IPSAS 9. However, these recognition steps do not contradict IPSAS 9; it may be noted that the steps in recognition in ED70 were introduced mainly as a clarification of the intended approach under IPSAS 9.

While there are no adjustments to reconcile IPSAS 9 and ED70 in the guidelines, the guidelines have other errors that result in non-compliance with both IPSAS 9 and ED70.

## Recommended Revisions to the Guidelines

### Major Revisions

**1. Include an explicit reference to IPSAS**

It is not possible for any guidelines to cover every possible future event; therefore users will benefit by referring to the original standard from time to time to resolve an issue or to seek clarification. Therefore, it is advised that the guidelines explicitly state that the policy follows IPSAS that are in effect.

**2. Develop a policy to deal with accrued revenue**

The Example 1 and Example 2 in section 4.3.2 and Example 1 and 2 in section 4.3.3 are not in compliance with IPSAS since they show revenue recognition on the date of the invoice being issued. This can only be possible if at the end of the period the reporting entity records accrued revenue that has not yet been invoiced. A similar problem may exist for the right to a share of profit described in section 4.3.4, assuming that the government has an indisputable right to 10% of profits, regardless of a vote by shareholders. Therefore, ACAR is advised to develop a method to record accrued revenue at the end of the period and any reversals at the commencement of the following period.

**3. Delete all references to ED70**

The references to ED70 and ED71 should be removed such as by deleting the second paragraph in section 1.2 and deleting Appendix 1 (it may be noted that the approach portrayed in Appendix 1 is already communicated in the text of the guidelines, which is acceptable).

**4. Delete the second paragraph in Step 4 in section 2.1.2**

This paragraph reading “As required…. Completions” is not in compliance with neither IPSAS 9 nor ED 70.

**5. Section 2.2.3 Must be deleted completely**

2.2.3 conflicts not only with IPSAS but also conflicts with 2.2.2 which says that revenue is recognized at its fair value at the transaction date. Moreover, IPSAS requires impairment of assets, including receivables, so it is unnecessary and non-compliant to deny an allowance for doubtful debts. A general allowance for doubtful debts may not be necessary in many cases anwayy if the reporting entity has only a few significant receivables which it may assess individually for impairment.

**6. Section 3.2 Must be deleted completely**

It is not acceptable under IPSAS to record an unidentified receipt as "temporary revenue". Instead, ACAR is advised to develop a separate policy on use of suspense accounts to temporarily record such transactions. To comply with IPSAS, such receipts must be classified appropriately for financial reporting purposes.

**7. Delete the example in Section 3.3**

The example in Section 3.3 is intended to be an example of unearned income. However, it is not unearned income, it is a deposit liability because at the time of receiving the deposit, there has not yet been any event giving the government the right to receive those funds.

**8. Re-assign right to determine bad debts to the relevant accountant**

It should be noted that even though a receivable is determined as uncollectible, it does not mean that the government gives up its legal right to receive money. Therefore, there is no forfeit of any legal rights, so the requirement to have the Ministry approve bad debts is unnecessary, excessive and inefficient. The power to record a bad debt should instead be put in the hands of the finance manager of each ministry or other reporting entity.

**9. Use Functional Currency in all Examples**

Throughout the examples, it is recommended to use only Cambodian riel currency and not United States dollars. The functional currency of Cambodian government entities will be Cambodian riel and all accounting must be in the functional currency. Therefore, it may be misleading to users if there are example journal entries in USD.

## Minor Revisions

### 1. Discontinue reference to “Line Ministries”

As the guidelines will apply to all ministries, there is no need to refer to “line ministries” as this may create a doubt about which ministries the guidelines may or may not apply to. Moreover, there is no clear definition of “line ministries”. Therefore, we should simply refer to “ministries”.

### 2. Remove reference to “Malaysia” in footnote 2

It is unknown why there is a reference to Malaysia in footnote 2. If footnote 2 is reporting the policy of Malaysia, it may be removed. However, if it describes the policy of Cambodia, it may remain.

### 3. Change “refundable” to “non-refundable” in 4.1

The upfront fees paid are treated as non-refundable in the journal entries of the examples 1 and 2 in section 4.1, so it is recommended that the text is changed to say “non-refundable” for easier understanding.

### 4. Clarify the amount of $21,875 in example 1 in section 4.3.2.

There is no explanation of how this amount is determined and what it represents.

### 5. Rename account in Section 4.5, Example 2

It is suggested to rename the income account to something similar to “donation” and not “other revenue for investment expenditures”. The nature of the income is a donation and it should be classified as such.