



# PAYGo Accounting Brief

## October 2021

# Acknowledgments



This PAYGo Accounting Brief was implemented under the [PAYGo PERFORM initiative](#), a partnership of [CGAP](#), [GOGLA](#), and [IFC Lighting Global](#) to develop a standardized and transparent set of key performance indicators for the PAYGo sector.

The brief was authored by MFR, a global rating agency specializing in inclusive and sustainable finance.

PAYGo PERFORM and this PAYGo Accounting Brief are implemented in partnership with CDC, UNCDF, FMO, and [IFC donors]



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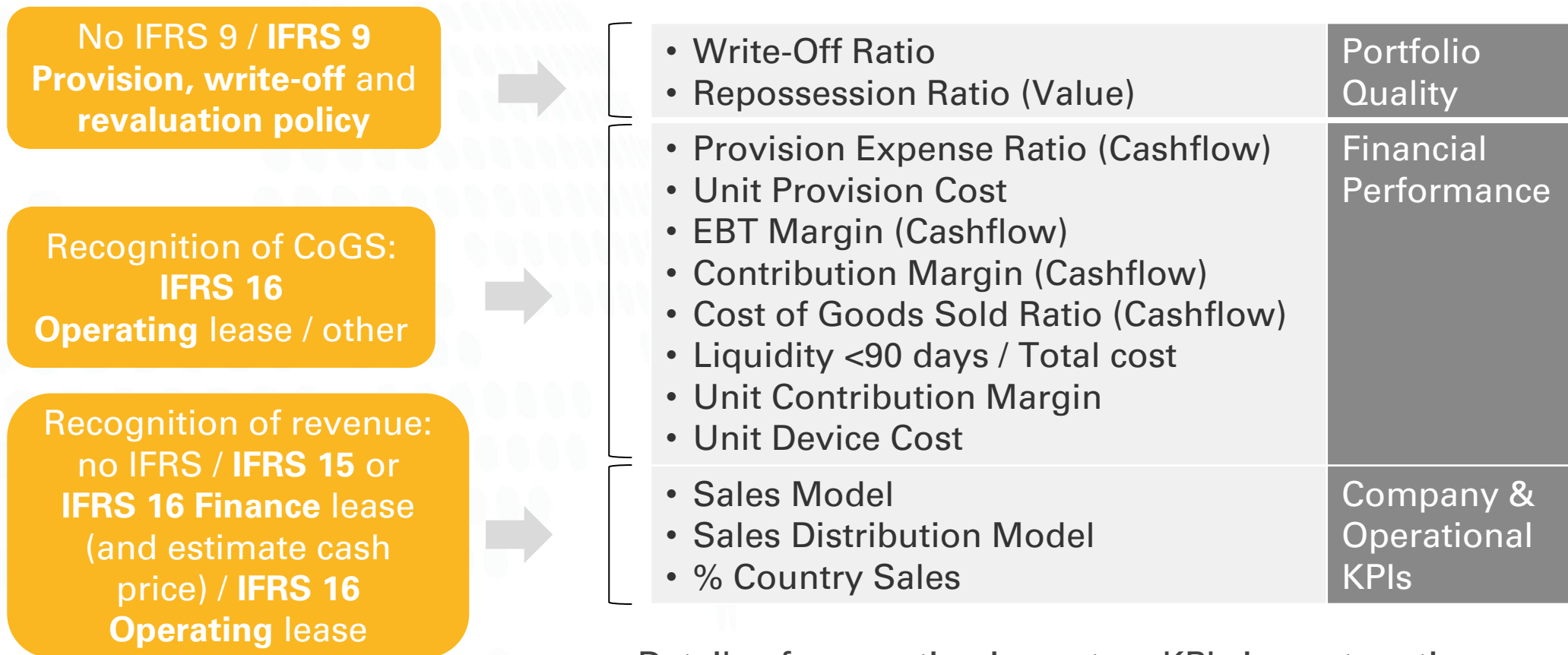
# 1 Introduction

# Risk of current accounting differences

The PAYGo PERFORM KPI pilot identified several different approaches undertaken by PAYGo firms in key accounting treatments. Beside the **impact** on the **PAYGo PERFORM KPIs**, the current variety of practices, including more and less prudent approaches, may expose PAYGo firms to risks:

- 1 **Regulation:** aggressive approaches sometimes lead to regulatory over-reactions (e.g. interest rate caps in several emerging markets; reversal of all interest accrued on portfolio under moratorium in Bolivia in 2020). Room for improvement in the consistency between the nature of operations and the legal status of firms may generate some compliance risk, e.g. carrying out leasing activities without being incorporated as a leasing company.
- 2 **Investors:** different accounting standards and practices may make the PAYGo industry less attractive in the eyes of non-specialized investors due to the higher effort needed to understand the Financial Statements, the KPIs and their accuracy and comparability limitations. Investors may feel more comfortable in an environment that appears transparent to them and where benchmarking is possible, e.g. the CGAP Microfinance Consensus Guidelines of 2003 positively contributed to an investor friendly environment for MFIs.

# Accounting impact on PAYGo PERFORM KPIs



Details of accounting impact on KPIs in next sections  
See IFRS and PAYGo PERFORM KPIs in annex

# Case for a PAYGo Accounting Brief

Given the impact of accounting practices on PAYGo PERFORM KPIs, investors' appetite and potential regulatory risk, IFC Lighting Global, GOGLA and CGAP decided to produce a PAYGo Accounting Brief, implemented by MFR, as part of the PAYGo PERFORM KPIs toolkit.



It's hard to require a certain method. But there needs to be awareness. As long as the accounts are IFRS approved they aren't illegal, but different standards can change the picture

A PAYGo Firm



# Goals of the PAYGo Accounting Brief

- ✓ To increase **awareness** and **transparency** on the different accounting treatments used in PAYGo firms, and their impact on financial reporting and the **PAYGo PERFORM KPIs**.
- ✓ To encourage **disclosure** of **accounting principles** that are important for an **accurate interpretation** of the **KPIs** and of the Financial Statements.
- ✓ To support more **meaningful analysis** of **PAYGo PERFORM KPIs** and Financial Statements (one firm or different firms).
- ✓ To be a starting point for **further elaboration** on these subjects, including industry discussions about potential gradual harmonization in future, to the extent possible.

The Brief is not intended:

- ✗ To **prescribe** specific accounting policies.
- ✗ To constitute a **comprehensive IFRS** study.
- ✗ To **calculate KPIs** and measure performance.
- ✗ To **forecast** the future evolution of accounting policies.



# Benefits of harmonization and disclosure

Benefits of **harmonization** of accounting policies to the extent possible:

- 1 Prudential and transparent financial reporting, in line with internationally recognized standards and good practices.
- 2 Meaningful and comparable PAYGo PERFORM KPIs, resulting in enhanced benchmarking.
- 3 Investments facilitated by more clarity in reviewing Financial Statements (harmonized patterns as an element of comfort) and hence a better understanding of the risk profile and the performance of firms.
- 4 Legal status clarity and trust from regulators.
- 5 Contract transparency and consumer protection.

In the short-medium term, transparently **disclosing** the accounting policies used and considering them in the interpretation of the KPIs would already be beneficial for points 2 and 3 above.

Long  
term

Short  
term

# Sources



**Literature** review (IFRS, national regulations applicable to PAYGo firms)



**Workshops** with representatives of 24 PAYGo country firms, including accounting policies and implementation, as part of the PAYGo PERFORM KPIs pilot (2020)



**Audited Financial Statements** (mainly 2019) of 11 PAYGo country firms (reviewed in 2021)



Follow-up **interviews** with representatives of 10 PAYGo country firms on accounting policies, opportunities and challenges (2021)



**Limitation:** inputs elaborated to the extent that Financial Statements were shared by PAYGo firms



Some accounting presentation choices in the Audited Financial Statements are determined by the **external auditors** and not by the PAYGo firm



PAYGo firms' information and Financial Statements are kept **confidential** and used by MFR only and for the sole purpose of this brief. Results are presented in aggregate and anonymized form

# Unit of analysis

- The unit of analysis in the PAYGo Accounting Brief is one PAYGo firm incorporated in its country of operation. This is referred to as a **PAYGo firm**
- It is recognized that some PAYGo firms are subsidiaries of **international groups** that own multiple PAYGo firms in multiple countries
- However, the international group Financial Statements (consolidated or holding type, e.g. including the **equity** and **debt investments** in the **subsidiaries**) are not the primary object of the PAYGo Accounting Brief

- The primary object of analysis are the **Financial Statements** of the **PAYGo firms** operating in each country, because this is where **PAYGo business operations are recorded**
- **Accounting standards** may **differ** across PAYGo firms in different countries belonging to the same international **group**



# 2 Revenue recognition



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**Before doing any analysis, you should ask which revenue recognition method is used**

*A PAYGo Firm*

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**A small sentence in the contract can change the IFRS applicable**

*A PAYGo Firm*

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**It would be bullish to recognize 100% revenues upfront: your costs may be front-loaded, but they will never be 100% upfront**

*A PAYGo Firm*

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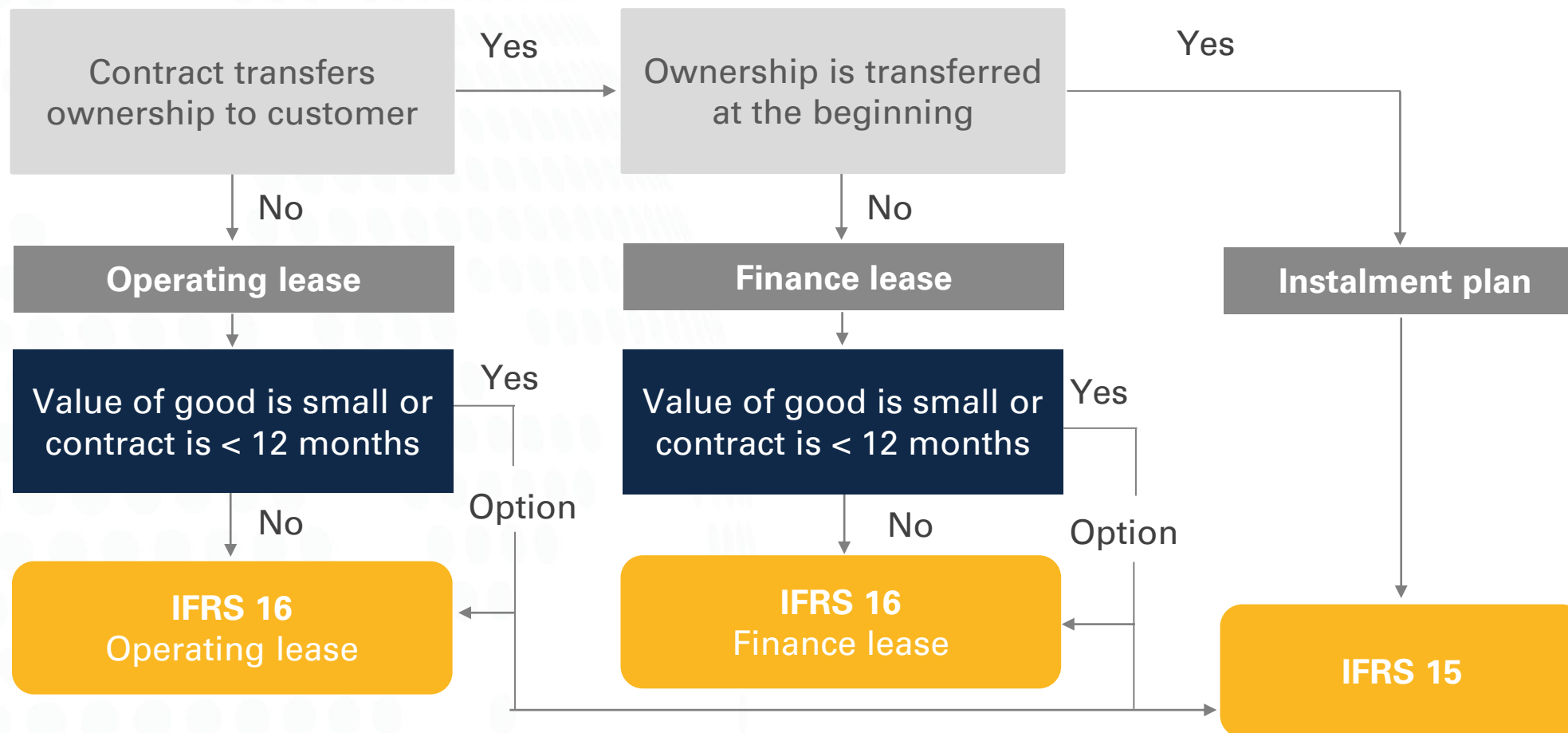
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**IFRS 16 Operating lease isn't perfect, but it correlates better with the costs and benefits of the business**

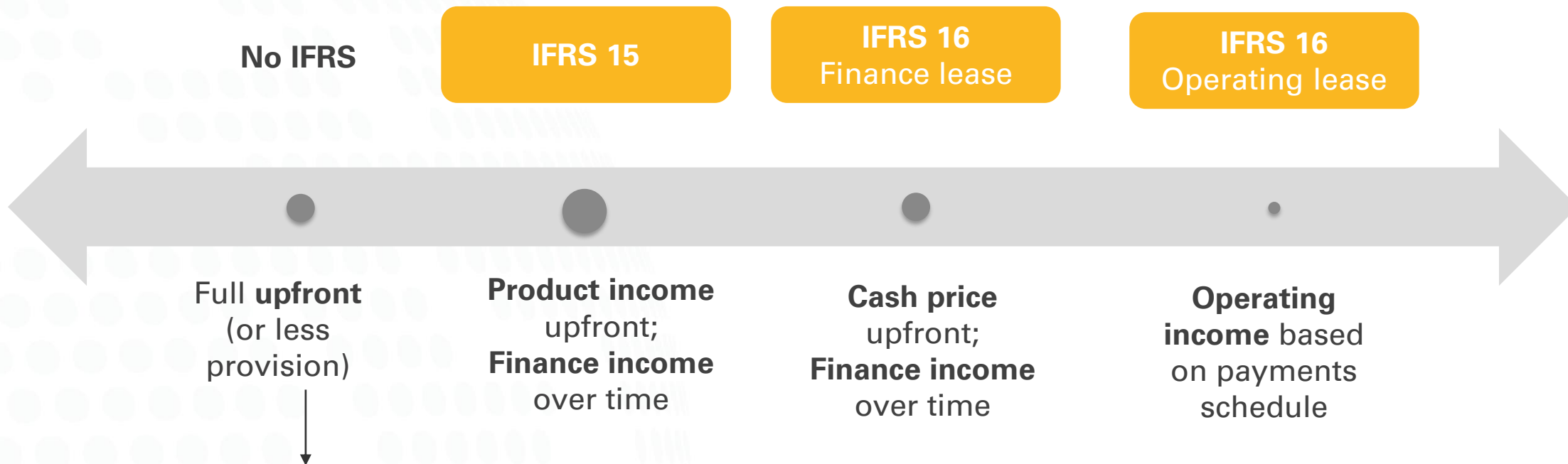
*A PAYGo Firm*

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# IFRS 15 and IFRS 16 Applicability



# Different revenue recognition in PAYGo firms



Higher share in **Francophone Africa**: several firms now moving to IFRS.

PAYGo firms in the sample adopting the practice:

majority
  some
  few

# Different financial statements of PAYGo firms 1



Different accounting standards result in different recognition of revenues in Financial Statements.

The next slide illustrates the recognition of the sample transaction described below as of 31st Dec 2021 depending on the accounting standard adopted:

- A unit is sold to a customer on 1st Jan 2021 under a 2 years PAYGo contract for a total value of USD 250;
- The cash price of the same unit is USD 150;
- The upfront deposit paid by the customer is USD 50;
- The total follow-on payments payable by the customer are USD 200;
- The follow-on payments from the customer are scheduled for USD 80 in 2021 and for USD 120 in 2022.
- The collection rate from the customer in 2021 is 70%



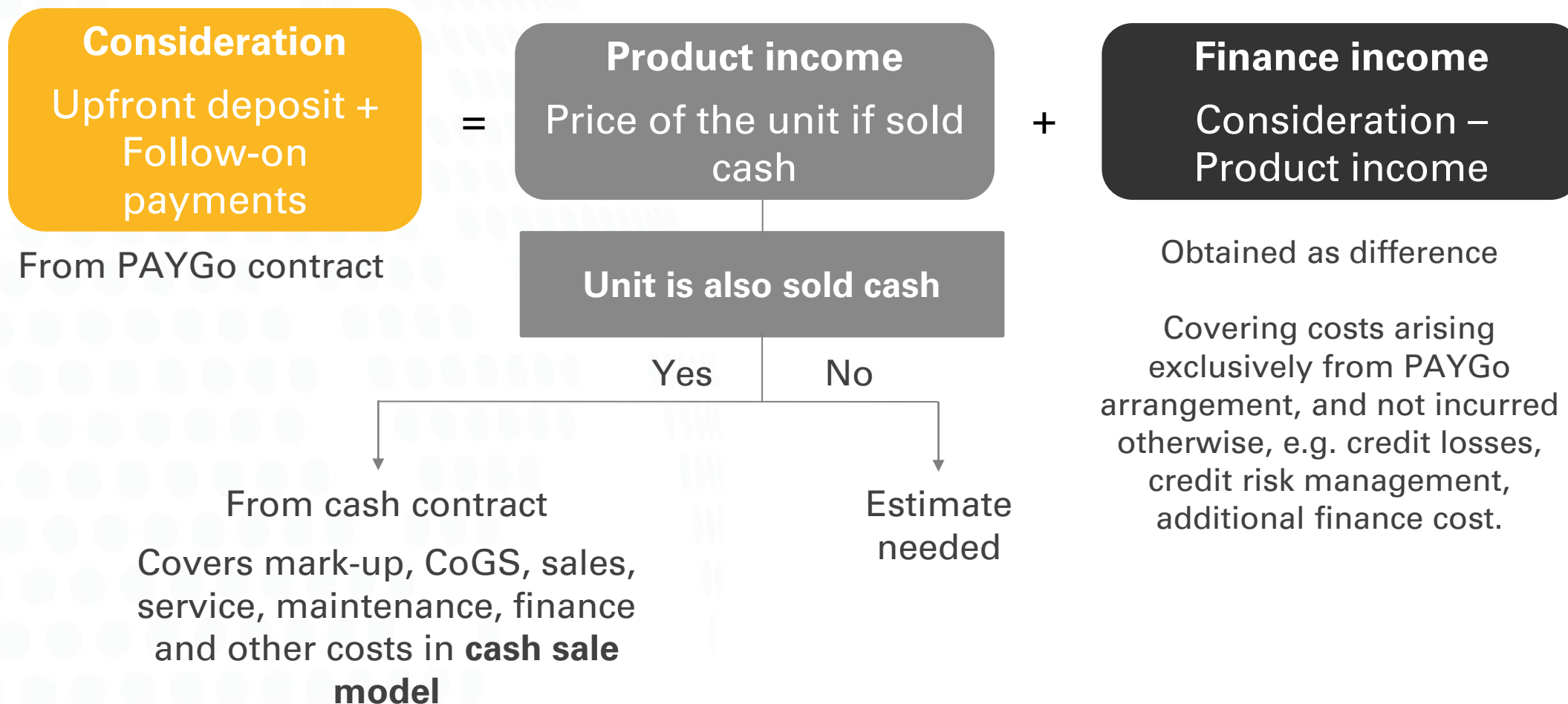
# Different financial statements of PAYGo firms 2

No IFRS		IFRS 15		IFRS 16 Finance lease		IFRS 16 Operating lease	
<b>Profit and loss</b>							
Revenue	250	Revenue	200	Finance income	50	Lease revenue	130
		<i>Product income</i>	<i>150</i>	Selling profit	30		
		<i>Gross revenue</i>	<i>250</i>	<i>Revenue</i>	<i>150</i>		
		<i>Fin. inc. discount</i>	<i>(50)</i>	<i>Cost of sales</i>	<i>(120)</i>		
		<i>Finance income</i>	<i>50</i>				
Cost of sales	(120)	Cost of sales	(120)			Lease asset amort.	(60)
Loss provision	(40)	Loss provision	(40)	Loss provision	(20)	Loss provision	(20)
<b>Balance sheet</b>							
<b>Assets</b>		<b>Assets</b>		<b>Assets</b>		<b>Assets</b>	
Trade receivables	90	Trade receivables	90	Net lease receivables	70	Trade receivables	24
<i>Gross receivables</i>	<i>130</i>	<i>Gross receivables</i>	<i>130</i>				
<i>Loss reserve</i>	<i>(40)</i>	<i>Loss reserve</i>	<i>(40)</i>	Loss reserve	(20)	Loss reserve	(20)
						Lease assets	60
		<b>Liabilities</b>					
		Deferred fin. Income	50				

**Mock-up:** selected items, data not real and for illustration purposes only  
Variations within each IFRS category (order, other) presented in next sections.

# Different product and finance income in PAYGo firms 1

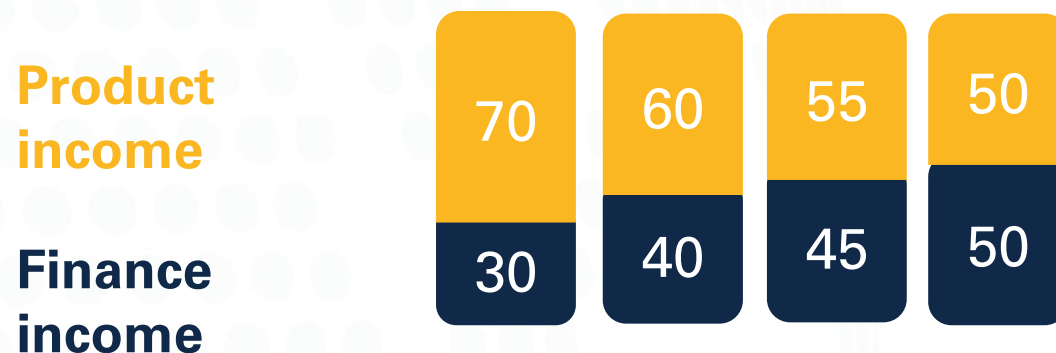
## IFRS 15:61 definition



## Different product and finance income in PAYGo firms 2

- Judgment used in **estimating** cash price, when unit is not sold cash (e.g. credit losses factored in or not factored in Finance income)
- Different **terms**: the longer the term, the higher the finance income %;
- Different term concepts: **contractual** (IFRS 15) or **effective** (more prudential)

↓ Different split (%) observed in firms:



**Finance income** further broken down in 1 firm into Service income and Finance income: both recognized over time, on a straight line and declining basis respectively

Opportunity: common criteria for comparability, based on benchmarks of products sold cash

# Different product income disclosure in PAYGo firms

## Product income (IFRS 15)

- ✓ Gross revenue and finance income discount disclosed separately (**difference = Product income**)
- ✗ Product income disclosed net of finance income discount (**= gross revenue – finance income discount**); Gross revenue information not available

PAYGo firms in the sample adopting the practice:

● majority   ● some   ● few

# IFRS 15 and IFRS 16 comparison for PAYGo firms

Which IFRS is applicable depends on the product, the nature of the operation described in **customer contracts** and on the accounting choice of the firm.

**IFRS 15** and **IFRS 16 Finance lease** are **similar** in some of their mechanisms. However, the **sale** nature of operations under IFRS 15 and the **lease** nature of operations under IFRS 16 entail significant differences in some accounting areas and possible regulation applicability:

	Evenly spread revenue and cost	Applicable VAT	Credit loss provision	Regulatory requirements
IFRS 15	x less evenly spread	x higher cost		✓ lower cost
IFRS 16 Finance lease		Intermediate cost		x higher cost if financial regulation is applicable
IFRS 16 Operating lease	✓ more evenly spread	✓ lower cost		

## IFRS 15 and IFRS 16: local authorities

Local authorities may have different incentives for PAYGo firms to adopt different accounting standards:

- **Tax authorities** may favor **IFRS 15**, resulting in higher and more upfront sales and revenues, resulting in higher VAT and profit taxes. For the same reason, provisioning policies resulting in under-provisioning of the credit risk may be favored, and more prudential provisioning may be questioned.
- On the other hand, **regulators** may favor **IFRS 16**, resulting in more prudential revenue recognition, as well as strict provisioning policies, to appreciate the performance of the firm, detect risks earlier than later, and preserve the stability of the firm in the system.

# IFRS 15 and IFRS 16: revenues and cost

## IFRS 15

Revenues and costs concentrated in year 1.  
If sales suddenly drop: potentially negative margin in subsequent years in case of **excessive product income recognition**, resulting in revenue recognition being more upfront than cost recognition.

## IFRS 16 Finance lease

## IFRS 16 Operating lease

**Revenues and costs** (i.e. lease asset amortization) **recognized evenly over the contractual duration**, resulting in higher alignment between revenue and cashflow from customers.

# IFRS 15 and IFRS 16: VAT

## IFRS 15

- VAT applicable as the invoice is issued, i.e. **upfront**, at the time of sale, calculated based on the **full price** of the **good**.
- VAT payable to tax authority upfront, regardless of whether the customer will pay VAT to the firm

## IFRS 16 Finance lease

- VAT applicable as invoices are issued, i.e. **upfront** and **over time as lease payments** accrue
- Firms can stop issuing new invoices to customers in the event of default, avoiding in part VAT payables to the tax authority that will not be paid by customers.

## IFRS 16 Operating lease

- VAT applicable as invoices are issued, i.e. **over time as lease payments** accrue
- Firms can stop issuing invoices to customers in the event of default, avoiding VAT payables to the tax authority that will not be paid by customers.



# IFRS 15 and IFRS 16: credit loss provision

## IFRS 15

- Calculated on **trade receivables**, originated **upfront** at the time of the sale and including the **full price** of the good (minus the down payment)

## IFRS 16 Finance lease

- Calculated on **net lease receivables**, i.e. the sum of lease payments receivable discounted at the interest rate implicit in the lease

## IFRS 16 Operating lease

- Calculated on **trade receivables**, originated for the **amounts of invoices issued over time and not paid yet**

# IFRS 15 and IFRS 16: regulatory requirement

## IFRS 15

- **Commercial regulation**, easier to comply with

## IFRS 16 Finance lease

- IFRS 16 is the standard typically adopted by leasing companies. Leasing companies are usually subject to financial regulation (even if regulation is still in process of evolving in many cases). PAYGo firms adopting IFRS 16 may raise questions around why they are not currently subject to financial regulation.
- **Financial regulation** requires prudential and performance standards (e.g. capital requirements, solvency, credit loss provisioning), which most likely poses a significant challenge to the majority of PAYGo firms in what is currently a young industry.
- However, the firms currently adopting IFRS 16 are not subject to the financial regulations in the emerging markets of operation.

## IFRS 16 Operating lease

# IFRS 15 and IFRS 16: possible evolution

- 1 **IFRS 16 finance lease** presents several aspects coherent with the lease-to-own nature of the majority of PAYGo operations. It is possible that some firms may evolve over time towards IFRS 16 finance lease, being subject to financial regulation or not .
- 2 However, **IFRS 15** always remains an option, when contracts to customers are clear on the outright sale nature of the agreement (as opposed to lease-to-own), or even when the nature of the operation is leasing, provided that the value of contracts is small.
- 3 Moreover, accounting standards are in constant **evolution** in PAYGo firms, e.g. one international group may move from a combination of standards (e.g. IFRS 15, IFRS 16, no IFRS), to a higher number of firms using IFRS 16; another international group may move from IFRS 16 to a combination of standards.
- 4 Given that industry harmonization is unlikely be achieved in the medium term, it is paramount for **investors** and interested parties to be **aware** of the **financial reporting standards used**, their **consequences on the KPIs** and **implications for comparability**.

# Revenue recognition impact on PAYGo PERFORM KPIs



- 1 **PAYGo PERFORM KPIs for Financial Performance** use **cashflow** instead of **revenue** to avoid the effect of different revenue recognition methods on the resulting KPI. Using cashflow instead of revenue is necessary considering the accuracy expectations of stakeholders conducting financial analysis. To the extent that revenue may converge in the long term towards harmonized recognition methods, it may be possible to move back from cashflow to revenue.
- 2 On the other hand, the **PAYGo PERFORM Company and Operational KPIs** employ revenue as the effects of differing revenue recognition approaches (see slide “Revenue recognition impact on PAYGo PERFORM KPIs”) may not dramatically distort the Company and Operational analysis.
- 3 One area of potential distortion is the impact on several **PAYGo PERFORM Financial Performance KPIs** of the different **recognition of Cost of Goods Sold (CoGS)** in IFRS 16 Operating lease compared to the other standards (see slide “Cost recognition impact on PAYGo PERFORM KPIs”). The most feasible way to address this in the short term seems to carefully consider the margins of non comparability with other firms when analyzing the financial performance of firms adopting IFRS 16 Operating lease.

# Revenue recognition impact on PAYGo PERFORM KPIs



To the extent the Sales model is PAYGo, the numerators of the following **Company and operational KPIs** will be higher, intermediate or lower in year 1 if the firm: does not adopt IFRS; adopts IFRS 15 or IFRS 16 Finance lease; or adopts IFRS 16 Operating lease:

- **Sales Model:** Sales Revenue PAYGo / Sales Revenue
- **Sales Distribution Model:** Sales Revenue B2C / Sales Revenue
- **% Country sales:** Sales Revenue Country 1 / Sales Revenue

# Revenue recognition impact on PAYGo PERFORM KPIs

## IFRS 16 Operating lease

Lease asset amortized over time, and not recognized 100% upfront



No IFRS

IFRS 15

IFRS 16 Finance lease

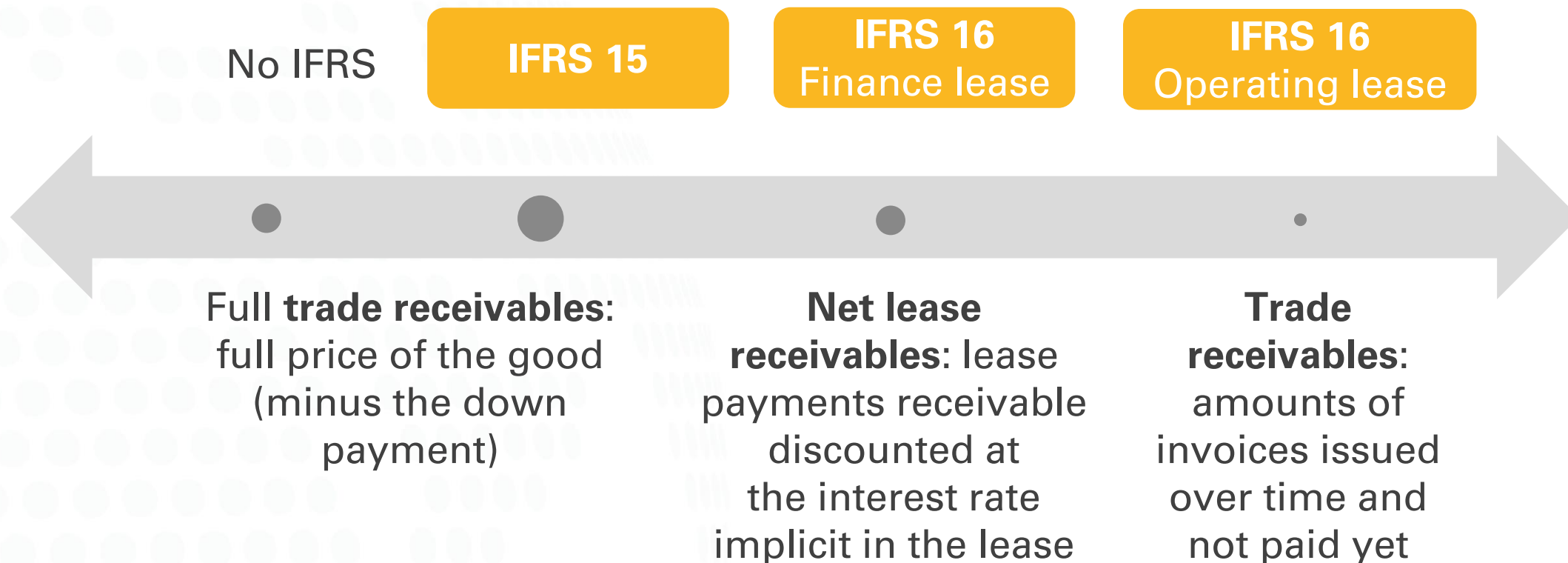
Financial Performance KPIs whose result is **higher** (↑) or **lower** (↓) in year 1 under **IFRS 16 Operating lease** compared to other standards:

- ↑ EBT Margin
- ↑ Contribution Margin (Cashflow)
- ↓ Cost of Goods Sold Ratio (Cashflow)
- ↑ Liquidity <90 days / Total cost
- ↑ Unit Contribution Margin

Consider accounting in KPIs analysis

# 3 Outstanding receivables

# Different outstanding receivables in PAYGo firms



PAYGo firms in the sample adopting the practice: ● majority ● some ● few



# Different receivables disclosure in PAYGo firm

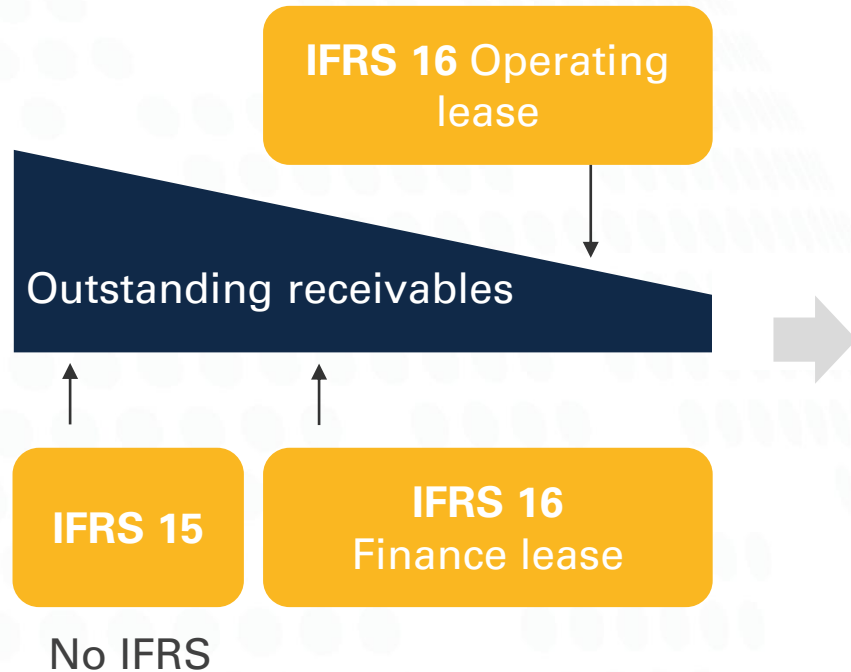
**Outstanding receivables**

**Deferred finance income (IFRS 15)**

- ✓ Gross outstanding receivables and deferred finance income disclosed separately ●
- ✗ Outstanding receivables presented net of deferred finance income, reducing the outstanding receivables unnecessarily. Deferred finance income is not meant to reduce an asset (as the Credit loss reserve does with impaired receivables), but to move part of the income to future exercises, without reducing the amount of the asset. ●
- ✗ Customer receivables presented with other receivables ●
- ✓ Liability (to Gross outstanding receivable (assets unnecessary income postponed to future periods) ●
- ✗ Contra-asset rily reduced) ●

More (✓) or less (✗) disclosure. Firms in the sample adopting the practice: ● majority ● some ● few

# Outstanding receivable impact on PAYGo PERFORM KPIs



Suggested to calculate the **Portfolio Quality KPIs** using the Outstanding receivables as per PAYGo PERFORM definition (i.e. full trade receivable), extracted from the **operating system**, and not from the Financial Statements if this differs from the PAYGo PERFORM definition.

In this case, the impact of the different accounting approaches on the Outstanding receivables is a possible **difference** between the value used to **calculate KPIs** and the value in the **Financial Statements**, that can be solved with transparent reconciliation.

Opportunity to disclose the reconciliation between outstanding receivables in Accounting and in Operating system (for KPIs)

# 4

## Provisioning policy, Credit loss reserve



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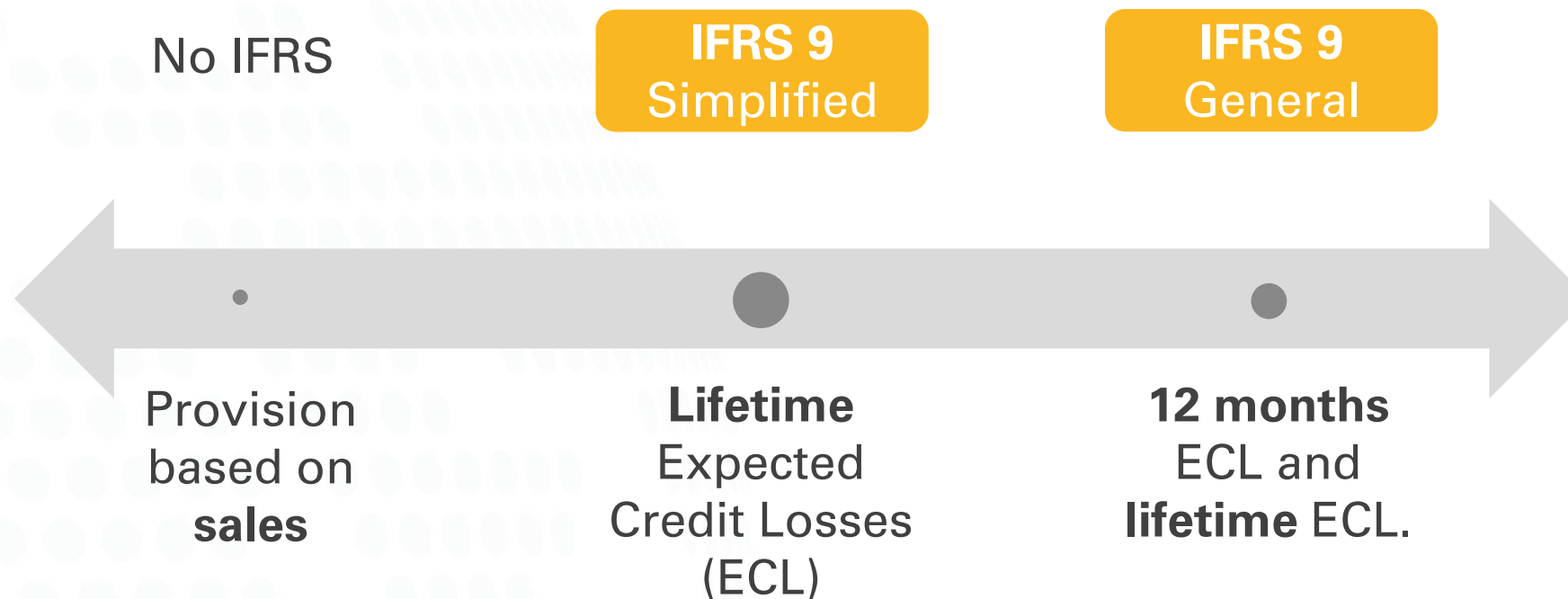
**Provisioning is notoriously judgmental, and it can only prove sufficient at the end of the contract.**

*A PAYGo Firm*

# IFRS 9 applicability to receivables IFRS 15/ IFRS 16



# Different credit loss provision in PAYGo firms 1



PAYGo firms in the sample adopting the practice: ● majority. ● Some ● few

# Different credit loss provision in PAYGo firms 2

## Credit loss reserve

- ✓ Disclosed as contra-asset
- ✗ Receivables disclosed net of reserve only
- ✓ Movement in the reserve disclosed: opening balance, write-off, addition, reversal, end balance



## Receivables basis for provision

- No IFRS or IFRS 15: Full receivables
- IFRS 16 financial leasing: net lease receivables
- IFRS 16 operational leasing: Invoices issued not paid yet



## Credit loss provision expense

- ✓ Disclosed
- ✗ Part of cost of sale, or sales disclosed net of provision
- Top position (e.g. under sales revenue)
- Mid position (e.g. before / in administrative expenses)



More (✓) or less (✗) disclosure. Firms in the sample adopting the practice: majority some few

# Credit loss provision impact on PAYGo PERFORM KPIs

The same credit risk may be provisioned for at more or less prudent levels depending on:

- **IFRS 9** simplified or general approach / no IFRS 9
- **Assumptions** used in provisioning: what probability of default is associated with receivables by risk category
- **Receivable basis** used for provisions calculation (see Outstanding receivables)



The following **Financial Performance KPIs** are affected:

- Provision Expense Ratio (Cashflow)
- Unit Provision Cost

The more the risk is anticipated through prudent provisioning, the more **evenly spread** the cost will be over time. If provisions are not sufficient, **direct write-off cost** is added to Profit and Loss, with the risk of **high concentration of cost of risk** in given periods.

Opportunity to complement KPIs on provisions with risk coverage analysis to account for variations in applying IFRS 9



# 5

## Write-off and Revaluation policy



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**One thing is to lose a customer. Another thing is to lose a customer and a kit.**

*A PAYGo Firm*

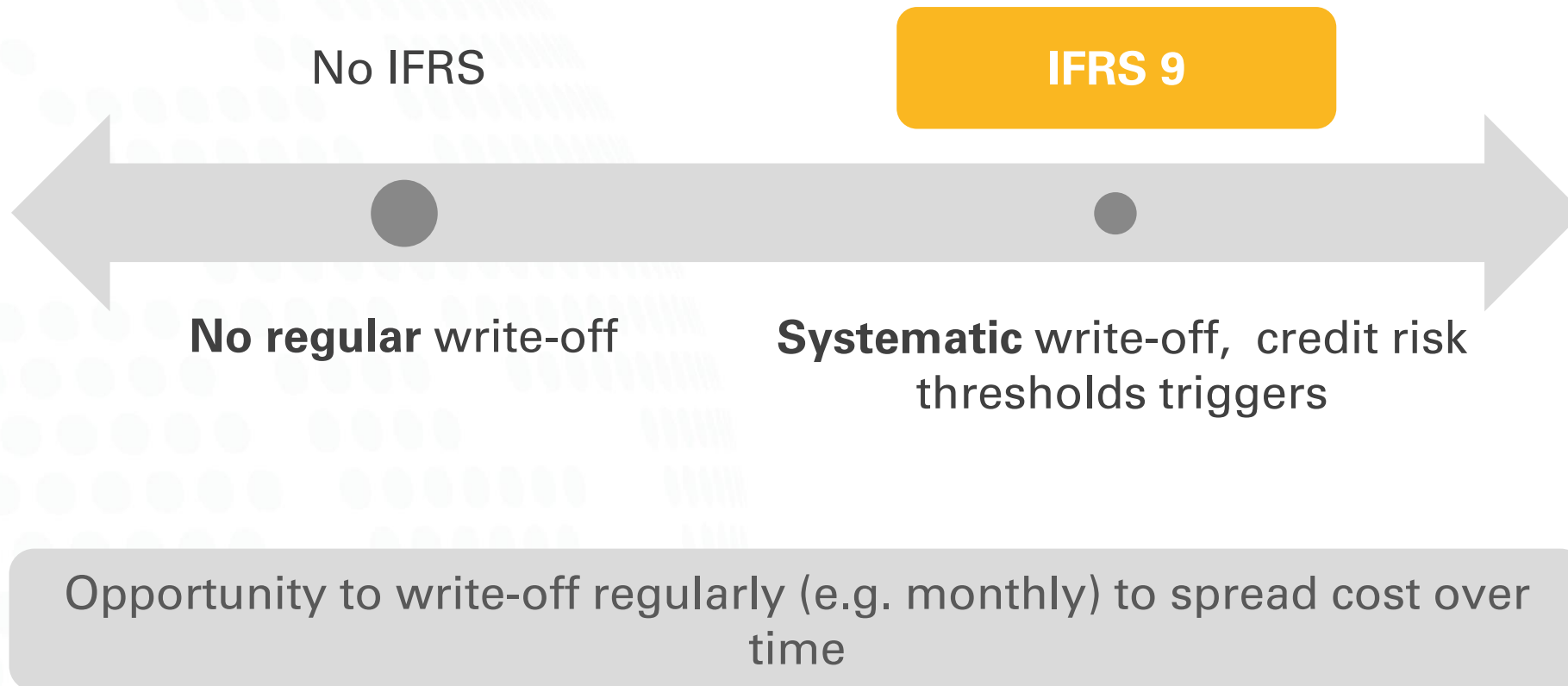


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**Legally we have control, but in practice it isn't always possible to repossess. Write off should be spread out over the portfolio life though in practice it tends to be more lumpy.**

*A PAYGo Firm*

# Different write-off in PAYGo firms

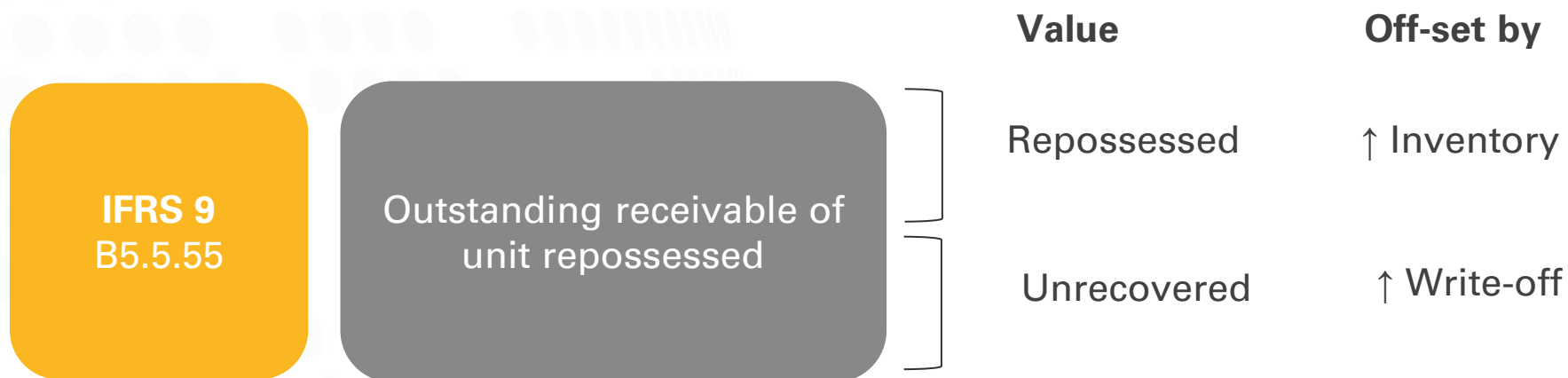


PAYGo firms in the sample adopting the practice:

- majority
- some
- few

# Repossession in PAYGo firms

- The later repossession takes place, the more likely it will be that the repossessed value is lower than the outstanding receivable of the unit repossessed.
- The difference, i.e. the unrecovered amount, is written-off in all the firms in the sample.



# Different write-off and revaluation in PAYGo firms

Written-off amount

- ✓ Direct write-off disclosed as part or close to loss provision expenses



Revaluation of units repossessed

- Residual market value of the asset – cost to repossess
- Residual market value of the asset – cost to resell
- Residual market value of the asset



More (✓) or less (✗) disclosure. Firms in the sample adopting the practice: majority some. few

# Write-off and revaluation impact on PAYGo PERFORM KPIs

- **IFRS 9** / no IFRS 9
- **Write-off policy** of firms: definition of default, write-off triggers and frequency
- Amount of **receivables booked** (see Outstanding receivables)
- **Repossession** strategy: how often, how early
- **Revaluation policy** for units repossessed



The following **Financial Performance KPIs** are affected:

- Write-Off Ratio
- Repossession Ratio (Value)

To improve comparability, the **Write-Off Ratio numerator** may include the amount of **equipment written-off** due to customer default in addition to the amount of trade receivables written-off in case of **IFRS 16 Operating lease** (different receivables booked).

Opportunity to analyze Write-Off Ratio and Repossession Ratio (Value) jointly, to add value to the individual KPI analysis.

# 6

## Possible next steps

# Possible next step 1

The following items may be object of future internal discussion within firms and / or industry consultations:

- 1 Align the **nature of business, contract to customers** and **regulatory status**: adopt the accounting standard associated to the type of transaction (sale; finance lease; operating lease) that best describes the nature of PAYGo business, aligning the contract language (is ownership transferred, and when), considering the fiscal implications. In case of IFRS 16 adoption, firms shall assess the likelihood that this may contribute to being identified as leasing companies, and the consequent risk that leasing regulation requirements may not be commensurate to the capacity of young firm. International groups of PAYGo firms may consider the opportunity of gradual convergence to common group-level standards to the extent possible.
- 2 Adopt **prudential provisioning policies**, adequate to cover the effective credit losses, for financial statements to provide a fair representation to safeguard results in future periods.



## Possible next step 2

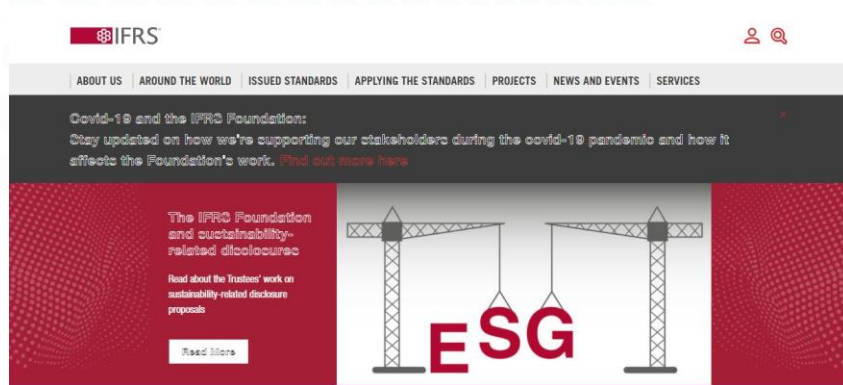
- 3 Consider industry consultations to develop **disclosure guidelines for financial reporting of PAYGo firms** including good practices to achieve best disclosure in preparing the financial statements under each accounting standard (including initial inputs from this brief).
- 4 Explore the opportunity to build **industry benchmarks** for firms consideration and, if they wish, convergence, on topics where **practices** currently **differ** across firms, e.g. Product and finance income split under IFRS 15 (to support firms which need to estimate the cash price),
- 5 Produce a standard **accounting form** where each firm may indicate the accounting practices adopted and reconcile differences between the financial statements and the amounts reported to calculate the KPIs. The accounting form, accompanying the PAYGo PERFORM KPIs, would help facilitating their analysis by external parties (e.g. investors).
- 6 Consider the knowledge of the accounting implications on the KPIs as it will have built at the time of the **next review** of the **PAYGo PERFORM KPIs**.

# Annexes

# Acronyms

- **CoGS:** Cost of Goods Sold
- **FFSS:** Financial Statements
- **IFRS:** International Financial Reporting Standards
- **KPI:** Key Performance Indicator

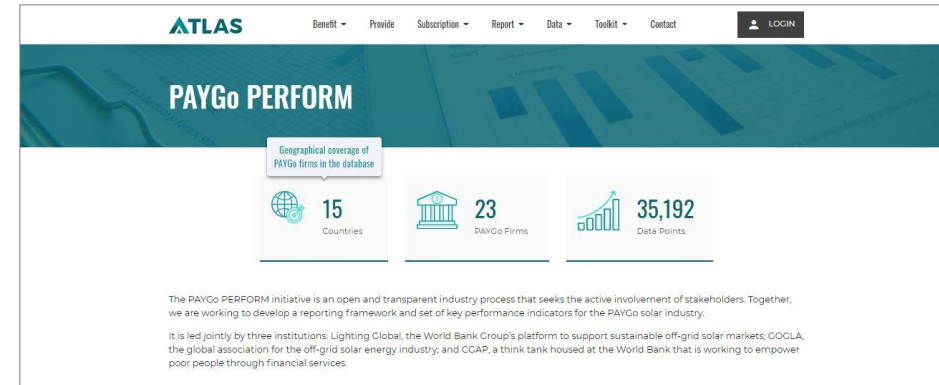
# Resources



- [IFRS - Home](#)



- [PAYGo PERFORM KPI Technical guide](#)



- [PAYGo PERFORM KPI data](#)
- [PAYGo PERFORM initiative](#)
- [PAYGo PERFORM KPI Pilot report](#)

# IFRS adoption



## Africa and Middle East

- Profiled jurisdiction requiring IFRS Standards: 49
- Profiled jurisdictions permitting IFRS Standards: 1

IFRS required or allowed in majority of PAYGo countries (for domestically accountable companies).

Source: [Use of IFRS around the world overview sept 2018](#)

More: [IFRS - Who uses IFRS Standards?](#)

# IFRS 9 (1/2)

## About

- IFRS 9 is effective for annual periods beginning on or after 1 January 2018 with early application permitted.
- IFRS 9 specifies how an entity should classify and measure financial assets, financial liabilities, and some contracts to buy or sell non-financial items.
- IFRS 9 requires an entity to recognise a financial asset or a financial liability in its statement of financial position when it becomes party to the contractual provisions of the instrument. At initial recognition, an entity measures a financial asset or a financial liability at its fair value plus or minus, in the case of a financial asset or a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or the financial liability.

Source: [IFRS - IFRS 9 Financial Instruments](#)

# IFRS 9 (2/2)



## Financial Assets

When an entity first recognises a financial asset, it classifies it based on the entity's business model for managing the asset and the asset's contractual cash flow characteristics, as follows:

- **Amortised cost** — a financial asset is measured at amortised cost if both of the following conditions are met: the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- **Fair value through other comprehensive income** — financial assets are classified and measured at fair value through other comprehensive income if they are held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
- **Fair value through profit or loss** — any financial assets that are not held in one of the two business models mentioned are measured at fair value through profit or loss.
- When, and only when, an entity changes its business model for managing financial assets it must reclassify all affected financial assets.



# IFRS 15 (1/2)

## About

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with earlier application permitted.

IFRS 15 establishes the principles that an entity applies when reporting information about the nature, amount, timing and uncertainty of revenue and cash flows from a contract with a customer. Applying IFRS 15, an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

To recognise revenue under IFRS 15, an entity applies the following five steps:

- Identify the contract(s) with a customer.
- Identify the performance obligations in the contract. Performance obligations are promises in a contract to transfer to a customer goods or services that are distinct.

Source: [IFRS - IFRS 15 Revenue from Contracts with Customers](#)



# IFRS 15 (2/2)

- Determine the transaction price. The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer. If the consideration promised in a contract includes a variable amount, an entity must estimate the amount of consideration to which it expects to be entitled in exchange for transferring the promised goods or services to a customer.
- Allocate the transaction price to each performance obligation on the basis of the relative stand-alone selling prices of each distinct good or service promised in the contract.
- Recognise revenue when a performance obligation is satisfied by transferring a promised good or service to a customer (which is when the customer obtains control of that good or service). A performance obligation may be satisfied at a point in time (typically for promises to transfer goods to a customer) or over time (typically for promises to transfer services to a customer). For a performance obligation satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied.

# IFRS 16

## About

- IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, with earlier application permitted (as long as IFRS 15 is also applied).
- The objective of IFRS 16 is to report information that (a) faithfully represents lease transactions and (b) provides a basis for users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. To meet that objective, a lessee should recognise assets and liabilities arising from a lease.
- IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

Source: [IFRS - IFRS 16 Leases](#)

# PAYGo PERFORM KPIs 1/8



Please refer to the [PAYGo PERFORM Technical Guide](#) for a detailed walk-through of each KPI, helpful analysis, and background for the initiative.

Portfolio Quality Indicator	Definition	Calculation
<b>Outstanding Receivables</b>	Value of the company's gross outstanding receivables streams	Gross Outstanding Receivables as Reported on the Balance Sheet at a Fixed Point in Time
<b>Growth in Outstanding Receivables</b>	Growth in value of the company's gross outstanding receivables streams	$\left( \frac{\text{Gross Outstanding Receivables [T]}}{\text{Gross Outstanding Receivables [T-1]}} \right) - 1$
<b>Collection Rate</b>	Ratio of all collected receivables payments over total receivables payments due for a period (does not include deposits)	$\frac{\text{Cash Receipts From Follow-on Payments During the Period}}{\text{Scheduled Follow-on Payments During the Period}}$
<b>Receivables at Risk (RAR)</b>	<p>Identifies risky proportion of receivables portfolio. Recommended to use both Consecutive Days Unpaid or Collection Rate below threshold to identify risky portion of receivables portfolio.<sup>a</sup></p> <p>Key thresholds are &gt; <b>30 days</b> for consecutive days unpaid and &lt; <b>50%</b> collection rate since activation, although using ranges of thresholds (e.g., CDU of 30, 90, 180 and CR &lt; 70 and 50%) will likely provide valuable insights.</p> <p>When difficult to use both methods, consecutive days unpaid is recommended as a standalone measure.</p>	<ol style="list-style-type: none"> <li>1. <math display="block">\frac{\text{Gross Outstanding Receivables} &gt; [X] \text{ Consecutive Days Unpaid}}{\text{Gross Outstanding Receivables}}</math></li> <li>2. <math display="block">\frac{\text{Gross Outstanding Receivables of Customers with Collection Rate} &lt; [Y]\%}{\text{Gross Outstanding Receivables}}</math></li> </ol>

<sup>a</sup> There can be meaningful overlap between the two different measures so care must be taken to avoid double counting.

# PAYGo PERFORM KPIs 2/8

Portfolio Quality Indicator	Definition	Calculation
<b>Write-off Ratio</b>	The sum of the remaining payments of receivables streams that have been written-off in a given period divided by the sum of the remaining payments of the receivables streams for the entire portfolio	$\frac{\text{Outstanding Receivables for Written-off Contracts During the Period}}{\text{Average Outstanding Receivables During the Period}}$
<b>Repossession Ratio</b>	The sum of the remaining payments of receivables streams of repossessed units in a given period divided by the sum of the remaining payments of the receivables streams for the entire portfolio	$\frac{\text{Outstanding Receivables of Units Repossessed During the Period}}{\text{Average Outstanding Receivables During the Period}}$
<b>Contractual Credit Period</b>	Average nominal number of days between system acquisition and expected final payment	$\frac{\text{Contractual Repayment Term (Days) of Active Units}}{\text{Number of Active Units}}$
<b>Effective Credit Period</b>	Effective (actual) length of time taken for an average customer to pay off their solar device	$\frac{\text{Effective Repayment Term (Days) of Repaid Units}}{\text{Number of Repaid Units}}$

# PAYGo PERFORM KPIs 3/8

Unit or Firm Level Indicator	Definition	Calculation
<b>Total Cash Receipts from PAYGo Customers</b>	The total cash receipts received from PAYGo customers – including customer deposits and follow-on payments	The Sum of Customer Deposits and Follow-on Payments Received from All PAYGo Customers Over a Period of Time
<b>Cost of Goods Sold Ratio<sup>a</sup></b>	Total cost of goods sold expressed as a proportion of cash receipts received from customers	$\frac{\text{Cost of Goods Sold}}{\text{Total Cash Receipts from Customer}}$
<b>Sales and Maintenance Cost Ratio<sup>a</sup></b>	Sum of all sales and maintenance costs expressed as a proportion of cash receipts received from customers	$\frac{\text{Sales and Distribution Cost} + \text{Servicing and Maintenance Cost} + \text{Other Variable and Semi-variable Costs}}{\text{Cash Receipts from Customers}}$
<b>Provision Expense Ratio<sup>a</sup></b>	The cost of credit provisions expressed as a percentage of cash receipts	$\frac{\text{Provisioning Expenses}}{\text{Cash Receipts from Customers}}$
<b>Total Contribution Margin<sup>a</sup></b>	The total profit based on variable costs for the PAYGo solar firm as a proportion of the total cash receipts received from customers	$\frac{\text{Cash Receipts from Customers} - \text{Total Variable and Semi-variable Costs}}{\text{Cash Receipts from Customers}}$

<sup>a</sup> Cash Receipts

# PAYGo PERFORM KPIs 4/8

Unit or Firm Level Indicator	Definition	Calculation
<b>Financial Expense Ratio<sup>a</sup></b>	The cost of financial expenses expressed as a percentage of cash receipts	$\frac{\text{Financial Expense}}{\text{Cash Receipts from Customers}}$
<b>Fixed Operating Cost Ratio<sup>a</sup></b>	Other fixed costs expressed as a percentage of cash receipts	$\frac{\text{Other Fixed costs}}{\text{Cash Receipts from Customers}}$
<b>Fixed Cost Ratio<sup>a</sup></b>	Sum of all fixed costs (Marketing, Sales, etc.) of a PAYGo solar firm divided by total cash receipts received from customers	$\frac{\text{Financial Expense} + \text{Other Fixed Costs}}{\text{Cash Receipts from Customers}}$
<b>Total EBT Margin<sup>a</sup></b>	The total profit after all costs for the PAYGo solar firm as a proportion of the total cash receipts received from customers	$\frac{\text{Cash Receipts from Customers} - \text{Total Costs}}{\text{Cash Receipts from Customers}}$
<b>Unit Follow-on Payments</b>	Sum of contractual follow-on payments until system is permanently unlocked, net of customer deposits, per unit sold	$\frac{\text{Receivables Generated During the Period}}{\text{Number Of PAYGo Units Sold During the Period}}$
<b>Unit Customer Deposits</b>	Total contractual PAYGo customer deposits per unit sold	$\frac{\text{Customer Deposits}}{\text{Number of PAYGo Units Sold During the Period}}$
<b>Unit Cash Sales</b>	The total cash received from Cash sales per unit sold	$\frac{\text{Cash Receipts from Cash Customers During the Period}}{\text{Number of Units Sold Cash During the Period}}$

<sup>a</sup> Cash Receipts

# PAYGo PERFORM KPIs 5/8

Unit or Firm Level Indicator	Definition	Calculation
<b>Unit Device Cost</b>	The total Cost of Goods Sold during the period per unit sold	$\frac{\text{Cost of Goods Sold}}{\text{Number of Units Sold During the Period}}$
<b>Unit Sales and Distribution Cost</b>	The total cost of installing the device at the customer site, transportation cost (from warehouse to customer) per unit sold	$\frac{\text{Sales and Distribution Cost}}{\text{Number of Units Sold During the Period}}$
<b>Unit Servicing and Maintenance Cost</b>	The total cost of servicing a customer (i.e., collection of payments, customer service) and providing maintenance of installed units	$\frac{\text{Servicing and Maintenance Cost Expressed as Monthly Equivalent} \times \text{Effective Credit Period Expressed in Months}}{\text{Average Active Units}}$
<b>Unit Provision Cost</b>	The contractual follow-on payments that will not be recognized due to write offs on a per unit basis	$\frac{\text{Provisioning Expenses}}{\text{Average Active Units}}$

# PAYGo PERFORM KPIs 6/8

Unit or Firm Level Indicator	Definition	Calculation
<b>Unit Contribution Margin</b>	The average profit based on variable costs on a unit basis for a particular product	$\left[ \begin{aligned} &(\text{Unit Customer Deposits} + \text{Unit Follow-on Payments}) \\ &\times \frac{\text{Number of Units Sold PAYGo}}{\text{Total Number of Units Sold}} \end{aligned} \right]$ $+ \left( \frac{\text{Unit Cash Sales} \times \text{Number of Units Sold Cash}}{\text{Total Number of Units Sold}} \right)$ <ul style="list-style-type: none"> <li>- Unit Device Cost</li> <li>- Unit Sales and Distribution Cost</li> <li>- Unit Servicing and Maintenance Cost</li> <li>- Unit Provision Cost</li> </ul>
<b>Liquidity</b>	The liquidity of a company represented by cash and liquid assets convertible in the next 90 days	<p>Cash and Liquid Assets Convertible to Cash in the Next 90 Days at End of Period</p> <p>Total Costs Over the Next 90 Days</p>



# PAYGo PERFORM KPIs 7/8

Company Indicator	Definition	Calculation
<b>Sales Model</b>	Percentage of sales revenue (0 – 100%) by sales model: PAYGo and Cash	$\frac{\text{Sales Revenue Generated per Individual Sales Model During the Period}}{\text{Total Sales Revenue During the Period}}$
<b>Sales Distribution Model</b>	Percentage of sales revenue (0 – 100%) by sales distribution model: B2B, B2C, and Other	$\frac{\text{Sales Revenue Generated by Individual Sales Distribution Model During the Period}}{\text{Total Sales Revenue During the Period}}$
<b>Country Sales</b>	Percentage of sales revenue (0 – 100%) by country	$\frac{\text{Sales Revenue During the Period by Individual Country}}{\text{Total Sales Revenue During the Period}}$
<b>Total Net Sales</b>	Total number of units sold during the period, net of returned and repossessed units	$(\text{Total Number of Units Sold During the Period}) - (\text{Returned and Repossessed Units})$
<b>Repeat Sales</b>	Percentage of sales revenue (0-100%) from repeat customers (current or former)	$\frac{\text{Sales Revenue Generated by Units Sold to Existing or Former Customers During the Period}}{\text{Total Sales Revenue Generated by all Units Sold During the Period}}$
<b>Product Sales</b>	Percentage of sales revenue (0-100%) by product category. Product categories are as per GOGLA standards	$\frac{\text{Sales Revenue by Product Category During the Period}}{\text{Total Sales Revenue During the Period}}$

# PAYGo PERFORM KPIs 8/8

Operational Indicator	Definition	Calculation
<b>Average Selling Price</b>	Average price of units sold, by sales model: PAYGo and Cash	<p>FOR THE CASH MODEL:</p> $\frac{\text{Cash Sales Revenue During the Period}}{\text{Number of Cash Units Sold During the Period}}$ <p>FOR THE PAYGo MODEL:</p> $\frac{(\text{Customer Deposits Collected} + \text{Receivables Generated from Units Sold During the Period})}{\text{Number of PAYGo Units Sold During the Period}}$
<b>Sales per Distribution Channel</b>	Percentage of sales revenue (0-100%) by distribution channel: agents, wholesalers, shops, financial institutions, e-platforms, governmental projects	$\frac{\text{Sales Revenue by Distribution Channel During the Period}}{\text{Total Sales Revenue During the Period}}$
<b>Sales Points Rate</b>	Fraction of sales points that have gone inactive over the previous 90 days, grouped by distribution channel – Agents (%), Wholesalers (%), Shops (%) and/or Other (%)	$\frac{\text{Sales Points Inactive Over the Previous 90 Days per Individual Distribution Channel}}{\text{Total Sales Points [T-1]}}$
<b>Net Promoter Score (NPS)</b>	<p>Percentage of customers who rate their likelihood to recommend the service to friends or family as high, net of the percentage of customers who rate as low.</p> <p>The NPS should be calculated based upon customers' responses to the question, 'On a scale of 0 to 10, how likely are you to recommend the product/service to a friend or family member, where 0 is not at all likely, and 10 is extremely likely.'</p>	<p>(% of Responses which are 9 and 10) – (% of Responses which are 0-6 Responses)</p> <p>This will Result in a Score Between 100 and –100.</p>



  
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