

PHILIPPINE INTERPRETATIONS COMMITTEE (PIC)
QUESTIONS AND ANSWERS

Q&A No. 2019-01 (amended August 2022)

Accounting for service charges under PFRS 15, *Revenue from Contracts with Customers*

Issue

Should service charge be excluded from the transaction price in a contract to sell services to a restaurant customer or hotel guest?

Background

In the Philippines, it is a common practice for the hotel and restaurant industry to collect a fixed percentage service charge of the qualified revenues¹, on behalf of its employees. The service charge ranges from 8%-10%, which is also presented as a separate item in the bill of the customer.

In the past, the practice in the Philippines was to give the tips to the front office staff, like waiters and reception personnel. It was considered as gratuity, and are therefore not income of the restaurant/hotel but income of the employees. Practice then evolved where tips are shared not only among the front office staff, but also include the backroom operation (e.g. kitchen) and backroom support (e.g. finance), arguing that the service experience extended to the ultimate guest or hotel customer would not be completed without the backroom support and operation.

Over time, the hotels and restaurants have put a formal structure by which to receive the tips, which now became “service charge”, and is separately presented in the official receipt. The collected service charge is treated as a fund or cash held by the hotel and restaurant establishments in trust from the guests or customers for the employees.

On May 1, 1974, then President Ferdinand Marcos signed Presidential Decree (PD) No. 442 (as amended by PD No. 850 on December 16, 1975) or the Labor Code of the Philippines to regulate and direct the distribution of any collected service charge, effectively institutionalizing the service charge into a law. Under Article 96 of the Labor Code “*All service charges collected by hotels, restaurants and similar establishments shall be distributed at the rate of eighty-five percent (85%) for all covered employees and fifteen percent (15%) for management. The share of the employees shall be equally distributed among them...*” However, on August 7, 2019, Republic Act No. 11360 titled “An act providing that service charges collected by hotels, restaurants, and other similar establishments be distributed in full to covered employees amending PD No. 442, as amended, otherwise known as the Labor Code of the Philippines” was approved by then President Rodrigo Roa Duterte. By virtue of this act, all service charges collected by hotels, restaurants, and other similar establishments shall be distributed completely and equally among the covered workers except managerial employees.

Currently, the collected service charge is distributed to covered employees every month (bi-monthly for some hotels). Commonly, employees entitled for service charge distribution are the

¹ Revenue subjected to service charge which vary depending on the hotel and restaurant establishment policies and practices.

local regular employees of the hotels and restaurants. The service charge distributed to employees is subjected to withholding taxes on compensation.

Consensus

Under PFRS 15, revenue is measured at the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer and should exclude amounts collected on behalf of third parties. Therefore, the amount due to the employees (100 %² of the collected service charge) should be excluded from the transaction price and will not be considered as revenue. Paragraph 47 of PFRS 15 defines transaction price as “the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties”. The amount of the collected service charge represents benefits that are directly distributable / attributable to the employees as required by the Labor Code of the Philippines. Given the mandate of the law, the full amount of the collected service charge does not form part of the transaction price. It should be recognized as a liability to the employees.

Illustrative examples are provided below³:

1. Restaurant establishment

A bill was presented to a customer for food and beverage consumption in a restaurant with the following information:

Food and beverage	Php500
Service charge	50

The transaction price will be Php500 , which is equivalent to the Food and beverage of Php500 .

The restaurant prepares the following journal entry to record revenue upon rendering of services:

Particulars	Dr	Cr
Cash / Receivable	Php550	
Revenue		Php500
Liability for employees' share in service charge		50 .

² Based on RA No. 11360, Section 1: All service charges collected by hotels, restaurants, and other similar establishments shall be distributed completely and equally among the covered workers except managerial employees.

³ Accounting for related taxes not considered

2. Hotel room accommodation

A guest folio was presented to the hotel guest upon check-out for a one (1) night room stay in the hotel. Breakdown of the guest folio amount is presented below:

Room night	Php7,500
Service charge	750

The transaction price will be Php7,500 , which is equivalent to the Room night of Php7,500 .

The hotel prepares the following journal entry to record revenue upon rendering of services:

Particulars	Dr	Cr
Cash / Receivable	Php8,250.00	
Revenue		Php7,500
Liability for employees' share in service charge		750

Transition and Effective Date

The effective date and transition provision of this Q&A follow that of PFRS 15, upon the original date of approval of the FSRSC. The amendments to this Q&A are effective for annual periods beginning on or after August 7, 2019, the effectivity date of the RA No. 11360.

Date originally approved by PIC: January 30, 2019

Date amendments approved by PIC: December 7, 2022

* * * * *

PIC Members

Zaldy D. Aguirre, Chairman

Emmanuel Y. Artiza

Ma. Gracia F. Casals-Diaz

Christian Francis S. Felismino

Cyril Jasmin B. Valencia

Jenny Isabel Menes

Ferdinand George A. Florendo

Gervacio I. Piator

Eduardo M. Olbes

Anthony D. Paño

Lyn I. Javier

Maria Isabel E. Comedia

Arnel Onesimo O. Uy

Jerome Antonio B. Constantino

Lovely M. Del Amen-Aquino

Date originally approved by FSRSC: February 13, 2019

Date amendments approved by FSRSC: December 9, 2022