IAS 18 REVENUE

FACT SHEET

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This fact sheet is based on existing requirements as at 31 December 2015 and it does not take into account recent standards and interpretations that have been issued but are not yet effective.

IMPORTANT NOTE

This fact sheet is based on the requirements of the International Financial Reporting Standards (IFRSs). In some jurisdictions, the IFRSs are adopted in their entirety; in other jurisdictions the individual IFRSs are amended. In some jurisdictions the requirements of a particular IFRS may not have been adopted. Consequently, users of the fact sheet in various jurisdictions should ascertain for themselves the relevance of the fact sheet to their particular jurisdiction. The application date included below is the effective date of the initial version of the standard.

IASB APPLICATION DATE (NON-JURISDICTION SPECIFIC)

IAS 18 was adopted by the IASB in April 2001. IAS 18 had originally been issued by the IASC in December 1993. IAS 18 is applicable for annual reporting periods commencing on or after 1 January 1995.

SCOPE

IAS 18 prescribes the accounting treatment of revenue arising from the following types of transactions and events:

- sale of goods;
- rendering of services; and
- the use by others of entity assets yielding interest, royalties and dividends.

IAS 18 does not deal with revenue arising from:

- lease agreements (refer to IAS 17 *Leases*);
- dividends arising from investments that are accounted for under the equity method (refer to IAS 28 *Investments in Associates and Joint Ventures*);
- insurance contracts within the scope of IFRS 4 *Insurance Contracts*;
- changes in the fair value of financial assets and financial liabilities or their disposal (refer to IAS 39 *Financial Instruments: Recognition and Measurement*);
- changes in the value of other current assets;
- initial recognition and from changes in the fair value of biological assets related to agricultural activity (refer to IAS 41 *Agriculture*);
- initial recognition of agricultural produce (refer to IAS 41); and
- the extraction of mineral ores.

RECOGNITION AND MEASUREMENT

Revenue shall be measured at the fair value of the consideration received or receivable taking into account 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 buyer or accept a note receivable bearing a below-market interest rate from the buyer 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.

Revenue recognition – Sale of goods

Revenue from the sale of goods shall be recognised when all of the following conditions have been satisfied:

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.

Revenue recognition – Rendering of services

Revenue from a transaction involving the rendering of services shall be recognised 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 of the following conditions are satisfied:

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.

When the outcome of a transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable. Revenue is recognised only when it is probable that the economic benefits associated with the transaction will flow to the entity.

Revenue recognition – Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends shall be recognised when:

a. it is probable that the economic benefits associated with the transaction will flow to the entity, and

b. the amount of the revenue can be measured reliably.

Revenue shall be recognised on the following bases:

a. **interest** shall be recognised using the effective interest method, as set out in IAS 39;

b. **royalties** shall be recognised on an accrual basis in accordance with the substance of the relevant agreement; and

c. **dividends** shall be recognised when the shareholder's right to receive the payment is established.

IAS 18 contains extensive examples illustrating the recognition of revenue. Refer to the Appendix to IAS 18.

Impairment of receivables

Where uncertainty arises about the collectability of an amount already included in revenue, the potentially uncollectible amount or the amount in respect of which recovery has ceased to be probable is recognised as an expense, and not as an adjustment to the amount of revenue originally recognised.

DISCLOSURES

Refer to Appendix 1 for a checklist to assist with IAS 18 disclosure requirements

DEFINITIONS

Fair value	The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
Revenue	The gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity participants.

RELATED INTERPRETATIONS

- IFRIC 13 *Customer Loyalty Programmes*
- IFRIC 15 *Agreements for the Construction of Real Estate*
- IFRIC 18 *Transfers of Assets from Customers*
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*
- SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*
- SIC 31 *Revenue – Barter Transactions Involving Advertising Services*

IFRICs 13, 15, 18 and 20 are relatively more significant than the others.

IFRIC 13 addresses accounting by the entity that grants customer loyalty award credits to its customers. The issues addressed in this Interpretation are:

a. whether the entity's obligation to provide free or discounted goods or services ('awards') in the future should be recognised and measured by:
   i. allocating some of the consideration received or receivable from the sales transaction to the award credits and deferring the recognition of revenue (applying paragraph 13 of IAS 18); or
   ii. providing for the estimated future costs of supplying the awards (applying paragraph 19 of IAS 18); and
b. if consideration is allocated to the award credits:
   i. how much should be allocated to them;
   ii. when revenue should be recognised; and
   iii. if a third party supplies the awards, how revenue should be measured.

In the real estate industry, entities that undertake the construction of real estate, directly or through subcontractors, may enter into agreements with one or more buyers before construction is complete. Such agreements take diverse forms. IFRIC 15 applies to the accounting for revenue and associated expenses by entities undertaking such activities, and addresses the following two issues:

- Is the agreement within the scope of IAS 11 *Construction Contracts* or IAS 18?
- When should revenue from the construction of real estate be recognised?

IFRIC 18 applies to the accounting for transfers of items of property, plant and equipment by entities that receive such transfers from their customers. It also applies to agreements in which an entity receives cash from a customer when that amount of cash must be used only to construct or acquire an item of property, plant and equipment (PP&E) and the entity must then use the item of PP&E either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both. The interpretation addresses the following issues:

- Is the definition of an asset met?
- If the definition of an asset is met, how should the transferred item of PP&E be measured on initial recognition?
- If the item of PP&E is measured at fair value on initial recognition, how should the resulting credit be accounted for?
- How should the entity account for a transfer of cash from its customer?

IFRIC 20 clarifies that the costs of removing mine waste materials (overburden) to gain access to mineral ore deposits during the production phase of a surface mine must be capitalised as inventories under IAS 2 Inventories if the benefits from stripping activity is realised in the form of inventory produced. On the other hand, if stripping activity provides improved access to the ore, stripping costs must be capitalised as a non-current, stripping activity asset if certain recognition criteria are met (as an addition to, or enhancement of, an existing asset).

AUSTRALIAN SPECIFIC REQUIREMENTS

The Australian equivalent standard is AASB 118 *Revenue* and is applicable for annual reporting periods commencing on or after 1 January 2005. The Australian equivalent interpretations are:

- Interpretation 13 *Customer Loyalty Programmes*
- IFRIC 15 *Agreements for the Construction of Real Estate*
- IFRIC 18 *Transfers of Assets from Customers*
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*
- SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*
- SIC 31 *Revenue – Barter Transactions Involving Advertising Services*

REDUCED DISCLOSURE REQUIREMENTS (RDR)

On 30 June 2010, the Australian Accounting Standards Board published AASB 1053 *Application of Tiers of Australian Accounting Standards* (and AASB 2010-2 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements*) which established a differential reporting framework, consisting of two Tiers of reporting requirements for preparing general purpose financial statements:

a. Tier 1: Australian Accounting Standards; and

b. Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements.

A Tier 2 entity is a ‘reporting entity’ as defined in SAC 1 *Definition of the Reporting Entity* that does not have ‘public accountability’ as defined in AASB 1053 and is not otherwise deemed to be a Tier 1 entity by AASB 1053.

RDR is applicable to annual periods beginning on or after 1 July 2013.

When developing AASB 1053, the AASB concluded that the Australian Government and state, territory and local governments should be subject to Tier 1 requirements. The AASB also decided that General Government Sectors of the Australian Government and state and territory governments should continue to apply AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, without the reduction in disclosures provided by Tier 2. Other public sector entities are able to apply Tier 2 reporting requirements.

Disclosure requirements under Tier 2 are the same as those under Tier 1 for this standard.

RELATED INTERPRETATIONS

- Interpretation 1031 *Accounting for the Goods and Services Tax* (GST)
- Interpretation 1042 *Subscriber Acquisition Costs in the Telecommunications Industry*

Interpretation 1031 is relatively more significant than Interpretation 1042.

Interpretation 1031 is an Australian interpretation dealing with the accounting implications of GST. As per Interpretation 1031, revenues, expenses and assets should be recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST should be recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position should be shown inclusive of GST.

Cash flows should be presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities which is recoverable from, or payable to, the taxation authority, which should be disclosed as operating cash flows.

APPENDIX 1 – DISCLOSURE CHECKLIST

This checklist can be used to review your financial statements. You should complete the "Yes / No / N/A" column about whether the requirement is included. To ensure the completeness of disclosures, provide an explanation for "No" answers.

CODE		YES / NO / N/A	EXPLANATION (*If required*)
IAS 18.35	Has the entity disclosed the following: a. the accounting policies adopted for the recognition of revenue including the methods adopted to determine the stage of completion of transactions involving the rendering of services; b. the amount of each significant category of revenue recognised during the period arising from: – the sale of goods; – the rendering of services; – interest; – royalties; – dividends; and c. the amount of revenue arising from exchanges of goods or services included in each significant category of revenue?		

OTHER MATTERS

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