Grant Thornton

Technical Accounting Alert

Differences between revenue and gains

Introduction

This alert provides a quick guide to understanding the difference between "revenue" and "gains" and their use in the statement of comprehensive income.

Relevant standards

References are made to standards issued by the International Accounting Standards Board. The Australian equivalent to each standard included in this alert is shown below:

International Standard reference	Australian equivalent standard
IAS 1 *Presentation of Financial Statements*	AASB 101 *Presentation of Financial Statements*
IAS 11 *Construction contracts*	AASB 111 *Construction contracts*
IAS 18 *Revenue*	AASB 118 *Revenue*
IAS 41 *Agriculture*	AASB 141 *Agriculture*

Overview

IFRS requires the presentation of a revenue (or equivalent) line item in the statement of comprehensive income (IAS 1.81(a)) but does not set out detailed requirements as to what should be included in that line. It is therefore necessary to develop an appropriate accounting policy, taking into account the definition of revenue, the general guidance in the Framework, the general principles of statement of comprehensive income presentation and the facts and circumstances of the entity. The accounting policy should be applied consistently from one period to the next.

This will generally be the top line of the statement of comprehensive income. IFRS also distinguishes **revenue** from **gains**. Gains should be presented separately from revenue in the statement of comprehensive income, and should not therefore be described as revenue or included in any subtotal labelled revenue.

Revenue is defined as the gross inflow of economic benefits… arising in the course of ordinary activities (IAS 18.7). Revenue will therefore comprise different types of income for different entities (since ordinary activities differ between entities).

Depending on the circumstances, revenue might arise from:

- sales of goods or services (in the course of ordinary activities);
- construction contracts revenue determined in accordance with IAS 11;
- interest, royalties or rent.

Gains are other forms of income that are not revenue. Gains include:

- increases in fair value of assets reported at fair value (eg investment property at fair value, biological assets, many financial instruments);
- decreases in fair value of liabilities reported at fair value;
- reversals of impairment losses;
- profits on disposal of property, plant and equipment, investment property and other non-current assets;
- initial recognition of biological assets in accordance with IAS 41.

Since revenue is defined in terms of gross inflows, it follows that gains/income that are presented net (such as gains on disposal of property, plant and equipment) should not be presented as revenue.

An entity may generate income in its ordinary activities from several sources. Due to the various economic characteristics of different types of income, such as predictability, frequency and potential for losses, it is important to distinguish between the different types of income. This can be achieved by reporting the different types of income as different line items in the statement of comprehensive income. Judgement will be required in assessing what should be included as revenue, and also how other forms of income should be presented.

Some entities earn all of their income from ordinary activities in the form of gains. In such cases, the entity's gains may be reported on the "top line" of the statement of comprehensive income but should not be described as revenue.

An entity is not obliged to use the term "revenue" in its statement of comprehensive income, even if it earns revenue. It may use alternative descriptors as long as it includes a line item that presents the amount it considers to comprise revenue (IAS 1.81).

The IASB's Framework also includes some discussion of **income**, **revenue** and **gains** at paragraphs 70 to 77. These paragraphs explain that:

- income encompasses both revenue and gains (74);
- revenue arises in the ordinary course of activities (74);
- revenue is referred to by other names including "sales, fees, interest, dividends, royalties and rent" (74);
- gains are other items that meet the definition of income and may or may not arise in ordinary activities (75);
- examples of gains are those arising on disposal of non-current assets and those resulting from increases in the carrying amount of long-term assets (76);
- where gains are included in the statement of comprehensive income they are usually displayed separately (76).

This discussion is clear that increases in the fair value of assets, such as investment property and biological assets, are gains rather than revenue, and should be reported separately from revenue. The issue is perhaps confused by IAS 18.7, which lists types of revenue not dealt with in that standard including:

- changes in the fair value of financial assets and liabilities;
- changes in value of other current assets; and
- initial recognition and changes in fair value of biological assets.

In our view, the purpose of IAS 18.7 is to exclude these types of gain from the measurement requirements of IAS 18, not to suggest that they should be reported as a component of revenue.

IFRS is explicit that gains on disposal of property, plant and equipment must not be classified as revenue (IAS 16.68). This is explained at IAS 16 BC 35 by reference to the need of users to distinguish such gains from sales in the course of ordinary activities.

Examples

Property developer/investor

Ordinary income-generating activities include:
- property development and sale - $100 (A)
- receipt of rentals (operating lease rentals and finance lease interest receivable - $50 (B)
- net changes in fair value of investment property - $70 (C)
- profits on sales of investment property - $30 (D)

A and B clearly meet the definition of revenue and are included as examples of revenue items in IAS 18 and the Framework. C and D are (net) gains in the ordinary course of activities.

A and B should therefore be reported as revenue, either combined on the face of the statement of comprehensive income or on separate lines with a subtotal. C and D should not be presented as part of revenue nor included in a line item or sub-total described as revenue. A subtotal of A, B, C and D may be provided if suitably described (eg “total property income"). An example of a possible presentation is set out below (ignoring comparatives):

	$
Development property sales	100
Rental income	50
Revenue	150
Net increase in fair value of investment properties	70
Gains on sales of investment properties	30
Total property income	**250**

Dairy farm

Ordinary income-generating activities include:
- sales of dairy products - $400 (A)
- initial recognition of new livestock - $80 (B)
- changes in fair value of livestock - $70(C)
- profit on sale of livestock - $50 (D)

A meets the definition of revenue. B and C are gains and are referred to as such in IAS 41. Although D arises from sales of livestock, livestock is reported at fair value and a gain on sale is in effect a final adjustment to fair value. Hence D should not be presented within revenue either.

The illustrative examples to IAS 41 include an example of a dairy farm’s statement of comprehensive income that does not use the term “revenue” at all. This is acceptable under IAS 1 because the amount representing revenue is presented with a more specific description.

Another example of an acceptable presentation is:

	$
Revenue - sale of dairy products	400
New livestock	80
Changes in fair value of livestock	70
Gains on sale of livestock	50
Livestock income, net of point of sale costs	200
Revenue and livestock income	**600**

Further information

For further information on any of the information included in this TA alert, please contact your local Grant Thornton Australia contact or a member of the National Audit Support team at NAS@grantthornton.com.au