IAS 18 Revenue

Overview

IAS 18 sets out the required accounting treatment for revenue arising from the sale of goods, the rendering of services, and the use by others of assets yielding interest, royalties and dividends. It does not cover revenue arising from leases, dividends from associates, insurance contracts, and changes in fair values or construction contracts within the scope of IAS 11.

Definitions

Revenue – the gross inflow of economic benefits arising from the ordinary activities of an entity that result in increases in equity, other than contributions from equity holders.

Fair value – the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

- Revenue is measured as the fair value of the consideration received or receivable, taking into account any trade discounts or volume rebates allowed.
- If the inflow of cash or cash equivalents is deferred and 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. The difference between the fair value and the nominal amount is recognised as interest revenue in accordance with IAS 39.
- Amounts received on behalf of other parties (e.g. sales and valued added taxes, amounts collected on behalf of the principal in agency arrangements) are not economic benefits flowing to the entity and do not result in increases in equity. Therefore, they do constitute revenue.

Sale of goods

- Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
  - the entity has transferred to the buyer the significant risks and rewards of ownership of the goods;
  - the entity retains neither continuing managerial involvement nor effective control over the goods sold;
  - the amount of revenue can be measured reliably;
  - it is probable that the economic benefits associated with the transaction will flow to the entity; and
  - the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

- Revenue for the rendering of services is recognised by reference to the stage of completion of the transaction at the end of the reporting period, if the outcome of the transaction can be reliably estimated. This is the case when all the following conditions are satisfied:
  - the amount of revenue can be measured reliably;
  - it is probable that the economic benefits associated with the transaction will flow to the entity;
  - the stage of completion of the transaction at the end of the reporting period can be measured reliably; and

- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.
- If the outcome of such a transaction cannot be estimated reliably, revenue is recognized only to the extent that expenses recognised are recoverable.

Interest, royalties and dividends

- When the receipt of economic benefits is probable and the amount of revenue can be measured reliably, revenue should be recognised as follows:
  - interest should be recognised using the effective interest method per IAS 39, paragraph 9;
  - royalties should be recognised on an accrual basis in accordance with the substance of the relevant agreement; and
  - dividends should be recognised when the shareholder's right to receive payment is established.

Appendix A to IAS 18 provides detailed guidance dealing with many specific situations, including guidance on agency/principal. This is a valuable source of reference.

Interpretations

SIC 31 *Revenue – Barter transactions involving advertising services* applies when an entity enters into a barter transaction to provide advertising services in exchange for receiving advertising services from its customer. SIC-31 clarifies that advertising revenue in a barter transaction can be measured reliably only if substantial advertising revenue is received from non-barter transactions.

IFRIC 12 *Service concession arrangements* sets out accounting principles to be applied by operators in public-to-private service concession arrangements covering*, inter alia,* the measurement and recognition of revenue. SIC 29 sets out additional disclosure requirements in respect of such arrangements.

IFRIC 13 *Customer loyalty programmes* sets out the required treatment in recognising revenue and/or liabilities in relation to awards under customer loyalty programmes.

IFRIC 18 *Transfers of assets from customers* clarifies that when an item of property, plant and equipment is transferred from a customer, and it meets the definition of an asset from the perspective of the recipient, the recipient must recognise the asset in its financial statements. If the customer continues to control the transferred item, the asset definition would not be met even if the ownership of the asset is transferred.