



# **IAS 18 Revenue**

Duncan Williamson

# Objective of IAS 18

- The objective of IAS 18 is to prescribe the accounting treatment for revenue arising from certain types of transactions and events.

# [ Key Definitions ]

- **Revenue:** The gross inflow of economic benefits (cash, receivables, other assets) arising from the ordinary operating activities of an enterprise (such as sales of goods, sales of services, interest, royalties, and dividends).
- **Fair value** is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, will-ing parties in an arm's length transaction. [IAS 18.7]

# Measurement of Revenue

- Revenue should be measured at the fair value of the consideration received or receivable. [IAS 18.9]
- An exchange for goods or services of a similar nature and value is **not regarded as** a transaction that generates **revenue**. However, exchanges for dissimilar items are regarded as generating revenue. [IAS 18.12]

# Identification of the Transaction

- The recognition criteria in this Standard are usually applied separately to each transaction. However, in certain circumstances, it is necessary to apply the recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction. For example ... [IAS 18.13]

# [ Sale of Goods 1 ]

- Revenue arising from the sale of goods should be **recognised** when all of the following criteria have been satisfied:
- the seller has transferred to the buyer the significant risks and rewards of ownership;
- the seller retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

# [ Sale of Goods 2 ]

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the seller; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably. [IAS 18.14]

# Rendering of Services

- For revenue arising from the rendering of services, provided that all of the following criteria are met, revenue should be recognised by the percentage of completion method at the balance sheet date:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits will flow to the seller;
- the stage of completion at the balance sheet date can be measured reliably; and
- the costs incurred, or to be incurred, in respect of the transaction can be measured reliably. [IAS 18.20]

# [ Disclosure ]

- accounting policy for recognising revenue
- amount of each of the following types of revenue:
  - sale of goods
  - rendering of services
  - interest
  - royalties
  - dividends
- within each of the above categories, the amount of revenue from exchanges of goods or services [IAS 18.35]

**See the Model Statements pages 20, 27, 28 and 32**

# [ Reference ]

- I recognise the help I received from the materials prepared by Deloitte, Touche, Tohmatsu in preparing this presentation.