IFRS AT A GLANCE

IAS 18 *Revenue*

As at 1 July 2015

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Also refer:
IFRIC 13 *Customer Loyalty Programmes*
IFRIC 15 *Agreements for the Construction of Real Estate*
SIC-31 *Revenue - Barter Transactions Involving Advertising Services*

Effective Date
Periods beginning on or after 1 January 1995

DEFINITION

Revenue is 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). Revenue does not comprise gains on the sale of property plant and equipment (PPE) – unless the PPE items were leased out under an operating lease - or other fixed assets and net finance income.

MEASUREMENT

- Revenue is measured at the fair value of the consideration received or receivable (Fair value is 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)
- If the inflow of cash or cash equivalents is deferred, the fair value of the consideration receivable is less than the nominal amount of cash and cash equivalents to be received, and discounting is appropriate. Examples of this are if the seller is providing interest-free credit to the buyer or is charging a below-market rate of interest. Interest must be imputed based on market rates
- An exchange for goods or services of a similar nature and value is not regarded as a transaction that generates revenue. However, an exchange for a dissimilar item is regarded as generating revenue.

RECOGNITION

SALE OF GOODS

Revenue arising from the sale of goods is recognised when all of the following criteria have been satisfied:

- The significant risks and rewards of ownership are transferred
- Seller does not have continuing managerial involvement to the degree usually associated with ownership 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 seller
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

RENDERING OF SERVICES

When the outcome of a transaction can be estimated reliably, revenue is recognised by reference to the stage of completion of the transaction at the reporting date, provided that all of the following criteria are met:

- 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 reporting date can be measured reliably
- The costs incurred, or to be incurred, in respect of the transaction can be measured reliably.

When the outcome of a transaction cannot be estimated reliably, revenue arising from the rendering of services is recognised only to the extent the expenses recognised are recoverable.

INTEREST, ROYALTIES AND DIVIDENDS

For interest, royalties and dividends, if it is probable that the economic benefits will flow to the enterprise and the amount of revenue can be measured reliably, revenue should be recognised as follows:

- **Interest**: on a time-proportionate basis that takes into account the effective yield
- **Royalties**: on an accruals basis in accordance with the substance of the relevant agreement
- **Dividends**: when the shareholder's right to receive payment is established.

DISCLOSURE

- The accounting policy adopted for recognising each type of revenue
- For each of the categories, disclose the amount of revenue from exchanges of goods or services
- The amount of each significant category of revenue, including:
  - Sale of goods
  - Rendering of services
  - Interest
  - Royalties
  - Dividends.

For further information about how BDO can assist you and your organisation, please get in touch with one of our key contacts listed below. Alternatively, please visit www.bdointernational.com/Services/Audit/IFRS/IFRS Country Leaders where you can find full lists of regional and country contacts.

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