IAS 18 — Revenue

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Overview

IAS 18 *Revenue* outlines the accounting requirements for when to recognise revenue from the sale of goods, rendering of services, and for interest, royalties and dividends. Revenue is measured at the fair value of the consideration received or receivable and recognised when prescribed conditions are met, which depend on the nature of the revenue.

IAS 18 was reissued in December 1993 and is operative for periods beginning on or after 1 January 1995.

History of IAS 18

April 1981	Exposure Draft E20 *Revenue Recognition*
December 1982	IAS 18 *Revenue Recognition*
1 January 1984	Effective date of IAS 18 (1982)
May 1992	E41 *Revenue Recognition*
December 1993	IAS 18 *Revenue Recognition* (revised as part of the 'Comparability of Financial Statements' project)
1 January 1995	Effective date of IAS 18 (1993) *Revenue Recognition*
December 1998	Amended by IAS 39 *Financial Instruments: Recognition and Measurement*, effective 1 January 2001
16 April 2009	Appendix to IAS 18 amended for Annual Improvements to IFRSs 2009. It now provides guidance for determining whether an entity is acting as a principal or as an agent.

1 January 2017	IAS 18 will be superseded by IFRS 15 *Revenue from Contracts with Customers*

Related Interpretations

- IFRIC 18 *Transfers of Assets from Customers*
- IFRIC 15 *Agreements for the Construction of Real Estate*
- IFRIC 13 *Customer Loyalty Programmes*
- IFRIC 12 *Service Concession Arrangements*
- SIC-27 *Evaluating the Substance of Transactions in the Legal Form of a Lease*
- SIC-31 *Revenue – Barter Transactions Involving Advertising Services*

Summary of IAS 18

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 definition

Revenue: the gross inflow of economic benefits (cash, receivables, other assets) arising from the ordinary operating activities of an entity (such as sales of goods, sales of services, interest, royalties, and dividends). [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]

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. This would occur, for instance, 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. [IAS 18.11]

Recognition of revenue

Recognition, as defined in the IASB *Framework*, means incorporating an item that meets the definition of revenue (above) in the income statement when it meets the following criteria:

- it is probable that any future economic benefit associated with the item of revenue will flow to the entity, and
- the amount of revenue can be measured with reliability

IAS 18 provides guidance for recognising the following specific categories of revenue:

Sale of goods

Revenue arising from the sale of goods should be recognised when all of the following criteria have been satisfied: [IAS 18.14]

- 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
- 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

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 reference to the stage of completion of the transaction at the balance sheet date (the percentage-of-completion method): [IAS 18.20]

- 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.

When the above criteria are not met, revenue arising from the rendering of services should be recognised only to the extent of the expenses recognised that are recoverable (a "cost-recovery approach". [IAS 18.26]

Interest, royalties, and dividends

For interest, royalties and dividends, provided that 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: [IAS 18.29-30]

- interest: using the effective interest method as set out in IAS 39
- 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 [IAS 18.35]

- 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

Implementation guidance

Appendix A to IAS 18 provides illustrative examples of how the above principles apply to certain transactions.

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