## International Accounting Standard 18

# Revenue

*This version includes amendments resulting from IFRSs issued up to 31 December 2008.*

IAS 18 *Revenue* was issued by the International Accounting Standards Committee in December 1993. It replaced IAS 18 *Revenue Recognition* (issued in December 1982).

Limited amendments to IAS 18 were made as a consequence of IAS 39 (in 1998), IAS 10 (in 1999) and IAS 41 (in January 2001).

In April 2001 the International Accounting Standards Board resolved that all Standards and Interpretations issued under previous Constitutions continued to be applicable unless and until they were amended or withdrawn.

Since then IAS 18 and its Appendix have been amended by the following IFRSs:

- IAS 39 *Financial Instruments: Recognition and Measurement* (as revised in December 2003)
- IFRS 4 *Insurance Contracts* (issued March 2004)
- IAS 1 *Presentation of Financial Statements* (as revised in September 2007)* amended the terminology used throughout IFRSs, including IAS 18
- *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* (Amendments to IFRS 1 and IAS 27) (issued May 2008)*
- *Improvements to IFRSs* (issued May 2008)*
- IFRIC 15 *Agreements for the Construction of Real Estate* (issued July 2008).*

As well as IFRIC 15 the following Interpretations refer to IAS 18:

- SIC-13 *Jointly Controlled Entities—Non-Monetary Contributions by Venturers* (issued December 1998 and subsequently amended)
- SIC-27 *Evaluating the Substance of Transactions involving the Legal Form of a Lease* (issued December 2001 and subsequently amended)
- SIC-31 *Revenue—Barter Transactions Involving Advertising Services* (issued December 2001 and subsequently amended)
- IFRIC 12 *Service Concession Arrangements* (issued November 2006 and subsequently amended)
- IFRIC 13 *Customer Loyalty Programmes* (issued June 2007).

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* effective date 1 January 2009

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*paragraphs*

International Accounting Standard 18 *Revenue* (IAS 18) is set out in paragraphs 1–38. All the paragraphs have equal authority but retain the IASC format of the Standard when it was adopted by the IASB. IAS 18 should be read in the context of its objective, the *Preface to International Financial Reporting Standards* and the *Framework for the Preparation and Presentation of Financial Statements*. IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

# International Accounting Standard 18
## *Revenue*

## Objective

Income is defined in the *Framework for the Preparation and Presentation of Financial Statements* as increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants. Income encompasses both revenue and gains. Revenue is income that arises in the course of ordinary activities of an entity and is referred to by a variety of different names including sales, fees, interest, dividends and royalties. The objective of this Standard is to prescribe the accounting treatment of revenue arising from certain types of transactions and events.

The primary issue in accounting for revenue is determining when to recognise revenue. Revenue is recognised when it is probable that future economic benefits will flow to the entity and these benefits can be measured reliably. This Standard identifies the circumstances in which these criteria will be met and, therefore, revenue will be recognised. It also provides practical guidance on the application of these criteria.

## Scope

1 **This Standard shall be applied in accounting for revenue arising from the following transactions and events:**

**(a) the sale of goods;**

**(b) the rendering of services; and**

**(c) the use by others of entity assets yielding interest, royalties and dividends.**

2 This Standard supersedes IAS 18 *Revenue Recognition* approved in 1982.

3 Goods includes goods produced by the entity for the purpose of sale and goods purchased for resale, such as merchandise purchased by a retailer or land and other property held for resale.

4 The rendering of services typically involves the performance by the entity of a contractually agreed task over an agreed period of time. The services may be rendered within a single period or over more than one period. Some contracts for the rendering of services are directly related to construction contracts, for example, those for the services of project managers and architects. Revenue arising from these contracts is not dealt with in this Standard but is dealt with in accordance with the requirements for construction contracts as specified in IAS 11 *Construction Contracts*.

5 The use by others of entity assets gives rise to revenue in the form of:

(a) interest—charges for the use of cash or cash equivalents or amounts due to the entity;

 

(b) royalties—charges for the use of long-term assets of the entity, for example, patents, trademarks, copyrights and computer software; and

(c) dividends—distributions of profits to holders of equity investments in proportion to their holdings of a particular class of capital.

6 This Standard does not deal with revenue arising from:

(a) lease agreements (see IAS 17 *Leases*);

(b) dividends arising from investments which are accounted for under the equity method (see IAS 28 *Investments in Associates*);

(c) insurance contracts within the scope of IFRS 4 *Insurance Contracts*;

(d) changes in the fair value of financial assets and financial liabilities or their disposal (see IAS 39 *Financial Instruments: Recognition and Measurement*);

(e) changes in the value of other current assets;

(f) initial recognition and from changes in the fair value of biological assets related to agricultural activity (see IAS 41 *Agriculture*);

(g) initial recognition of agricultural produce (see IAS 41); and

(h) the extraction of mineral ores.

## Definitions

**7 The following terms are used in this Standard with the meanings specified:**

***Revenue* is the gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity participants.**

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

8 Revenue includes only the gross inflows of economic benefits received and receivable by the entity on its own account. Amounts collected on behalf of third parties such as sales taxes, goods and services taxes and value added taxes are not economic benefits which flow to the entity and do not result in increases in equity. Therefore, they are excluded from revenue. Similarly, in an agency relationship, the gross inflows of economic benefits include amounts collected on behalf of the principal and which do not result in increases in equity for the entity. The amounts collected on behalf of the principal are not revenue. Instead, revenue is the amount of commission.

## Measurement of revenue

**9 Revenue shall be measured at the fair value of the consideration received or receivable.***

* See also SIC-31 *Revenue—Barter Transactions Involving Advertising Services*

10 The amount of revenue arising on a transaction is usually determined by agreement between the entity and the buyer or user of the asset. It is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the entity.

11 In most cases, the consideration is in the form of cash or cash equivalents and the amount of revenue is the amount of cash or cash equivalents received or receivable. However, when the inflow of cash or cash equivalents is deferred, the fair value of the consideration may be less than the nominal amount of cash received or receivable. For example, an entity may provide interest free credit to the buyer or accept a note receivable bearing a below-market interest rate from the buyer as consideration for the sale of goods. When 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 imputed rate of interest is the more clearly determinable of either:

(a) the prevailing rate for a similar instrument of an issuer with a similar credit rating; or

(b) a rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.

The difference between the fair value and the nominal amount of the consideration is recognised as interest revenue in accordance with paragraphs 29 and 30 and in accordance with IAS 39.

12 When goods or services are exchanged or swapped for goods or services which are of a similar nature and value, the exchange is not regarded as a transaction which generates revenue. This is often the case with commodities like oil or milk where suppliers exchange or swap inventories in various locations to fulfil demand on a timely basis in a particular location. When goods are sold or services are rendered in exchange for dissimilar goods or services, the exchange is regarded as a transaction which generates revenue. The revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

## Identification of the transaction

13 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, when the selling price of a product includes an identifiable amount for subsequent servicing, that amount is deferred and recognised as revenue over the period during which the service is performed. Conversely, the recognition criteria are applied to two or more transactions together when they are linked in such a way that the commercial effect cannot be understood without reference to

the series of transactions as a whole. For example, an entity may sell goods and, at the same time, enter into a separate agreement to repurchase the goods at a later date, thus negating the substantive effect of the transaction; in such a case, the two transactions are dealt with together.

## Sale of goods

14 **Revenue from the sale of goods shall be recognised when all the following conditions have been satisfied:**

- **(a) the entity has transferred to the buyer the significant risks and rewards of ownership of the goods;**
- **(b) the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;**
- **(c) the amount of revenue can be measured reliably;**
- **(d) it is probable that the economic benefits associated with the transaction will flow to the entity; and**
- **(e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.**

15 The assessment of when an entity has transferred the significant risks and rewards of ownership to the buyer requires an examination of the circumstances of the transaction. In most cases, the transfer of the risks and rewards of ownership coincides with the transfer of the legal title or the passing of possession to the buyer. This is the case for most retail sales. In other cases, the transfer of risks and rewards of ownership occurs at a different time from the transfer of legal title or the passing of possession.

16 If the entity retains significant risks of ownership, the transaction is not a sale and revenue is not recognised. An entity may retain a significant risk of ownership in a number of ways. Examples of situations in which the entity may retain the significant risks and rewards of ownership are:

- (a) when the entity retains an obligation for unsatisfactory performance not covered by normal warranty provisions;
- (b) when the receipt of the revenue from a particular sale is contingent on the derivation of revenue by the buyer from its sale of the goods;
- (c) when the goods are shipped subject to installation and the installation is a significant part of the contract which has not yet been completed by the entity; and
- (d) when the buyer has the right to rescind the purchase for a reason specified in the sales contract and the entity is uncertain about the probability of return.

17 If an entity retains only an insignificant risk of ownership, the transaction is a sale and revenue is recognised. For example, a seller may retain the legal title to the goods solely to protect the collectibility of the amount due. In such a case, if the entity has transferred the significant risks and rewards of ownership, the

 