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# IAS - 18

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Revenue

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## **International Accounting Standard No 18 (IAS 18)**

### **Revenue**

In 1998, IAS 39, Financial Instruments: Recognition and Measurement, amended paragraph 11 of IAS 18, adding a cross-reference to IAS 39.

In May 1999, IAS 10 (revised 1999), events after the balance sheet date, amended paragraph 36. The modified text will be effective for annual financial statements covering periods beginning on or after January 1, 2000.

In January 2001, IAS 41, Agriculture, amended paragraph 6. IAS 41 became effective for annual financial statements covering periods beginning on or after January 1, 2003.

The following SIC Interpretations are related to IAS 18

- SIC-27, evaluating the substance of transactions in the legal form of a lease
- SIC-31, revenue - barter services that include Advertising

Note: Appendix cited in the text of the standard has not been included in this release.

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The normative part of this Statement, which appears in bold italics, it must be understood in the context of the explanations and guidelines for implementing them and in line with the Preface to International Accounting Standards. It is not intended that international accounting standards are applied in the case of non-significant (see paragraph 12 of the Prologue).

### **Objective**

Revenue is defined in the Framework for the Preparation and Presentation of Financial Statements, as increases in economic benefits produced throughout the year in the form of tickets or increases in value of the assets, or as decreases in liabilities, resulting in increases in net worth and are not related to contributions from the owners of the company. The income concept includes both revenue per se, as the gains. Revenue, as such, they emerge in the course of ordinary activities of the company and take on a variety of names, such as sales, commissions, interest, dividends and royalties. The objective of this Standard is to establish the accounting treatment of revenue arising from certain types of transactions and other events.

The main concern in accounting for revenue is determining when to be recognized. The revenue is recognized when it is probable that future economic benefits flow to the company and these benefits can be measured reliably. The Standard identifies the circumstances in which these criteria are met for revenue recognition. It also provides practical guidelines for the application of these criteria.

### **Scope**

1. This standard must be applied to accounting for revenue from the following transactions and events:
  - (a) the sale of products;
  - (b) the provision of services; and
  - (c) the use by others, of corporate assets that generate interest, royalties and dividends.
2. This standard supersedes IAS 18, recognition of revenue, adopted in 1982.
3. The term "product" includes both those produced by the company to be sold, such as those acquired for resale, such as goods from retail outlets or land or other property held for resale to third parties.
4. Service delivery means, usually, the execution by the enterprise, a set of tasks agreed on a contract for a fixed in time. The services can be provided in the course of one year or over several years. Some contracts for the provision of services are directly related to construction contracts, including those undertaken by architects or management of projects. Revenue from such contracts is not covered in this standard, but is recorded in accordance with the requirements for construction contracts, is specified in IAS 11, construction contracts.

5. The use by others, of corporate assets, resulting in ordinary income in the form of:
  - (a) interest - charges for the use of cash, other cash equivalents or the maintenance of debts with the company;
  - (b) royalties - charges for the use of long-term assets of the company, such as patents, trademarks, copyrights or applications, and
  - (c) dividends - distributions of profits to holders of ownership shares of companies in proportion to the percentage that involves participation on the capital or on a particular class of the same.
6. The Standard does not deal with revenue coming from:
  - (a) leasing contracts (see IAS 17, Leases);
  - (b) dividends from investments accounted for using the method of participation (see IAS 28 Investments in associates);
  - (c) insurance contracts that are within the scope of IFRS 4 Insurance contracts;
  - (d) changes in fair value of financial assets and liabilities, or products derived from the sale (see IAS 39, Financial Instruments: Recognition and measurement);
  - (e) changes in the value of other current assets;
  - (f) initial recognition and changes in fair value of biological assets related to agricultural activity (see IAS 41, Agriculture);
  - (g) initial recognition of agricultural products (see IAS 41, Agriculture), and
  - (h) extraction of mineral deposits.

### **Definitions**

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

**Revenue is the entry of gross economic benefits during the period arising in the course of ordinary activities of an enterprise, provided that such entry would lead to an increase in equity that is not related to contributions from owners that heritage.**

**Fair value is the amount for which an asset could be exchanged or a liability settled, between a buyer and a seller interested and informed, in a free transaction.**

8. Revenue includes only the gross inflows of economic benefits received and receivable by the company, for its own account. The amounts received on behalf of third parties, such as sales taxes on goods or services or value added, no entries economic benefits for the company and do not produce increases in their net worth. Therefore, these entries are excluded from revenue. In the same way, by a ratio of commission, between

a principal and an agent, the gross inflows of economic benefits include amounts received from the commission on behalf of the principal, which do not involve increases in equity of the company. The amounts received on behalf of the principal will not constitute ordinary income, although it will be the amount of commission.

### **Valuation of revenue**

9. **The valuation of revenue must be made using the fair value of the consideration received or receivable arising from the revenue summary.**
10. The amount of revenue derived from a transaction is determined, usually by agreement between the company and the seller or user of the asset. Will be valued at fair value of the consideration received or receivable, taking into account the amount of any discount, rebate or discount to the trading company can be granted.
11. In most cases, the compensation will take the form of cash or cash equivalents, and thus the revenue is measured by the amount of cash or other equivalent means received or receivable. However, when the inflow of cash or other equivalent means will differ over time, the fair value of the consideration may be less than the nominal amount of cash collected or paid. For example, the company can give the client a loan without interest or agree to receive a commercial effect carrying an interest rate lower than the market as consideration for the sale of property. When the agreement is effectively a financial transaction, the fair value of the consideration shall be determined by discounting all future collections, using an interest rate charged for the upgrade. The interest rate charged to the operation will be from among the following two, the best that can be determined:
  - (a) the current rate for a similar instrument whose rating is similar to that of the client accepts it;
  - (b) the interest rate that equals the rated instrument used, due course, the spot price of the goods or services sold.
- The difference between the fair value and the nominal amount of the contribution is recognized as revenue by financial interests, in accordance with paragraphs 29 and 30 of this Standard, and in accordance with IAS 39, Financial Instruments: Recognition and measurement.
12. When you share or exchange goods or services for other goods or services of a similar nature, such change is not regarded as a compromise that produces revenue. Often, this is the case of goods such as oil or milk, in which providers share or exchange their stock at various locations in order to meet orders in a given place. When goods are sold or services are provided, receiving in return goods or services of a different nature, the exchange is seen as a compromise that produces revenue. These revenues are valued at fair value of the goods or services received, adjusted by the amount of the cash or equivalent means transferred in the operation. In the case of not being able to reliably assess the value of goods or services received, revenue will be valued according to the fair value of the goods or services delivered, similarly adjusted by the amount of the cash or cash equivalents transferred in the operation.

## **Identification of the transaction**

13. Normally, the criterion used for the recognition of revenue in this standard will apply separately to each transaction. However, under certain circumstances it is necessary to implement such a criterion for recognition separately identifiable to the components of a single transaction, to reflect the economic substance of the transaction. For example, when the selling price of a product includes an identifiable amount in exchange for some future service, such amount is deferred and recognized as revenue in the range of time that the service will be executed. Conversely, the criteria for recognition apply to two or more transactions, together, when they are linked, so that the commercial effect cannot be understood without reference to the complete set of transactions. For example, a company can sell goods and at the same time, make a contract to buy back those assets later, thereby denying the substantive effect of the operation, in which case the two transactions must be accounted for together.

## **Sales of goods**

14. **Revenue from the sale of assets to be recognized and recorded in the financial statements when they meet each and every one of the following conditions:**

**(a) the company has transferred to the buyer the risks and benefits of major type, derived from ownership of the property;**

**(b) the company does not keep to himself any involvement in the management of the assets sold, to the degree usually associated with ownership nor retains effective control over them;**

**(c) the amount of revenue can be measured reliably;**

**(d) it is likely that the company receives the economic benefits associated with the transaction; and**

**(e) costs incurred, or incur, in connection with the transaction can be measured reliably.**

15. The process of assessing whether a company has transferred to the buyer the significant risks and a reward, which involves property, requires an examination of the circumstances of the transaction. In most cases, the transfer of risks and rewards of ownership coincides with the transfer of legal title or transfer of possession to the buyer. This is the case in most retail sales. In other cases, however, the transfer of risks and benefits of ownership will take place at a time different from that surrounding the transfer of legal title or transfer of possession of the property.

16. If the company retains on a significant property risks, the transaction will not be a sale and therefore did not recognize revenue. A company can retain significant risks in different ways. Examples of situations in which the company can retain significant advantages and risks relating to property, are as follows:

(a) if the company assumes obligations under the unsatisfactory performance of products, which do not fall under normal conditions of security;

(b) the receipt of revenue from a particular sale is contingent in nature because it depends on the procurement, by the buyer of revenue derived from the sale of assets;

(c) where the assets are sold along with the installation of the same and the installation is a substantial part of the contract, which has not yet been completed by the company and

(d) if the buyer, under a condition agreed to in the contract, has the right to terminate the transaction and the company is uncertain whether that happens.

17. If a company retains only a negligible portion of the risks and benefits associated with ownership, the transaction is a sale and therefore will be to recognize revenue. For example, a seller may retain, for the sole purpose of securing the payment of debt, the legal title to the property. In this case, if the company has transferred the risks and benefits associated with significant ownership, the transaction is a sale, and proceeds to recognize the revenue derived from it. Another example of a company that retains only a negligible part of the risk involved in the property can be sold at retail, when it guarantees the repayment of the amount if the consumer is not satisfied. In such cases, revenue is recognized at the time of sale, provided that the seller can reliably estimate future returns, and recognizes a debt repayments to make, based on their previous experience or other relevant factors.
18. Revenue is recognized only when it is probable that the economic benefits associated with the transaction flow to the company. In some cases, this may not be likely until it receives the consideration or until such an uncertainty. For example, in a sale to a foreign country there may be uncertainty as to whether the foreign government granted permission for the contribution being sent. When such permission is granted, the uncertainty disappears and then proceeds to the recognition of revenue. However, when shown a degree of uncertainty related to the recovery of a balance between previously included revenue, the uncollectable amount or the amount for which recovery is no longer likely be recognized as an expense, instead of adjusting the amount of revenue originally recognized.
19. Revenue and expenses related to the same transaction or event will be recognized at a time. This process is usually called by the name of cost correlation with income. The costs, coupled with the guarantees and other costs incurred after the delivery of goods may be measured reliably when the other conditions for the recognition of revenue have been met. However, revenue cannot be recognized when the costs cannot be correlated measured reliably, and in such cases, any compensation already received from the sale of assets recorded as a liability.

### **Service delivery**

20. **When the result of a transaction involving the provision of services, can be estimated reliably, revenue associated with the transaction should be recognized, considering the degree of realization of the benefit at the balance sheet date. The result of a transaction can be estimated reliably when all and each of the following conditions:**

**(a) the amount of revenue can be measured reliably;**

**(b) it is likely that the company receives the economic benefits of the transaction;**

**(c) the degree of completion of the transaction at the balance sheet date can be measured reliably; and**

**(d) the costs already incurred in the provision, as well as those left by incurring up to complete it, can be measured with fiabilidad.2 3**

21. The recognition of revenue by reference to the achievement of a transaction is usually called by the name of the percentage of completion method. Under this method, revenue is recognized in the years in which takes place the service. The recognition of revenue on this basis will provide useful information on the extent of the activity of service and execution in a given year. IAS 11, construction contracts, also requires the use of this basis of recognition of revenue. The requirements of this Standard are generally applicable to the recognition of revenues and expenses associated with an operation that involves providing services.

22. Revenue is recognized only when it is likely that the company receives the economic benefits of the transaction. However, when there is some uncertainty about the extent of recovery of an amount already included among ordinary income, the amount of bad or the amount for which recovery is no longer probable, is recognized as an expense, instead of adjusting the amount of revenue originally recognized.

23. A company will usually capable of making reliable estimates after it has agreed with other parties to the transaction, the following:

(a) duty payable by each of those involved, about the service that the parties have to provide or receive;

(b) the contribution of the exchange, and

(c) the form and terms of payment.

Normally, it is also necessary for the company have a financial budget system and an information system that are effective. The company will review and, if necessary, amend the estimates of revenue receivable, as the service is provided. The need for such revisions is not, necessarily, that the outcome of the operation of the provision cannot be estimated reliably.

24. The percentage of completion of a transaction can be determined using several methods. Each company uses the method that measures more reliable services executed. Among the methods used to be found, depending on the nature of the transaction:

(a) inspection of work performed;

(b) the proportion of services performed to date as a percentage of total services provided, or

(c) the proportion that costs incurred to date represent the estimated total cost of the transaction, calculated so that only those costs that reflect services already implemented

include between costs incurred to date and only reflect the costs for services performed or run are included in the estimate of the total costs of the operation.

Neither the payments are neither advances received from customers reflect, necessarily, the percentage of the service provided to date.

25. For practical purposes, in the event that the services are provided through an indeterminate number of acts over a specified period, revenue may be recognized in a linear fashion along the length of time referred to Unless there is evidence that another method better represents the percentage of completion at the time. When a specific act is much more significant than the rest of the acts, the recognition of revenue will be delayed until the same has been executed.
26. **When the result of a transaction involving the provision of services cannot be estimated reliably, revenue must corresponding to be recognized as such, only to the amount by which the expenses recognized deemed recoverable.**
27. During the early stages of a transaction involving the provision of services, is often the case that the denouement of the same cannot be reliably estimated. However, it may be likely that the company recovers the costs incurred in the operation. In this case, revenue is recognized only by the amount of costs incurred that are expected to recover. Since the outcome of the transaction cannot be estimated reliably, it does not recognize any gain from it.
28. When the final result of a transaction cannot be estimated reliably, and is unlikely to recover costs incurred not in it, does not recognize revenue, but will proceed to recognize the costs incurred as expenditure for the year. When the uncertainties that prevented the reliable estimate of the proper outcome of the contract, will be to recognize derivatives revenue, but applying the provisions of paragraph 20, rather than as provided in paragraph 26.

#### **Interest, royalties and dividends**

29. **Revenue derived from use by others, of corporate assets that produce interest, royalties and dividends should be recognized in accordance with the foundations laid down in paragraph 30, provided that:**
  - (a) **it is probable that the company receives the economic benefits associated with the transaction; and**
  - (b) **the amount of revenue can be measured reliably.**
30. **Revenue is recognized using the following criteria:**
  - (a) **interest will be recognized using the effective interest method as set out in paragraphs 9 and GA5 to GA8 of IAS 39;**
  - (b) **royalties are recognized on the assumption of accruals, according to the substance of the relevant contract, and**

**(c) dividends are recognized when establishing the shareholder's right to receive payment.**

31. [Deleted]

32. When you are charged interest of a particular investment, and some of them have accrued prior to its acquisition, will be distributed among the total interest periods before and after the acquisition, coming to recognize as revenue only which correspond to the year after the acquisition. When the dividends of the shares come from net gains obtained before the acquisition of securities, such dividends are deducted from the cost of them. If it proves difficult to separate the portion of dividends corresponding to profits prior to the acquisition, except to use an arbitrary criterion, the procedure is to recognize the dividends as ordinary income for the year, unless they clearly represent the recovery of a portion of the cost of title.

33. The royalties payable are considered depending on the terms of the agreement in which they are based and are recognized as such with this approach, unless, considering the economic substance of the said agreement, is more appropriate to recognize revenue derived by using other more systematic approach and rational.

34. Revenue is recognized only when it is probable that the company gets the benefits associated with the transaction. However, if there is any kind of uncertainty about the amounts already included as ordinary income, the amount of bad, or the amount for which is no longer probable recovery, are recognized as expenses, rather than adjust the amounts originally recognized as ordinary income.

### **Information Disclosure**

35. **The company should disclose the following information in its financial statements:**

**(a) the accounting policies adopted for the recognition of revenue, including the methods used to determine the percentage of completion of delivery of services;**

**(b) the amount of each significant category of revenue recognized during the period, with express reference to revenue derived from:**

**(i) sale of assets;**

**(ii) provision of services;**

**(iii) interest;**

**(iv) royalties;**

**(v) dividends; and**

**(c) the amount of revenue generated by exchanges of goods or services included in each of the above categories of revenue.**

36. The company disclosed in its financial statements any type of contingent assets and contingent liabilities, in accordance with IAS 10, events after the balance sheet date and IAS 37, Provisions, contingent liabilities and contingent assets. The type of assets and contingent liabilities may arise from such items as costs of guarantees, claims, fines or possible losses.

**Effective Date**

37. **The International Accounting Standard is effective for financial statements covering periods beginning on or after January 1 1995.**