Deliberation on IFRS

IAS-1,2,,7, 8,10, 12,16,17,18,19,20, 23, 24,27,28,31,32,36,37,38,39,40

IFRS -5,6,7, 8

by

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IAS–18

REVENUE

Objective

- When the revenue should be recognised in profit & loss account
- Revenue is recognise when it is probable that future economic benefits will flow to the entity and these benefits can be measured reliably

What is revenue

Revenue means gross inflow of economic benefits arising in the course of ordinary activities of an entity, such as -

- The sale of goods
- Rendering the services
- Use by others of an entity assets yielding interest, dividend & royalties

Applicability

Not applicable to :

- Revenue arising from construction contract
- Revenue arising from hire purchase, lease agreements
- Insurance contracts
- Change in the fair value of financial assets and financial liabilities or their disposal

Applicability

Not applicable to :

- Dividend arising from investments which are accounted for under the equity method
- Change in the value of other current assets
- Initial recognition and from changes I the fair value of biological assets related to agriculture activity
- Initial recognition of agricultural produce
- The extraction of mineral ores

Measurement

Revenue shall be measured

- at the fair value of
- the consideration
- Received or receivable

Fair value has to be adjusted for any trade and volume discount

Deferred Consideration

- When the receipt of consideration is deferred, the fair value could be arrived by discounting the future cash flow by imputed rate of interest.
- The difference between the nominal value and the fair value is treated as interest

Imputed Rate of Interest

- The prevailing rate for a similar instrument

  or

- a rate of interest the discounts the nominal amount of the instrument to the current cash sales price of the goods or services.

Revenue from sale of goods

- All significant risk and rewards of ownership have been transferred in goods
- Does not retain any effective control
- The amount of revenue can be mesured reliably
- Probable that the economic benefits will flow to the entity
- Cost incurred or to be incurred can be measured reliably

Revenue recognition when delivery of goods sold subject to conditions

- Installation and inspection
- Sale on approval
- Guaranteed sales
- Warranty sales
- Consignment sales

Exchange or swap of goods and or services

- For similar goods – not recognised
- For dissimilar goods – recognised at fair value of goods received

Repo agreement

Sale and repurchase agreement (other than swap transactions) under which the seller concurrently agrees to repurchase the same goods at a later date or when the seller has a call option to repurchase or the buyer has a put option to require the repurchase, by the seller, of the goods.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction shall be recognised *by reference to the stage of completion of the transaction at the end of the reporting period.*

Rendering of services

- When outcome of the transaction can not be estimated reliably, revenue is to be recognised to the extent expenses incurred and expected to be recoverable.
- If considered not recoverable than to be expensed.

Revenue recognition

- Installation fee
- Advertising & insurance agency commission
- Financial service commission
- Admission fee
- Tuition fee
- Entrance & Membership fee

Revenue from interest

Interest – Effective interest method as set out in IAS-39

Royalties – Accrual basis in accordance with the substance of the relevant agreement

Dividends – To be recognised when the shareholder’s right to receive payment is established

Disclosure

- Accounting policy for revenue recognition
- method to determine the stage of completion
- Revenue arising from –
    - the sale of goods
    - the rendering of services
    - royalties, dividends, interest.
- Revenue from exchange of goods included.

THANK YOU

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