

AASB 118 'Revenue' Summary

OVERVIEW

The Accounting Standard AASB 118 will replace the existing requirements in AAS 15/AASB 1004 'Revenue' that apply to revenues arising from the sale of goods, the rendering of services and the use by others of entity assets (interest, rent and dividends). The concept of income under the Australian Equivalents to International Financial Reporting Standards (IFRS) is equivalent to revenue under the current standards. Income in IFRS encompasses revenue and gains.

Other forms of revenue are addressed in AASB 1004 'Contributions' (not-for-profit entities) and AASB 120 'Accounting for Government Grants and Disclosure of Government Assistance' (for-profit entities). Gains are addressed in AASB 116 'Property, Plant and Equipment', AASB 138 'Intangibles', AASB 139 'Financial Instruments' and AASB 140 'Investment Properties'.

Apart from the narrower application, the key differences between AASB 118 and the existing requirements are:

- **Gains from the sale or disposal of non-current assets** are recognised on the net basis (currently recognised on the gross basis).
- Revenue recognition criteria for the **sale of goods** is more restrictive. AASB 118 requires that the control and the significant risks and rewards of ownership must have passed to the buyer. The current standard only requires that control of goods must have passed to the buyer. In addition, AASB 118 requires that the costs incurred or to be incurred in respect of the transaction can be measured reliably (not a current requirement). These changes are expected to have limited impact on the public sector.
- Changes to the revenue recognition criteria for the **rendering of services**. AASB 118 requires that the costs incurred and costs to complete the transaction be able to be measured reliably before revenue can be recognised (not a current requirement). Under the current requirements an entity must control the right to be compensated for the services rendered before revenue can be recognised. This is not a requirement under AASB 118. These changes are expected to have limited impact on the public sector.

INTRODUCTION

The Accounting Standard AASB 118 will replace the existing requirements in AAS 15/AASB 1004 'Revenue' that apply to revenues arising from the sale of goods, the rendering of services and the use by others of entity assets (interest, rent and

dividends). The concept of income under IFRS is equivalent to revenue under the current standards. Income in IFRS encompasses revenue and gains.

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".

Revenue is defined in AASB 118 as "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 those relating to contributions from equity participants".

APPLICATION DATE

The Standard will be applicable from the first reporting period beginning on or after 1 January 2005.

TRANSITIONAL PROVISIONS

The Transitional Provisions contained in the Standard do not apply as they are to be overridden by AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards'. The provisions of AASB 1 must be followed by **all** first-time adopters.

Under AASB 1, agencies with a 30 June year end must produce an opening balance sheet at 1 July 2004 (the date of transition) that is compliant with Australian Equivalents of International Financial Reporting Standards (IFRS). AASB 1 requires IFRS to be applied retrospectively. Any adjustments as a result of applying IFRS to the opening balance sheet are taken directly to equity.

AASB 1 makes some mandatory exemptions and allows some voluntary exemptions to the retrospective application of IFRS. There are no exemptions in respect of revenue. Any revenues (from the sale of goods; the rendering of services and from interest, rent and dividends) that have been recognised under the current standard that do not meet the recognition criteria under AASB 118, must be recognised as a liability (deferred income).

KEY DIFFERENCES FROM THE EXISTING AUSTRALIAN STANDARD

Narrower concept of revenue

The concept of income under IFRS is equivalent to revenue under the current standards. Income in IFRS encompasses revenue and gains. Revenue under AASB 118 is the gross inflows arising in the course of ordinary activities.

In addition, AASB 118 only addresses the treatment of revenue arising from the:

- sale of goods;
- rendering of services; and
- the use by others of entity assets yielding interest, royalties and dividends.

In contrast, the current standard (AAS 15) addresses the treatment of all revenues, whether or not attributable to ordinary activities. Other forms of revenue are addressed in AASB 1004 and AASB 120. Gains are addressed in a number of standards including AASB 116, AASB 138, AASB 139 and AASB 140.

Gains on the sale or disposal of non-current assets

Gains are revenue under AAS 15 and are recognised on the gross basis. Under IFRS, gains are recognised on the net basis (the net proceeds of disposal less the carrying amount of the asset) under AASB 116 and AASB 138.

Recognition criteria for sale of goods

The current standard requires that control of goods must have passed to the buyer. That is, the benefits associated with the asset have been transferred to the buyer.

AASB 118 requires that control and the significant risks and rewards of ownership have passed to the buyer. Consequently, there may be circumstances where the vendor retains significant risks after control and benefits have been transferred. In such circumstances, recognition of revenue under IFRS would be deferred until the risks are transferred. This is expected to have limited impact on the public sector.

In addition, AASB 118 requires that the costs incurred or to be incurred in respect of the transaction can be measured reliably. This is not a requirement under AAS 15. This change is expected to have limited impact on the public sector.

Note that the 'standard' recognition criteria of probable economic benefits and reliable measurement apply under both AAS 15 and AASB 118.

Recognition criteria for the rendering of services

In addition to the 'standard' recognition criteria of probable economic benefits and reliable measurement, both the current standard and AASB 118 require that the stage of completion of the transaction can be measured reliably before revenue can be recognised. This is referred to as the percentage of completion method.

AASB 118 also requires that the costs incurred and costs to complete the transaction must be able to be measured reliably before revenue can be recognised. This is not a recognition criteria under the current standard. Consequently, there may be circumstances where the recognition of revenue in respect of services under IFRS will be later than under the current standards. This is not expected to have a significant impact on the public sector.

AAS 15 requires an entity to control the right to be compensated for the services rendered before revenue can be recognised. This is not a requirement under AASB 118. Consequently, there may be circumstances under which recognition under IFRS will occur earlier than under the current requirements. This change is expected to have limited impact on the public sector.

Exchange or swap of goods

AASB 118 requires that an exchange or swap of goods and services should not be treated as a transaction giving rise to revenue when the goods or services exchanged or swapped are of a similar nature or value.

Under AAS 15, an exchange or swap of goods or should not be treated as a transaction giving rise to revenue when:

- the goods or services exchanged or swapped are of the same nature and value: and
- the transaction does not involve any cash consideration.

Commentary in AAS 15 also states that the goods or services exchanged in a transaction that does not give rise to revenue should be homogeneous items.

As the criteria for non-revenue transactions are narrower under AAS 15, there may be circumstances in which transactions that would have been recognised under AAS 15, will not be recognised as revenue under AASB 118. This change is not expected to have an impact on the public sector.

Disclosures

Reflecting the narrower coverage of the Standard, the categories of revenue to be disclosed separately, is more limited under AASB 118. For example, AAS 15 requires the disclosure of revenues from the disposal of assets other than goods, from contributions of assets and from the forgiveness of liabilities. These are not revenues under AASB 118.

IMPACT OF DIFFERENCES

Effect on general reporting in the public sector

The most significant change is that gains and losses from the disposal of property, plant and equipment and intangibles are now to be measured on the net basis. Agencies also will need to apply an amended revenue recognition criteria. Little impact is expected.

Effect on Treasurer's Instructions (TIs) and Model Financial Statements

TIs will need to be amended to reflect the change in the treatment of gains. The accounting policy note on revenue may need to be amended.