Accounting Standard

AASB 1004
June 1998

Revenue

Issued by the
Australian Accounting Standards Board

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Defined words appear in *italics* the first time they appear in a section. The definitions are in Section 15. Standards are printed in **bold** type and commentary in light type.

MAIN FEATURES OF THE STANDARD

The Standard:

(a) applies to revenues other than revenues arising from securitising assets; defeasing debt; measuring assets and liabilities at market values or present values and recognising the changes in those values in the profit and loss account when they occur; and dividends from entities that are accounted for using the equity method

(b) requires revenue to be measured at the fair value of the consideration or contributions received or receivable

(c) requires the exchange or swap of goods or services to be treated as a transaction that does not give rise to revenue when and only when the exchange is for goods or services of the same nature and value and the transaction does not involve cash consideration

(d) requires revenue to be recognised when and only when specified criteria are met

(e) requires disclosure of accounting policies adopted for the recognition of revenue

(f) requires disclosure of categories of revenue recognised during the reporting period, separated into those revenues from operating activities and other revenues.

ACCOUNTING STANDARD AASB 1004

The Australian Accounting Standards Board makes Accounting Standard AASB 1004 "Revenue" under section 32 of the *Corporations Act 1989*.

Dated 16 June 1998

K H Spencer
Director – AASB

ACCOUNTING STANDARD

AASB 1004 "REVENUE"

1 Application

1.1 This Standard applies to each *entity* which is required to prepare financial statements in accordance with Part 3.6 of the Corporations Law and which:

(a) is a *reporting entity*; or

(b) holds those financial statements out to be, or form part of, a *general purpose financial report*.

2 Scope

2.1 Subject to paragraph 2.2, this Standard applies to all *revenues*, including revenues arising from:

(a) sale of *goods*

(b) rendering of services

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

(d) disposal of assets other than goods

(e) *contributions* of assets

(f) forgiveness of *liabilities*

(g) any other source.

2.2 This Standard does not apply to revenues arising from:

(a) the securitisation of assets, including the factoring of receivables

(b) the defeasance of debt

(c) measuring assets and liabilities at market values or present values and *recognising* the changes in those values in the profit and loss account when they occur

(d) dividends from entities that are accounted for using the equity method in accordance with Accounting Standard AASB 1016 "Accounting for Investments in Associates".

2.2.1 This Standard does not deal with the recognition of costs or *expenses* arising in respect of any of the types of revenues covered by paragraph 2.1. Hence, it does not deal with such matters as gains and losses on the disposal of *non-current assets*.[1]

2.2.2 The recognition of profits on construction contracts is prescribed in Accounting Standard AASB 1009 "Construction Contracts". The determination of revenue from the rendering of services is dealt with by the requirements of this Standard in a manner consistent with AASB 1009.

2.2.3 There are a number of issues involved in determining revenue arising from securitisations of assets and defeasances of debt. These issues are being dealt with in the context of projects on the Recognition and Measurement of Financial Instruments. In addition, Accounting Standard AASB 1014 "Set-off and

[1] The disclosure of net gains and losses on the disposal of specific categories of assets is currently required for reporting entities applying Accounting Standard AASB 1034 "Information to be Disclosed in Financial Reports". The Board intends to require some form of disclosure of gains and losses in a revised AASB 1034 in the context of harmonising with International Accounting Standards IAS 1 "Presentation of Financial Statements" and IAS 8 "Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies".

Extinguishment of Debt" includes requirements for the recognition of gains on the extinguishment of debts.

2.2.4 To the extent that the entity is required or allowed to use a market value or present value measurement basis for some or all of its assets and liabilities, the revenue for a *financial year* may include changes in values. In such cases, the revenue recognition, measurement and disclosure requirements of the specific standards that require or allow these treatments are followed, rather than the requirements of this Standard. Australian Accounting Standard AAS 25 "Financial Reporting by Superannuation Plans" and Accounting Standard AASB 1023 "Financial Reporting of General Insurance Activities" require superannuation plans and general insurers to measure particular assets at net market values and particular liabilities at present values, with changes in values recognised as revenues or expenses when they occur. Accounting Standard AASB 1030 "Application of Accounting Standards to Financial Year Accounts and Consolidated Accounts of Disclosing Entities other than Companies" allows certain entities to measure *financial asset*s at market values, with changes in values recognised as revenues or expenses when they occur. In respect of any transactions treated on an historical cost basis by superannuation plans, general insurers and the entities identified in AASB 1030 as allowed to use market value accounting, the requirements of this Standard apply.

2.2.5 The standards specified in this Standard apply to the *financial report* where information resulting from their application is material, in accordance with Accounting Standard AASB 1031 "Materiality".

3 Operative Date

3.1 This Standard applies to *financial years* ending on or after 30 June 1999.

3.2 This Standard may be applied to financial years ending before 30 June 1999 where an election has been made in accordance with subsection 285(3) of the Corporations Law.

3.3 When operative, this Standard supersedes Accounting Standard AASB 1004 "Disclosure of Operating Revenue" as approved by notice published in *Gazette* No S97 on 7 March 1986 and amended by Accounting Standard AASB 1025 "Application of the Reporting Entity Concept and Other Amendments".

3.3.1 Notice of this Standard was published in *the Commonwealth of Australia Gazette* on 17 June 1998.

4 Purpose of Standard

4.1 The purpose of this Standard is to:

(a) prescribe the accounting treatment of *revenues* arising from various types of transactions or other events

(b) require certain disclosures to be made in relation to revenues.

5 Measurement of Revenues

5.1 *Revenues* must be measured at the *fair value* of the consideration or *contributions* received or receivable.

5.1.1 The amount of revenue arising from 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 or contributions received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the entity.

5.1.2 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 delayed, the fair value of the consideration may be less than the nominal amount of cash receivable. For example, the 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 in substance the arrangement is a financing transaction, the fair value of the consideration is determined by discounting all future receipts using the implicit rate of interest. The implicit 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 8.1 and 8.2(b).

6 Sale of Goods and Disposal of Other Assets

6.1 *Revenue* arising from the sale of *goods* or the disposal of other *assets* must be *recognised* when, and only when, all the following conditions have been satisfied:

(a) the *entity* has passed control of the goods or other assets to the buyer

(b) it is *probable* that the economic benefits comprising the consideration will flow to the entity

(c) the amount of revenue can be measured reliably.

6.1.1 The assessment of when *control of an asset* is lost by the seller (passes to the buyer) requires an examination of the circumstances of the transaction. In most cases, the transfer of control 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 control over goods or other assets occurs at a different time from the transfer of legal title or the passing of possession. In addition, there may be a passing of control over some of the future economic benefits embodied in goods or other assets and a retention of others.

6.1.2 The entity may sell property, plant and equipment that it uses to produce goods or provide services. For example, the entity may dispose of land and buildings previously used to generate rental revenue for an identified amount under a firm contract of sale. Revenue would normally be recognised when the seller and buyer are both committed to a contract since control would normally pass from the seller to the buyer at this time.

6.1.3 The determination of the amount of revenue will often involve estimation and the subsequent correction of estimates. In most instances, the use of estimation techniques will provide measurements which are sufficiently reliable to enable revenue to be recognised. In the rare cases that the amount of revenue is unable to be measured reliably it is not recognised until the criterion is met.

6.1.4 Revenue is recognised only when it is probable that the economic benefits associated with the transaction will flow to the entity. In some cases, this may not occur until the consideration is received or until an uncertainty is removed. For example, it may be uncertain that a foreign governmental authority will grant permission to remit to the seller the consideration from a sale in a foreign country. When the permission is granted, the uncertainty is removed and revenue is recognised.

6.1.5 When an uncertainty arises about the collectability of an amount already recognised as revenue, the uncollectable amount or the amount in respect of which recovery has ceased to be probable is recognised as an *expense*, rather than as an adjustment of the amount of the revenue originally recognised. This can be distinguished from a situation in which revenue is estimated and later adjusted up or down based on more reliable information, such as occurs, for example, where revenue from the sale of minerals is estimated before the final assay. In this latter case, the change is an adjustment to the amount of the revenue originally recognised.

7 Rendering of Services

Contract Outcome Can Be Reliably Estimated

7.1 Where the outcome of a contract to provide services can be estimated reliably, *revenue* arising from the contract must be *recognised* by reference to the stage of completion of the contract when, and only when, all the following conditions have been satisfied:

(a) the *entity* controls a right to be compensated for services rendered

(b) it is *probable* that the economic benefits comprising the compensation will flow to the entity

(c) the amount of revenue can be reliably measured

(d) the stage of completion of the transaction can be reliably measured.

7.1.1 The recognition of revenue by reference to the stage of completion of a transaction is often referred to as the percentage of completion method. Under this method, revenue is recognised in the *financial years* in which the services are rendered. The recognition of revenue on this basis provides useful information on the extent of service activity and performance during a financial year.

7.1.2 Revenue is recognised only when it is probable that the economic benefits associated with the transaction will flow to the entity. This could include the recognition of revenue that arose in the past that was not previously recognised due to an unfavourable probability assessment. However, when an uncertainty arises about the collectability of an amount already recognised as revenue, the uncollectable amount, or the amount in respect of which recovery has ceased to be probable, is recognised as an *expense*, rather than as an adjustment of the amount of revenue originally recognised.

7.1.3 The entity is generally able to make reliable estimates after it has agreed to the following with the other parties to the transaction:

(a) each party's enforceable rights regarding the service to be provided and received by the parties

(b) the consideration to be exchanged

(c) the manner and terms of settlement.

It is also usually necessary for the entity to have an effective internal financial budgeting and reporting system. The entity reviews and, when necessary, revises the estimates of revenue as the service is performed. The need for such revisions does not necessarily indicate that the outcome of the transaction cannot be reliably estimated.

7.1.4 The stage of completion of a transaction may be determined in a variety of ways. The entity uses the method that reliably measures the services performed. Depending on the nature of the transaction, the method may be one of the following:

(a) surveys of work performed

(b) services performed to date as a percentage of total services to be performed

(c) the proportion that costs incurred to date bear to the estimated total costs of the transaction.

In relation to (c), only costs that reflect services performed to date are included in costs incurred to date for the purposes of this calculation. Only costs that reflect services performed or to be performed are included in the estimated total costs of the transaction.

Progress payments and advances received from customers often do not reflect the services performed.

7.1.5 For practical purposes, when services are performed by an indeterminate number of acts over a specified period of time, revenue is recognised on a straight-line basis over the specified period unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

Contract Outcome Cannot Be Reliably Estimated

7.2 Where the outcome of a contract to provide services cannot be reliably estimated:

(a) contract costs must be recognised as an expense in the financial year in which they are incurred; and

(b) where it is probable that the costs will be recovered, revenue must be recognised only to the extent of costs incurred.

7.2.1 When the uncertainties that prevented the outcome of the contract being reliably estimated no longer exist, revenue is recognised in accordance with paragraph 7.1.

8 Rents, Interest, Royalties and Dividends

8.1 *Revenue* arising from the use of the *entity's assets* yielding rents, interest, royalties or dividends must be *recognised* in accordance with paragraph 8.2 when, and only when, all the following conditions have been satisfied:

(a) the entity controls a right relating to the consideration payable for the provision or investment of its assets

(b) it is *probable* that the economic benefits comprising the consideration will flow to the entity

(c) the amount of the revenue can be measured reliably.

8.2 Revenue must be recognised on the following bases:

(a) rent revenue must be recognised in accordance with Accounting Standard AASB 1008 "Accounting for Leases"

(b) interest revenue must be recognised on a time proportionate basis that takes into account the effective yield on the *financial asset*

(c) royalty revenue must be recognised on an accrual basis in accordance with the substance of the relevant agreement

(d) dividend revenue must be recognised when the entity's right to receive payment is established.

8.2.1 The effective yield on a financial asset is the rate of interest required to discount the stream of future cash receipts expected over the life of the asset to equate to the initial carrying amount of the asset. For the entity that controls the financial asset, the amount of amortisation of any discount, premium or other difference between the initial carrying amount and its carrying amount at maturity is interest revenue or an adjustment needed to determine interest revenue.

8.2.2 When interest has accrued before the acquisition of an interest-bearing asset, the subsequent receipt of interest is allocated between pre-acquisition and post-acquisition periods; only the post-acquisition portion is recognised as revenue. When dividends on equity securities are declared from pre-acquisition profits or reserves, those dividends are deducted from the cost of the securities. If it is not practicable to reliably measure the allocation, dividends are recognised as revenue.

8.2.3 Royalties accrue in accordance with the terms of the relevant agreement and are usually recognised on that basis unless the substance of the agreement provides evidence that it is more appropriate to recognise revenue on some other systematic and rational basis.

8.2.4 In relation to dividends, the circumstances in which an entity meets all of the recognition criteria set down in paragraph 8.1 will vary. In those circumstances in which a final dividend must be approved at a meeting of shareholders, the entity will not control the right to the dividend until that approval occurs. It is not adequate, for recognition of revenue purposes, to only meet the second and third recognition criteria (that is, probability of occurrence and reliability of measurement).

8.2.5 Rent, interest, royalty and dividend revenue is recognised only when paragraph 8.1 is satisfied. However, when an uncertainty arises about the collectability of an amount already included in revenue, the uncollectable amount, or the amount in respect of which recovery has ceased to be probable, is recognised as an *expense*, rather than as an adjustment of the amount of revenue originally recognised.

9 Contributions of Assets

9.1 *Revenue* arising from the *contribution* of an *asset* to the *entity* must be *recognised* when, and only when, all the following conditions have been satisfied:

(a) the entity gains control of the contribution or the right to receive the contribution

(b) it is *probable* that the economic benefits comprising the contribution will flow to the entity

(c) the amount of the contribution can be measured reliably.

9.1.1 A contribution occurs when an entity receives an asset, including the right to receive cash or other forms of asset without directly giving approximately equal value to the other party or parties to the transfer; that is, when there is a *non-reciprocal transfer*. Contributions would, for example, include donated assets. Contributions that are revenues exclude *contributions by owners*.

9.1.2 In some cases it may be difficult to determine whether the entity has control of a contribution or the right to receive a contribution. One such case could be economic benefits expected to be received under a multi-year public policy agreement. The entity does not gain control of a contribution under such an agreement until it has met conditions or provided services or facilities that make it eligible to receive a contribution. On this basis, under multi-year public policy agreements, revenue would be recognised only in relation to contributions received or receivable under policy agreements. Another example is where a donor pledges a donation to an entity. If the pledge is not enforceable against the donor, the entity does not control the contribution.

9.1.3 In some cases it may be difficult to determine whether the entity is giving approximately equal value to the other parties to a transfer. This is particularly the case where, for example, fees are charged by a not-for-profit entity for the potential use of a general pool of facilities. In circumstances where clubs and professional associations charge fees in return for contributors being able to enjoy the use of facilities, receive publications or practice in a particular vocation for a defined period, an exchange transaction can be presumed and the fees would not be treated as contributions. The recipient of the fees would have a contractual or constructive obligation to refund some or all fees if it were unable to provide the facilities or services. In circumstances where the benefits to contributors are only nominal, such as acknowledgment letters, general information about the entity's activities and satisfaction of contributors' altruistic goals, the fees are in the nature of contributions.

10 Liabilities Forgiven

10.1 The gross amount of a *liability* forgiven by a credit provider must be *recognised* by the borrower as *revenue*.

10.1.1 Where *equity* is substituted for a liability, this is not treated as a forgiveness.

11 Exchanges of Goods or Services

11.1 An exchange or swap of *goods* or services must be treated as a transaction that does not give rise to *revenue* when, and only when, the exchange is for goods or services that are of the same nature and value and the transaction does not involve cash consideration.

11.1.1 When goods or services are exchanged or swapped for other goods or services that have the same nature and value, the exchange is not regarded as a transaction which generates revenue, but rather as a step to facilitate the earning of revenue in a future transaction. Exchanges or swaps that are regarded as transactions that do not give rise to revenue do not involve any cash consideration. Such transactions may occur in restricted circumstances such as exchanges of commodities like oil, motor vehicles or milk where suppliers exchange or swap inventories in various locations to fulfil demand on a timely basis in a particular location. In these circumstances the goods or services exchanged are homogeneous.

11.1.2 When goods are sold or services are rendered in exchange for goods or services that are not of the same nature and value, the exchange is regarded as a transaction which generates revenue. In these circumstances, 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 directly measured reliably, the revenue is estimated by reference to the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

12 Disclosures

12.1 The following information must be disclosed:

(a) the accounting policies adopted for the *recognition* of *revenues,* including the methods adopted to determine the stage of completion of contracts involving the rendering of services

(b) the amount of each category of revenue recognised during the *financial year,* including the following categories:

(i) the sale of *goods*

(ii) the rendering of services

(iii) rents

(iv) interest, including items of a similar nature

(v) royalties

(vi) dividends

(vii) the disposal of *assets* other than goods, including *non-current assets*

(viii) *contribution*s of assets, including cash and *non-monetary assets*

(ix) the forgiveness of *liabilities*

(x) any other source

(c) the amount of revenue arising from exchanges or swaps of goods or services included in any category of revenue.

12.1.1 The analysis of past performance and the forecasting of future performance are facilitated by disclosure of the accounting policies adopted in the recognition of revenues and by disaggregated disclosure of revenues.

12.1.2 The disposal of assets other than goods would include the sale and retirement of non-current assets. Contributions of assets would include contributions of cash and cash equivalents.

12.1.3 As noted in paragraph 11.1.2, when goods are sold or services are rendered in exchange for goods or services that are not of the same nature and value, the exchange is regarded as a transaction which generates revenue. Such revenues would be disclosed in accordance with paragraph 12.1(c).

12.2 In relation to each disclosure made in accordance with paragraph 12.1(b), there must be separate disclosure of revenue arising from:

(a) the operating activities of the *entity*

(b) outside the operating activities of the entity.

12.2.1 Users of *financial reports* are often interested in knowing the revenues of an entity that arise from its operating activities, which are those activities that relate to its core operations. For many entities, the disclosures required by paragraph 12.1(b) will suffice because the different categories will represent revenues arising either from the operating activities or from outside the operating activities. For example, the revenue arising from an entity's operating activities may relate solely to the sale of goods and the revenue arising from outside an entity's operating activities may relate solely to the disposal of assets other than goods. The term "operating activities" is used in this Standard with a different meaning from the definition in Accounting Standard AASB 1026 "Statement of Cash Flows". In the context of AASB 1026, operating activities means those activities which relate to the provision of goods and services and other activities that are neither investing nor financing activities.

12.3 Where an aggregate of revenues is disclosed, it must be reconciled to the categories of revenues disclosed in accordance with paragraph 12.1(b).

13 Comparative Information

13.1 The *entity* must disclose information for the preceding corresponding *financial year* which corresponds to the disclosures required by this Standard for the current financial year, except:

(a) where the superseded Standard applied to the entity (including an *economic entity*) in the preceding corresponding financial year but did not require corresponding information, and this Standard is being applied for the first time; or

(b) where the superseded Standard or this Standard did not apply to the entity (including an economic entity) in the preceding corresponding financial year, and this Standard is being applied for the first time.

13.1.1 In relation to the preparation of a consolidated financial report of an economic entity, comparative information is not required for the first financial year after an entity becomes a *parent entity*.

13.1.2 Disclosure of comparative information is encouraged where, in accordance with paragraph 13.1, disclosure of comparative information is not required.

14 Transitional Provisions

14.1 The accounting policies required by this Standard must be applied as at the beginning of the *financial year* to which this Standard is first applied. Where this gives rise to initial adjustments which would otherwise be *recognised* in the *profit and loss account*, the net amount of those adjustments, including any adjustments to deferred income tax balances, must, in accordance with Accounting Standard AASB 1018 "Profit and Loss Accounts", be adjusted against retained profits or accumulated losses as at the beginning of the financial year to which this Standard is first applied.

15 Definitions

15.1 In this Standard:

accounts **is defined in the Corporations Law**

assets **means future economic benefits controlled by the *entity* as a result of past transactions or other past events**

borrowing corporation **is defined in the Corporations Law**

company **is defined in the Corporations Law**

consolidated accounts **is defined in the Corporations Law**

contributions **means *non-reciprocal transfers* to the entity**

contributions by owners **means future economic benefits that have been contributed to the entity by parties external to the entity, other than those which result in *liabilities* of the entity, that give rise to a financial interest in the net assets of the entity which:**

(a) conveys entitlement both to distributions of future economic benefits by the entity during its life, such distributions being at the discretion of the *ownership group* or its representatives, and to distributions of any excess of *assets* over liabilities in the event of the entity being wound up; and/or

(b) can be sold, transferred or redeemed

control **means the capacity of an *entity* to dominate decision-making, directly or indirectly, in relation to the financial and operating policies of another entity so as to enable that other entity to operate with it in pursuing the objectives of the controlling entity**

control of an asset **means the capacity of the entity to benefit from the asset in the pursuit of the entity's objectives and to deny or regulate the access of others to that benefit**

current assets **means cash or other assets of the entity that would in the ordinary course of operations of the entity be consumed or converted into cash within twelve months after the end of the last** ***financial year*** **of the entity**

economic entity **means a group of entities comprising the** ***parent entity*** **and each of its** ***subsidiaries***

entity **means any legal, administrative, or fiduciary arrangement, organisational structure or other party (including a person) having the capacity to deploy scarce resources in order to achieve objectives**

equity **means the residual interest in the assets of the entity after deduction of its liabilities**

expenses **means consumptions or losses of future economic benefits in the form of reductions in assets or increases in liabilities of the entity, other than those relating to distributions to owners, that result in a decrease in** ***equity*** **during the financial year**

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

financial asset **means any asset that is:**

(a) cash; or

(b) a contractual right to receive cash or another ***financial asset*** **from another entity; or**

(c) a contractual right to exchange financial instruments with another entity under conditions that are potentially favourable; or

(d) an equity instrument of another entity

financial report **means** ***accounts*** **or** ***consolidated accounts*** **or both**

financial year **is defined in the Corporations Law**

general purpose financial report **means a financial report intended to meet the information needs common to users who are unable to command the preparation of reports**

tailored so as to satisfy, specifically, all of their information needs

goods **means both assets produced by the entity for the purpose of sale and assets purchased for resale, such as merchandise purchased by a retailer or land and other property held for resale**

holding company **is defined in the Corporations Law**

liabilities **means the future sacrifices of economic benefits that the entity is presently obliged to make to other entities as a result of past transactions or other past events**

listed corporation **is defined in the Corporations Law**

monetary asset **means domestic or foreign currency units held, and claims to determined numbers of such units of currency**

non-current assets **means all assets other than *current assets***

non-monetary asset **means all assets other than *monetary assets***

non-reciprocal transfer **means a transfer in which the entity receives assets or services or has liabilities extinguished without directly giving approximately equal value in exchange to the other party or parties to the transfer**

ownership group **means the group comprising those parties with a financial interest in the net assets of the entity which have obtained that interest by contributing future economic benefits to the entity in the form of *contributions by owners* or by acquiring the interest, established at an earlier time as a result of contributions by owners, from another party**

parent entity **means an entity which controls another entity**

probable **means, in relation to a future event, that it is more likely than less likely that the event will occur**

profit and loss account **is defined in the Corporations Law**

recognised **means reported on, or incorporated in amounts reported on, the face of the *profit and loss account* or of the balance sheet (whether or not further disclosure of the item is made in notes)**

reporting entity **means an entity (including an** ***economic entity*****) in respect of which it is reasonable to expect the existence of users dependent on** ***general purpose financial reports*** **for information which will be useful to them for making and evaluating decisions about the allocation of scarce resources, and includes but is not limited to the following:**

(a) **a** ***listed corporation***

(b) **a** ***borrowing corporation***

(c) **a** ***company*** **which is not a subsidiary of a** ***holding company*** **incorporated in Australia and which is a subsidiary of a foreign company where that foreign company has its securities listed for quotation on a** ***stock market*** **or those securities are traded on a stock market**

revenues **means inflows or other enhancements, or savings in outflows, of future economic benefits in the form of increases in assets or reductions in liabilities of the entity, other than those relating to contributions by owners, that result in an increase in equity during the financial year**

stock market **is defined in the Corporations Law**

subsidiary **means an entity which is controlled by a parent entity.**

Revenues

15.1.1 Revenues include 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 revenues. Similarly, an agent's revenues are the commissions, not the amounts collected on behalf of the principal.

CONFORMITY WITH INTERNATIONAL AND NEW ZEALAND ACCOUNTING STANDARDS

Conformity with International Accounting Standards

As at the date of issue of this Standard, compliance with this Standard will ensure conformity with International Accounting Standard IAS 18 “Revenue”.[2]

The proposed treatment of contributions as revenues is not in conformity with International Accounting Standard IAS 20 “Accounting for Government Grants and Disclosure of Government Assistance”, which requires grants to be treated as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis, and specifically requires grants related to assets to be treated as deferred income or as deductions from the carrying amounts of the assets.

Conformity with New Zealand Accounting Standards

As at the date of issue of this Standard, compliance with this Standard will ensure conformity with Financial Reporting Standard FRS-9 “Information to be Disclosed in Financial Statements” to the extent that it addresses issues dealt with in IAS 18.

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2 The Australian definition of “revenue” in this Standard and the description of revenue in IAS 18 and the International Accounting Standards Committee’s “Framework for the Preparation and Presentation of Financial Statements” are different. Refer to the explanation in the section “Background to Revision”.

BACKGROUND TO REVISION

This section does not form part of the Standard. It is a summary of the reasons for the current revision to the Standard and the Australian Accounting Standards Board's and the Public Sector Accounting Standards Board's (the Boards') consideration of the key issues dealt with in the Standard.

1 The reissue of the Standard is part of a program being undertaken by the Boards to achieve greater harmony between Australian accounting standards and those of the International Accounting Standards Committee (IASC).

2 The issue of the Standard follows consideration of the responses received on Exposure Draft ED 81 "Revenue", which was prepared by the Boards and released in June 1997. ED 81 contained proposals aimed at harmonising with International Accounting Standard IAS 18 "Revenue".

Principal Features of ED 81 Retained in the Standard

3 The proposals from ED 81 that have been adopted in the Standard expand significantly on the requirements of the superseded Accounting Standard AASB 1004 "Disclosure of Operating Revenue".

4 The Standard retains the basic structure and content of ED 81. The Standard applies in an historical cost measurement model. Revenue must be measured at the fair value of the consideration or contributions received or receivable.

5 The Standard requires that revenues be recognised when specified criteria are met. The Standard also requires disclosure of major categories of revenue.

Revenue under Australian and IASC Pronouncements

6 The definition of "revenue" in the Standard and the meaning ascribed to the term by the IASC are different. The Australian definition is broad and includes gross inflows from all types of transactions and other events. Revenue is not defined in IAS 18, however, the objective statement in IAS 18 explains that "income" includes both "revenue" and "gains". The IASC's "Framework for

the Preparation and Presentation of Financial Statements" includes a similar explanation [paragraph 74].

7 IAS 18 and the IASC's Framework describe revenue as arising "in the course of the ordinary activities" of an entity. The implication in both pronouncements is that revenue is income from an entity's core activities (such as sale of merchandise for a retailer) as opposed to income from other events (such as the sale of a property for a retailer). However, the definition of "ordinary activities" in International Accounting Standard IAS 8 "Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies" is broader than the descriptions in the IASC Framework and IAS 18. The IAS 8 definition contrasts ordinary and extraordinary activities, such that ordinary activities includes all things other than those arising from extraordinary events, which are rare. IAS 8 explains that "virtually all items of income and expense included in the determination of net profit or loss for the period arise in the course of the ordinary activities of the enterprise" [paragraph 12]. IAS 1 "Presentation of Financial Statements" also implies the IAS 8 version of the meaning of "ordinary activities", by requiring disclosure of "profit or loss from ordinary activities" [paragraph 75(f)] and "extraordinary items" [paragraph 75(g)].

8 In order to retain the existing broad Australian definition of revenue, while also conforming with the IAS 18 requirement to disclose revenue, with its narrower IASC meaning, the Boards considered it necessary to require separate disclosure of revenue that arises from:

(a) operating activities

(b) outside operating activities

for each category of revenue disclosed.

9 IAS 1, paragraph 75(b) requires disclosure of "the results from operating activities" and implies that "operating activities" means core activities. The revised Australian Standard uses the term "operating activities" for the sake of consistency with IAS 1, which has been revised more recently than IAS 18 or the IASC Framework, and to avoid the confusion that exists within IASC pronouncements over the meaning of "ordinary activities".

Noteworthy Differences from ED 81

10 ED 81 explained in commentary that when goods or services are exchanged for goods or services which are of a similar nature, the

exchange is not regarded as a transaction which generates revenue. This explanation has been changed slightly and included as a requirement. The Standard requires an exchange of goods or services to be treated as a transaction that does not give rise to revenue when and only when the exchange is for goods or services that are of the same nature and value and the transaction does not involve cash consideration.

11 ED 81 proposed that revenue arising from the rendering of services be recognised when specified criteria are met. The Standard includes this same requirement, but also separately deals with situations where the contract outcome cannot be reliably estimated. In such circumstances the Standard requires costs to be recognised as an expense in the reporting period in which they are incurred and, where it is probable that the costs will be recovered, revenues are to be recognised only to the extent of costs incurred. This is consistent with the approach in Accounting Standard AASB 1009 "Construction Contracts".

12 ED 81 proposed disclosure of the amount of revenue by various categories, such as the sale of goods, the rendering of services and the disposal of assets other than goods. The Standard requires these disclosures and also requires separate disclosure of revenue from operating activities and from other activities for each category. The background to this requirement is explained in paragraphs 6 to 9.

13 ED 81 proposed that there be separate identification of any revenues that are abnormal items or extraordinary items for each of the major categories of revenue that were proposed to be disclosed. The Standard does not require this disclosure. Some respondents to ED 81 did not consider this disclosure useful given the rarity of extraordinary items and the forthcoming project to harmonise with IAS 8, which may lead to disclosures that replace abnormal item disclosures.

14 ED 81 proposed disclosure of any material expense related to disclosed revenue from the sale of assets other than goods. The Standard does not require this disclosure. Some respondents to ED 81 considered that a standard on revenue is not an appropriate place to require disclosure of an expense.