

TREASURY ANALYSIS – INTERNATIONAL ACCOUNTING STANDARDS

AASB 118 “Revenue” replaces AAS 15 / AASB 1004

Major impacts of changes

- AASB 118 has a narrower scope than AASB 1004, as it only addresses ‘revenue’ i.e. income attributable to ordinary activities (i.e. which is narrower than ‘revenue’ under AASB 1004). It does not address disposal of assets, contributions of assets or forgiveness of liabilities.
- Revenue from sale of goods can only be recognised when, among other things, the entity:
 - has transferred the *risks and rewards* of ownership; and
 - retains neither continuing managerial involvement to the degree associated with ownership nor effective control.
(previously only control i.e. rewards *not* risks)
- Any gain or loss on disposal of assets must be recognised on a net basis, rather than gross.

Key features of Standard

- AASB 118 substantially replicates the requirements of AAS 15 / AASB 1004, except the scope of AASB 118 is narrower than previously (see ‘main differences below’) and excludes the following which are now addressed in different Standards:
 - *Contributions (including grants)* –
 - *Not-for-profit entities* are subject to the revised version of AASB 1004, which retains the previous AASB 1004 material regarding contributions of assets and forgiveness of liabilities.
 - *For-profit entities* are subject to AASB 120 *Accounting for Government Grants*.
 - *Disposal of assets – gains or losses* – This is addressed separately across a number of standards, including AASB 116 *Property, Plant and Equipment*, AASB 138 *Intangible Assets*, AASB 139 *Financial Instruments* and AASB 140 *Investment Property*.
- These and other main differences are discussed below.

Main differences compared to previous Australian requirements

Income v Revenue

- The AIFRS *Framework* and AASB 118 makes a distinction between ‘revenue’ and ‘income’, with income comprising both ‘revenue’ and ‘gains’:
 - ‘Income’ is defined consistently with the previous AASB 1004 definition of ‘revenue’.
 - ‘Revenue’ is ‘income’ arising in the ‘course of the ordinary activities of an entity’ (para 7), and is therefore a narrower concept compared to AASB 1004.
 - ‘Gains’ include, for example, those arising on the disposal of non-current assets.
 - AASB 118 only applies to ‘revenue’ arising from the sale of goods, the rendering of services and the use by others of assets yielding interest, royalties and dividends.
 - AASB 118 does not address gains on disposal of assets, contributions of assets and forgiveness of liabilities, unlike the previous AASB 1004.

Recognition criteria

- *Sale of goods* - AASB 118 requires that revenue must be recognised only when, among other things (para 14):
 - The entity has transferred to the buyer significant risks and rewards of ownership of the goods;
 - The entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
 - The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Previously, AASB 1004 referred only to 'control' i.e. 'benefits' (or rewards) of ownership *not* risks. Therefore, revenue recognition may be delayed where the capacity to benefit from the asset passes to the buyer but not the risks of ownership.

- *Rendering of services – stage of completion* – Unlike AASB 1004, AASB 118 (para 20) does not require an entity to control a right to be compensated for services rendered nor does it require the amount of revenue to be measured reliably. This may result in earlier revenue recognition, where control of a right to be compensated arises after the rendering of services. AASB 118 also requires the costs incurred for the transaction and the costs to complete to be measured reliably. This criterion was not included in AASB 1004.
- *Examples on timing of recognition* – Attached to AASB 118 (but not forming part of the Standard) is an Appendix of examples (not previously included in AASB 1004) on the timing of revenue recognition in a number of different commercial situations.

Disposal of Assets

- This is not addressed in AASB 118. However, other Australian Equivalents to the International Financial Reporting Standards, including AASB 116, AASB 138, AASB 139 and AASB 140, require the gain or loss on disposal to be recognised on a net basis as income or an expense. Gains or losses are usually displayed separately from 'revenue' and other 'expenses' in the income statement (Framework, para 76 & 80).
- Previously, AASB 1004 did not permit such netting and required the fair value of the consideration received from the disposal of assets to be recognised as revenue and the carrying amount as an expense (although AAS 29 permitted government departments to net in the operating statement).

Impact on the public sector

- Not-for-profit and for-profit entities are subject to identical requirements in AASB 118 (but refer to separate *Treasury Analysis* on AASB 120 and AASB 1004 in regard to 'grants').

Policy and Implementation issues

- Agencies will need to review their revenue recognition policies, particularly in relation to sale of goods and present the gain or loss on disposal of property, plant and equipment etc on a net rather than gross basis.

This summary has been written in general terms and is intended for general reference only. Agencies should review the contents of the AASB Standard to determine its application in particular circumstances.