

Revenue recognition

- **good example of the downgrading of the matching principle by assets and liabilities**
- **SSAP 2 (Disclosure of Accounting policies)**
 - revenues and costs are accrued (recognised as they are earned) matched with one another
- **IAS18 Revenue (para 23)**
 - depends on whether asset has been created
 - transfer to buyer of the significant risks and rewards of ownership
 - seller has no managerial involvement normally associated with ownership
 - no significant uncertainty about
 - the amount to be received
 - the costs of producing
 - the return of the goods

examples

- **returns**
 - depends on commercial reality not legal rights
 - if know return rate, then recognise but make provision
- **bill and hold**
 - title transferred, seller keeping for suitable delivery
 - recognise
- **subject to installation+inspection**
 - depends on whether a formality or not
- **subject to reservation of title**
 - recognise
 - seller just ensuring that amount will be paid
- **lay away sales**
 - purchaser makes series of payments before delivery
 - recognise on delivery, as contract not binding until then
 - treat pre-payments as deposits

- **subscriptions**
 - recognise as delivered
 - at the time of payment, uncertainty about costs of production
- **admission fees for future event**
 - when event takes place
 - at the time of payment, uncertainty about costs of event
- **points scheme**
 - 800 points for every £100 sales
 - for 1000 points get £5 of goods, costing 80p to deliver

 - 100 points are worth the fair value of the goods = $\text{£}5/10 = 50\text{p}$

 - $\text{£}100 \text{ sale} = 800 * 50\text{p} = \text{£}4 \text{ of points} +$
 - $\text{£}96 \text{ of goods}$
 - recognise $\text{£}96$, $\text{£}4$ is liability, advance payments for future sales
 - when redeemed, cost likely to be $80\text{p} * 4/5 = 64\text{p}$

- **what is performance of the contract?**
 - not normally production, because doesn't give rise to asset (right to benefits)
 - however, if a special order, customer may be committed to payment at time of production

 - **property sold subject to planning consent**
 - recognise when consent given

 - **presold properties, when contract signed prior to construction**
 - recognise as completion proceeds
 - IAS18 revised in 1993 to ensure this, previously allowed to recognise at end of completion
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- **IAS 18 currently in force**
- **ASB Discussion Paper 2001, but held back for international agreement**
- **ASB issues interim exposure draft 2003**
- **key points**

- **revenue becoming increasingly important since for some companies (eg i-net) investors use as performance measure**
- **new asset should be recognised at fair value**
- **for long term contracts, use % of fair value provided**
 - may be unrelated to costs (sometimes used to allocate revenue over several periods)
 - may be unrelated to amounts received
- **linking**
 - if can be separate, the treat separately
 - eg off-the-shelf software + support = separate
 - bespoke software + maintenance to ensure adequacy = treat together (as maintenance contract)

- **agent or principal?**
 - **some agents use gross selling amount instead of commission**
 - **a principal will have the exposure to all risks and rewards with at least**
 - ability to fix selling price, or
 - exposure to stock obsolescence, slow movement or changing supplier prices
 - addition factors to be considered
 - credit risk
 - discretion in supplier selection
 - modification of goods to be supplied
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