



INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF KENYA

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1. Introduction



Revenue recognition has always been an area of contention for accountants and preparers of financial statements.

1. Introduction



Revenue recognition is very critical because it has material implications both in terms of size and nature. Revenue has direct effect on profits and balances to be shown as receivables/payables

1. Summary – IAS 11



1.1 Definition

A construction contract is a contract specifically negotiated for the construction of an asset, (or combination of assets), that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

1. Summary – IAS 11



1.2 Contract Revenue

Comprises the initial amount agreed in the contract (Contract Price), plus revenue from variations in the original work. Price can either be fixed or cost plus.

Measure revenue at the fair value of the consideration received or receivable.

1. Summary – IAS 11



1.3 Contract Costs

Comprises:

- Costs directly related to the specific contract
- Costs attributable to general contract activity that can be allocated to the contract
- Such other costs that are specifically chargeable to the customer under the contract terms

1. Summary – IAS 11



1.4 Accounting treatment

(i) If the outcome of contract can be measured reliably - revenue and costs on the contract should be measured with reference to **stage of completion basis**. Under this basis, contract revenue is matched with the contract costs incurred in reaching the stage of completion, resulting in the reporting of revenue, expenses and profit which can be attributed to the proportion of work completed. If costs exceed revenue then we report the loss immediately.

1. Summary – IAS 11



1.4 Accounting treatment

(ii) If the outcome of contract cannot be measured reliably –

- No profit recognized
- Revenue recognized only to the extent costs are recoverable
- Costs are recognized as an expense when incurred
- Expected losses are required to be recognized as an expense as soon as a loss is probable.

1. Summary – IAS 11



1.5 Disclosures

- The amount of contract revenue recognized as revenue in the period
- Methods used to determine the contract revenue recognized in the period
- The methods used to determine the stage of completion of contracts in progress

1. Summary – IAS 11



1.5 Disclosures

- The gross amount due from customers for contract work as an asset (WIP that has not been expensed)
- The gross amount due to customers for contract work as a liability (prepayment from customers)
- An entity is required disclose each of the following for contracts in progress at the end of the reporting period:
(The aggregate amount of costs and profits (less recognized losses) to date The amount of advances received The amount of retentions.

2. Summary – IAS 18



2.1 Definition of revenue

Revenue is the gross inflow of economic benefits (cash, receivables, other assets) arising from the ordinary operating activities of an enterprise.

Three main Sources:

1. Sale of goods,
2. Provision or rendering of services,
3. Letting out the firms assets and earning interest, royalties, and dividends

2. Summary – IAS 18



2.2 Measurement of revenue

Revenue is measured at the fair value of the consideration received or receivable.

If the inflow of cash or cash equivalents is deferred, the fair value of the consideration receivable is less than the nominal amount of cash and cash equivalents to be received, and discounting is appropriate.

2. Summary – IAS 18



2.2 Revenue Recognition

(A) Revenue from Sale of goods is recognized when the following criteria is met:

- (i) The significant risks and rewards of ownership are transferred
- (ii) Seller does not have continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold

2. Summary – IAS 18



2.2 Revenue Recognition

(iv) The amount of revenue can be measured reliably

(v) It is probable that the economic benefits associated with the transaction will flow to the seller

(vi) The costs incurred or to be incurred in respect of the transaction can be measured reliably

2. Summary – IAS 18



2.2 Revenue Recognition

(B) Revenue from rendering of services should be recognized by reference to the stage of completion of the transaction at the reporting date, provided that all of the following criteria are met:

- (i) The amount of revenue can be measured reliably
- (ii) It is probable that the economic benefits will flow to the seller

2. Summary – IAS 18



2.2 Revenue Recognition

(iii) The stage of completion at the reporting date can be measured reliably

(iv) The costs incurred, or to be incurred, in respect of the transaction can be measured reliably.

If outcome of transaction cannot be measured reliably recognize revenue to the extent that expenses on the transaction can be recognized.

2. Summary – IAS 18



2.2 Revenue Recognition

For interest, royalties and dividends, if it is probable that the economic benefits will flow to the enterprise and the amount of revenue can be measured reliably, revenue should be recognized as follows:

2. Summary – IAS 18



2.2 Revenue Recognition

- **Interest:** on a time-proportionate basis that takes into account the effective yield
- **Royalties:** on an accruals basis in accordance with the substance of the relevant agreement
- **Dividends:** when the shareholder's right to receive payment is established.

2. Summary – IAS 18



2.3 Disclosure

- The accounting policy adopted for recognizing each type of revenue
- For each of the categories, disclose the amount of revenue from exchanges of goods or services
- The amount of each significant category of revenue, including; Sale of goods, Rendering of services, Interest, Royalties, and Dividends.

2. Summary – IAS 18



2.4 Appendix to IAS 18

For examples on how to recognize revenue under different practical situations, refer to the appendix to IAS 18 issued.

3. Summary – IFRS 15



3. Introduction

IFRS 15 is effective from year 2018, is an improvement of IAS 18. The standard replaces the following:

- IAS 11, Construction Contracts.
- IAS 18, Revenue
- IFRIC 13, Customer Loyalty Programs

3. Summary – IFRS 15



3. Introduction

- IFRC 15, Agreements for the Construction of Real Estate
- IFRC 18, Transfer of Assets from Customers
- SIC 31, Revenue-Barter Transactions Involving Advertising Services

3. Summary – IFRS 15



3. Introduction

For the rest of the discussion refer to the summary given on IFRS 15.