Revenue

1.1. Measurement of revenue

An entity shall measure revenue at the fair value of the consideration received or receivable. The fair value of the consideration received or receivable takes into account the amount of any trade discounts, prompt settlement discounts and volume rebates allowed by the entity.

An entity shall include in revenue only the gross inflows of economic benefits received and receivable by the entity on its own account. An entity shall exclude from revenue all amounts collected on behalf of third parties such as sales taxes, goods and services taxes and value added taxes. In an agency relationship, an entity shall include in revenue only the amount of its commission. The amounts collected on behalf of the principal are not revenue of the entity.

When the inflow of cash or cash equivalents is deferred, and the arrangement constitutes in effect a financing transaction, the fair value of the consideration is the present value of all future receipts determined using an imputed rate of interest. A financing transaction arises when, for example, an entity provides interest-free credit to the buyer or accepts a note receivable bearing a below-market interest rate from the buyer as consideration for the sale of goods.

The imputed 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.

An entity shall recognize the difference between the present value of all future receipts and the nominal amount of the consideration as interest revenue.

An entity shall not recognize revenue:

(a) when goods or services are exchanged for goods or services that are of a similar nature and value, or

(b) when goods or services are exchanged for dissimilar goods or services but the transaction lacks commercial substance.

An entity shall recognize revenue when goods are sold or services are exchanged for dissimilar goods or services in a transaction that has commercial substance.

In that case, the entity shall measure the transaction at:

(a) the fair value of the goods or services received adjusted by the amount of any cash or cash equivalents transferred;

(b) if the amount under (a) cannot be measured reliably, then at the fair value of the goods or services given up adjusted by the amount of any cash or cash equivalents transferred; or

(c) if the fair value of neither the asset received nor the asset given up can be measured reliably, then at the carrying amount of the asset given up adjusted by the amount of any cash or cash equivalents transferred.

1.2. Identification of the revenue transaction

An entity usually applies the revenue recognition criteria in this section separately to each transaction. However, an entity applies the recognition criteria to the separately identifiable components of a single transaction when necessary to reflect the substance of the transaction. For example, an entity applies the recognition criteria to the separately identifiable components of a single transaction when the selling price of a product includes an identifiable amount for subsequent servicing. Conversely, **an entity applies the recognition criteria to two or more transactions together when they are linked in such a way that the commercial effect cannot be understood without reference to the series of transactions as a whole**. For example, an entity applies the recognition criteria to two or more transactions together when it sells goods and, at the same time, enters into a separate agreement to repurchase the goods at a later date, thus negating the substantive effect of the transaction.

Sometimes, as part of a sales transaction, an entity grants its customer a loyalty award that the customer may redeem in the future for free or discounted goods or services. In this case the entity shall account for the award credits as a separately identifiable component of the initial sales transaction. The entity shall allocate the fair value of the consideration received or receivable in respect of the initial sale between the award credits and the other components of the sale. The consideration allocated to the award credits shall be measured by reference to their fair value, i.e. the amount for which the award credits could be sold separately.

1.3. Sale of goods

An entity shall recognize revenue from the sale of goods when all the following conditions are satisfied:

(a) the entity has transferred to the buyer the significant risks and rewards of ownership of the goods.

(b) the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

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

(d) it is probable that the economic benefits associated with the transaction will flow to the entity.

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

The assessment of when an entity has transferred the significant risks and rewards of ownership to the buyer requires an examination of the circumstances of the transaction. In most cases, the transfer of the risks and rewards of ownership 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 risks and rewards of ownership occurs at a time different from the transfer of legal title or the passing of possession.

An entity does not recognize revenue if it retains significant risks of ownership. Examples of situations in which the entity may retain the significant risks and rewards of ownership are:

(a) when the entity retains an obligation for unsatisfactory performance not covered by normal warranties.

(b) when the receipt of the revenue from a particular sale is contingent on the buyer selling the goods.

(c) when the goods are shipped subject to installation and the installation is a significant part of the contract that has not yet been completed.

(d) when the buyer has the right to rescind the purchase for a reason specified in the sales contract, or at the buyer's sole discretion without any reason, and the entity is uncertain about the probability of return.

If an entity retains only an insignificant risk of ownership, the transaction is a sale and the entity recognizes the revenue. For example, a seller recognizes revenue when it retains the legal title to the goods solely to protect the collectibility of the amount due. Similarly an entity recognizes revenue when it offers a refund if the customer finds the goods faulty or is not satisfied for other reasons, and the entity can estimate the returns reliably. In such cases, the entity recognizes a provision for returns.

1.4. Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, an entity shall recognize revenue associated with the transaction by reference to the stage of completion of the transaction at the end of the reporting period (sometimes referred to as the **percentage of completion method** - further in the text of Section there is described its procedure)**. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:**

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

(b) it is probable that the economic benefits associated with the transaction will flow to the entity.

(c) the stage of completion of the transaction at the end of the reporting period can be measured reliably.

(d) the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified period of time, an entity recognizes revenue 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 act, the entity postpones recognition of revenue until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, an entity shall recognize revenue only to the extent of the expenses recognized that are recoverable.

1.5. Construction contracts

When the outcome of a construction contract can be estimated reliably, an entity shall recognize contract revenue and contract costs associated with the construction contract as revenue and expenses respectively by reference to the stage of completion of the contract activity at the end of the reporting period (often referred to as the percentage of completion method). Reliable estimation of the outcome requires reliable estimates of the stage of completion, future costs and collectibility of billings.

The requirements of this Section are usually applied separately to each construction contract. However, in some circumstances, it is necessary to apply this section to the separately identifiable components of a single contract or to a group of contracts together in order to reflect the substance of a contract or a group of contracts.

When a contract covers a number of assets, the construction of each asset shall be treated as a separate construction contract when:

(a) separate proposals have been submitted for each asset;

(b) each asset has been subject to separate negotiation, and the contractor and customer are able to accept or reject that part of the contract relating to each asset; and

(c) the costs and revenues of each asset can be identified.

A group of contracts, whether with a single customer or with several customers, shall be treated as a single construction contract when:

(a) the group of contracts is negotiated as a single package;

(b) the contracts are so closely interrelated that they are, in effect, part of a single project with an overall profit margin; and

(c) the contracts are performed concurrently or in a continuous sequence.

1.6. Percentage of completion method

This method is used to recognize revenue from earlier mentioned rendering services and construction contracts. An entity shall review and, when necessary, revise the estimates of revenue and costs as the service transaction or construction contract progresses.

An entity shall determine the stage of completion of a transaction or contract using the method that measures most reliably the work performed. Possible methods include:

(a) **the proportion that costs incurred for work performed to date bear to the estimated total costs.** Costs incurred for work performed to date do not include costs relating to future activity, such as for materials or prepayments.

(b) **surveys of work performed.**

(c) **completion of a physical proportion of the service transaction or contract work.**

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

An entity shall recognize costs that relate to future activity on the transaction or contract, such as for materials or prepayments, as an asset if it is probable that the costs will be recovered.

An entity shall recognize as an expense immediately any costs whose recovery is not probable.

When the outcome of a construction contract cannot be estimated reliably:

(a) an entity shall recognize revenue only to the extent of contract costs incurred that it is probable will be recoverable, and

(b) the entity shall recognize contract costs as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue on a construction contract, the expected loss shall be recognized as an expense immediately, with a corresponding provision for an onerous contract.

If the collectibility of an amount already recognized as contract revenue is no longer probable, the entity shall recognize the uncollectible amount as an expense rather than as an adjustment of the amount of contract revenue.

1.7. Interest, royalties and dividends

An entity shall recognize revenue arising from the use by others of entity assets yielding interest, royalties and dividends when:

(a) it is probable that the economic benefits associated with the transaction will flow to the entity, and

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

An entity shall recognize revenue on the following bases:

(a) interest shall be recognized using the effective interest method.

(b) royalties shall be recognized on an accrual basis in accordance with the substance of the relevant agreement.

(c) dividends shall be recognized when the shareholder's right to receive payment is established.

1.8. Disclosures

An entity shall disclose:

(a) the accounting policies adopted for the recognition of revenue, including the methods adopted to determine the stage of completion of transactions involving the rendering of services.

(b) the amount of each category of revenue recognized during the period, showing separately, at a minimum, revenue arising from:

(i) the sale of goods.

(ii) the rendering of services.

(iii) interest.

(iv) royalties.

(v) dividends.

(vi) commissions.

(vii) government grants.

(viii) any other significant types of revenue.

Income tax

1.1. Steps in accounting for income tax

An entity shall account for income tax by following the steps (a)–(i) below:

(a) **recognize current tax**, measured at an amount that includes the effect of the possible outcomes of a review by the tax authorities.

(b) **identify which assets and liabilities would be expected to affect taxable profit** if they were recovered or settled for their present carrying amounts.

(c) **determine the tax basis** of the following at the end of the reporting period:

(i) the assets and liabilities in (b). The tax basis of assets and liabilities is determined by the consequences of the sale of the assets or settlement of liabilities for their present carrying amounts.

(ii) other items that have a tax basis although they are not recognized as assets or liabilities, i.e. items recognized as income or expense that will become taxable or tax-deductible in future periods.

(d) **compute any temporary differences**, unused tax losses and unused tax credits.

(e) **recognize deferred tax assets and deferred tax liabilities** arising from the temporary differences, unused tax losses and unused tax credits.

(f) **measure deferred tax assets and liabilities** at an amount that includes the effect of the possible outcomes of a review by the tax authorities using tax rates that, on the basis of enacted or substantively enacted tax law at the end of the reporting period, are expected to apply when the deferred tax asset is realized or the deferred tax liability is settled.

(g) **recognize a valuation allowance against deferred tax assets** so that the net amount equals the highest amount that is more likely than not to be realized on the basis of current or future taxable profit.

(h) **allocate current and deferred tax to the related components of profit or loss, other comprehensive income and equity.**

(i) **present and disclose the required information**.

1.2. Recognition and measurement of current tax

An entity shall recognize a current tax liability for tax payable on taxable profit for the current and past periods. If the amount paid for the current and past periods exceeds the amount payable for those periods, the entity shall recognize the excess as a current tax asset.

An entity shall recognize a current tax asset for the benefit of a tax loss that can be carried back to recover tax paid in a previous period.

An entity shall measure a current tax liability (asset) at the amounts it expects to pay (recover) using the tax rates and laws that have been enacted or substantively enacted by the reporting date. An entity shall regard tax rates as substantively enacted when future events required by the enactment process historically have not affected the outcome and are unlikely to do so. Paragraphs 29.23–29.25 provide additional measurement guidance.

An entity shall recognize changes in a current tax liability or current tax asset as tax expense in profit or loss, except that a change attributable to an item of income or expense recognized under these IFRS as other comprehensive income shall also be recognized in other comprehensive income.

An entity shall include in the amounts recognized the effect of the possible outcomes of a review by the tax authorities, measured in accordance with guidance referring to measurement of both current and deferred tax.

1.3. Recognition of deferred tax

An entity shall recognize a deferred tax asset or liability for tax recoverable or payable in future periods as a result of past transactions or events. Such tax arises from the difference between the amounts recognized for the entity's assets and liabilities in the statement of financial position and the recognition of those assets and liabilities by the tax authorities, and the carryforward of currently unused tax losses and tax credits.

If the entity expects to recover the carrying amount of an asset or settle the carrying amount of a liability without affecting taxable profit, no deferred tax arises in respect of the asset or liability. Therefore, presented below paragraphs apply only to assets and liabilities for which the entity expects the recovery or settlement of the carrying amount to affect taxable profit and to other items that have a tax basis.

An entity shall determine **the tax basis** of an asset, liability or other item in accordance with enacted or substantively enacted law. **If the entity files a consolidated tax return**, the tax basis is determined by the **tax law governing the consolidated tax return**. **If the entity files separate tax returns for different operations**, the tax basis is determined by the **tax laws governing each tax return.**

The tax basis determines the amounts that will be included in taxable profit on recovery or settlement of the carrying amount of an asset or liability. Specifically:

(a) the tax basis of an asset equals the amount that would have been deductible in arriving at taxable profit if the carrying amount of the asset had been recovered through sale at the end of the reporting period. If the recovery of the asset through sale does not increase taxable profit, the tax basis shall be deemed to be equal to the carrying amount.

(b) the tax basis of a liability equals its carrying amount less any amounts deductible in determining taxable profit (or plus any amounts included in taxable profit) that would have arisen if the liability had been settled for its carrying amount at the end of the reporting period. In the case of deferred revenue, the tax base of the resulting liability is its carrying amount, less any amount of revenue that will not be taxable in future periods.

Some items have a tax basis but are not recognized as assets and liabilities. For example, research costs are recognized as an expense when they are incurred but may not be permitted as a deduction in determining taxable profit until a future period. Thus, the carrying amount of the research costs is nil and the tax basis is the amount that will be deducted in future periods. An equity instrument issued by the entity may also give rise to deductions in a future period. There is no asset or liability in the statement of financial position, but the tax basis is the amount of the future deductions.

Temporary differences arise:

(a) when there is a difference between the carrying amounts and tax bases on the initial recognition of assets and liabilities, or at the time a tax basis is created for those items that have a tax basis but are not recognized as assets and liabilities.

(b) when a difference between the carrying amount and tax basis arises after initial recognition because income or expense is recognized in comprehensive income or equity in one reporting period but is recognized in taxable profit in a different period.

(c) when the tax basis of an asset or liability changes and the change will not be recognized in the asset or liability's carrying amount in any period.

Except presented below paragraphs an entity shall recognize the following deferred tax liabilities and assets:

(a) a deferred tax liability for all temporary differences that are expected to increase taxable profit in the future.

(b) a deferred tax asset for all temporary differences that are expected to reduce taxable profit in the future.

(c) a deferred tax asset for the carryforward of unused tax losses and unused tax credits.

The following are exceptions to the above presented requirements:

(a) An entity shall not recognize a deferred tax asset or liability for temporary differences associated with unremitted earnings from foreign subsidiaries, branches, associates and joint ventures to the extent that the investment is essentially permanent in duration, unless it is apparent that the temporary difference will reverse in the foreseeable future.

(b) An entity shall not recognize a deferred tax liability for a temporary difference associated with the initial recognition of goodwill.

An entity shall recognize changes in a deferred tax liability or deferred tax asset as tax expense in profit or loss, except that a change attributable to an item of income or expense recognized under this IFRS as other comprehensive income shall also be recognized in other comprehensive income.

1.4. Measurement of deferred tax

An entity shall measure a deferred tax liability (asset) using the tax rates and laws that have been enacted or substantively enacted by the reporting date. An entity shall regard tax rates as substantively enacted when future events required by the enactment process historically have not affected the outcome and are unlikely to do so.

When different tax rates apply to different levels of taxable profit, an entity shall measure deferred tax expense (income) and related deferred tax liabilities (assets) using the average enacted or substantively enacted rates that it expects to be applicable to the taxable profit (tax loss) of the periods in which it expects the deferred tax asset to be realized or the deferred tax liability to be settled. The measurement of deferred tax liabilities and deferred tax assets shall reflect the tax consequences that would follow from the manner in which the entity expects, at the reporting date, to recover or settle the carrying amount of the related assets and liabilities. For example, if the temporary difference arises from an item of income that is expected to be taxable as a capital gain in a future period, the deferred tax expense is measured using the capital gain tax rate.

An entity shall recognize a valuation allowance against deferred tax assets so that the net carrying amount equals the highest amount that is more likely than not to be recovered based on current or future taxable profit.

An entity shall review the net carrying amount of a deferred tax asset at each reporting date and shall adjust the valuation allowance to reflect the current assessment of future taxable profits. Such adjustment shall be recognized in profit or loss, except that an adjustment attributable to an item of income or expense recognized in accordance with this IFRS as other comprehensive income shall also be recognized in other comprehensive income.

1.5. Measurement of both current and deferred tax assets and liabilities

An entity shall not discount current or deferred tax assets and liabilities.

Uncertainty about whether the tax authorities will accept the amounts reported to them by the entity affects the amount of current tax and deferred tax. An entity shall measure current and deferred tax assets and liabilities using the probability-weighted average amount of all the possible outcomes,

assuming that the tax authorities will review the amounts reported and have full knowledge of all relevant information. Changes in the probability-weighted average amount of all possible outcomes shall be based on new information, not a new interpretation by the entity of previously available information.

In some jurisdictions, income tax is payable at a higher or lower rate if part or all of the profit or retained earnings is paid out as a dividend to shareholders of the entity. In other jurisdictions, income tax may be refundable or payable if part or all of the profit or retained earnings is paid out as a dividend to shareholders of the entity. In both of those circumstances, **an entity shall measure current and deferred taxes at the tax rate applicable to undistributed profits until the entity recognizes a liability to pay a dividend.** When the entity recognizes a liability to pay a dividend, it shall recognize the resulting current or deferred tax liability (asset), and the related tax expense (income).

1.6. Withholding tax on dividends

When an entity pays dividends to its shareholders, it may be required to pay a portion of the dividends to taxation authorities on behalf of shareholders. Such an amount paid or payable to taxation authorities is charged to equity as a part of the dividends.

1.7. Presentation

An entity shall recognize tax expense in the same component of total comprehensive income (i.e. continuing operations, discontinued operations, or other comprehensive income) **or equity as the transaction or other event that resulted in the tax expense.**

When an entity presents current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position, it shall not classify any deferred tax assets (liabilities) as current assets (liabilities).

An entity shall offset current tax assets and current tax liabilities, or offset deferred tax assets and deferred tax liabilities, only when it has a legally enforceable right to set off the amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

1.8. Disclosures

An entity shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of the current and deferred tax consequences of recognized transactions and other events.

An entity shall disclose separately the major components of tax expense (income). Such components of tax expense (income) may include:

(a) current tax expense (income).

(b) any adjustments recognized in the period for current tax of prior periods.

(c) the amount of deferred tax expense (income) relating to the origination and reversal of temporary differences.

(d) the amount of deferred tax expense (income) relating to changes in tax rates or the imposition of new taxes.

(e) the effect on deferred tax expense arising from a change in the effect of the possible outcomes of a review by the tax authorities.

(f) adjustments to deferred tax expense arising from a change in the tax status of the entity or its shareholders.

(g) any change in the valuation allowance.

(h) the amount of tax expense relating to changes in accounting policies and errors.

An entity shall disclose the following separately:

(a) the aggregate current and deferred tax relating to items that are recognized as items of other comprehensive income.

(b) an explanation of the significant differences in amounts presented in the statement of comprehensive income and amounts reported to tax authorities.

(c) an explanation of changes in the applicable tax rate(s) compared with the previous reporting period.

(d) for each type of temporary difference and for each type of unused tax losses and tax credits:

(i) the amount of deferred tax liabilities, deferred tax assets and valuation allowances at the end of the reporting period, and

(ii) an analysis of the change in deferred tax liabilities, deferred tax assets and valuation allowances during the period.

(e) the expiry date, if any, of temporary differences, unused tax losses and unused tax credits.

(f) in the circumstances described in paragraph 29.25, an explanation of the nature of the potential income tax consequences that would result from the payment of dividends to its shareholders.