



NZ ACCOUNTING  
STANDARDS  
BOARD

## **New Zealand Equivalent to International Accounting Standard 18 Revenue (NZ IAS 18)**

**Issued November 2004 and incorporates amendments up to and including 30 November 2012 other than consequential amendments resulting from early adoption of NZ IFRS 9 *Financial Instruments***

This Standard was issued by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 24(1)(a) of the Financial Reporting Act 1993.

This Standard is a Regulation for the purposes of the Regulations (Disallowance) Act 1989.

**This Standard is superseded by NZ IFRS 15 *Revenue from Contracts with Customers*. NZ IFRS 15 shall be applied for annual reporting periods beginning on or after 1 January 2017. Earlier application is permitted, in which case this Standard is superseded from the earlier date of application.**

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New Zealand Equivalent to International Accounting Standard 18 *Revenue* (NZ IAS 18) is set out in paragraphs NZ 0.1–NZ 42.1. NZ IAS 18 is based on International Accounting Standard 18 *Revenue* (IAS 18) (revised 1993) issued by the International Accounting Standards Committee (IASC) and adopted by the International Accounting Standards Board (IASB). All the paragraphs have equal authority but retain the IASC format of the Standard when it was adopted by the IASB. NZ IAS 18 should be read in the context of its objective and the New Zealand Equivalent to the IASB *Conceptual Framework for Financial Reporting* (NZ *Framework*). NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Any New Zealand additional material is shown with either “NZ” or “RDR” preceding the paragraph number.

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## **Introduction**

The Standard prescribes the recognition, measurement and disclosure for revenue arising from the following exchange transactions:

- (a) the sale of goods;
- (b) the rendering of services; and
- (c) the use by others of entity assets yielding interest, royalties and dividends.

This Standard does not deal with revenue arising from non-exchange transactions.

In adopting IAS 18 for application as NZ IAS 18 no changes have been made to the requirements of IAS 18 for Tier 1 for-profit entities.

Tier 1 for-profit entities that comply with NZ IAS 18 will simultaneously be in compliance with IAS 18.

## **Reduced Disclosure Regime**

Tier 2 for-profit entities must comply with all the provisions in NZ IAS 18.

# New Zealand Equivalent to International Accounting Standard 18

## Revenue (NZ IAS 18)

### Objective

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Income is defined in the NZ *Framework* as increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants. Income encompasses both revenue and gains. Revenue is income that arises in the course of ordinary activities of an entity and is referred to by a variety of different names including sales, fees, interest, dividends and royalties. The objective of this Standard is to prescribe the accounting treatment of revenue arising from certain types of transactions and events.

The primary issue in accounting for revenue is determining when to recognise revenue. Revenue is recognised when it is probable that future economic benefits will flow to the entity and these benefits can be measured reliably. This Standard identifies the circumstances in which these criteria will be met and, therefore, revenue will be recognised. It also provides practical guidance on the application of these criteria.

### Scope

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**NZ 0.1 This Standard applies only to Tier 1 and Tier 2 for-profit entities.**

**1 This Standard shall be applied in accounting for revenue arising from the following transactions and events:**

- (a) **the sale of goods;**
- (b) **the rendering of services; and**
- (c) **the use by others of entity assets yielding interest, royalties and dividends.**

2 [Paragraph 2 is not reproduced. The withdrawal of previous IASB pronouncements is not relevant to this Standard.]

3 Goods includes goods produced by the entity for the purpose of sale and goods purchased for resale, such as merchandise purchased by a retailer or land and other property held for resale.

4 The rendering of services typically involves the performance by the entity of a contractually agreed task over an agreed period of time. The services may be rendered within a single period or over more than one period. Some contracts for the rendering of services are directly related to construction contracts, for example, those for the services of project managers and architects. Revenue arising from these contracts is not dealt with in this Standard but is dealt with in accordance with the requirements for construction contracts as specified in NZ IAS 11 *Construction Contracts*.

5 The use by others of entity assets gives rise to revenue in the form of:

- (a) interest – charges for the use of cash or cash equivalents or amounts due to the entity;
- (b) royalties – charges for the use of long-term assets of the entity, for example, patents, trademarks, copyrights and computer software; and
- (c) dividends – distributions of profits to holders of equity investments in proportion to their holdings of a particular class of capital.

6 This Standard does not deal with revenue arising from:

- (a) lease agreements (see NZ IAS 17 *Leases*);
- (b) dividends arising from investments which are accounted for under the equity method (see NZ IAS 28 *Investments in Associates and Joint Ventures*);
- (c) insurance contracts within the scope of NZ IFRS 4 *Insurance Contracts*;
- (d) changes in the fair value of financial assets and financial liabilities or their disposal (see NZ IAS 39 *Financial Instruments: Recognition and Measurement*);
- (e) changes in the value of other current assets;

- (f) initial recognition and from changes in the fair value of biological assets related to agricultural activity (see NZ IAS 41 *Agriculture*);
- (g) initial recognition of agricultural produce (see NZ IAS 41); and
- (h) the extraction of mineral ores.

## Definitions

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7 **The following terms are used in this Standard with the meanings specified:**

**Revenue is the gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity participants.**

**Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. (See NZ IFRS 13 *Fair Value Measurement*.)**

8 Revenue includes 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 revenue. Similarly, in an agency relationship, the gross inflows of economic benefits include amounts collected on behalf of the principal and which do not result in increases in equity for the entity. The amounts collected on behalf of the principal are not revenue. Instead, revenue is the amount of commission.

## Measurement of revenue

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9 **Revenue shall be measured at the fair value of the consideration received or receivable.<sup>1</sup>**

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

11 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 deferred, the fair value of the consideration may be less than the nominal amount of cash received or receivable. For example, an 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 the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. 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.

The difference between the fair value and the nominal amount of the consideration is recognised as interest revenue in accordance with paragraphs 29 and 30 and in accordance with NZ IAS 39.

12 When goods or services are exchanged or swapped for goods or services which are of a similar nature and value, the exchange is not regarded as a transaction which generates revenue. This is often the case with commodities like oil or milk where suppliers exchange or swap inventories in various locations to fulfil demand on a timely basis in a particular location. When goods are sold or services are rendered in exchange for dissimilar goods or services, the exchange is regarded as a transaction which generates revenue. 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 measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

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<sup>1</sup> See also NZ SIC-31 *Revenue—Barter Transactions Involving Advertising Services*

## Identification of the transaction

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- 13 The recognition criteria in this Standard are usually applied separately to each transaction. However, in certain circumstances, it is necessary to apply the recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction. For example, when the selling price of a product includes an identifiable amount for subsequent servicing, that amount is deferred and recognised as revenue over the period during which the service is performed. Conversely, the recognition criteria are applied 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 may sell goods and, at the same time, enter into a separate agreement to repurchase the goods at a later date, thus negating the substantive effect of the transaction; in such a case, the two transactions are dealt with together.

## Sale of goods

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- 14 **Revenue from the sale of goods shall be recognised when all the following conditions have been 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; and**
  - (e) **the costs incurred or to be incurred in respect of the transaction can be measured reliably.**
- 15 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 different time from the transfer of legal title or the passing of possession.
- 16 If the entity retains significant risks of ownership, the transaction is not a sale and revenue is not recognised. An entity may retain a significant risk of ownership in a number of ways. 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 warranty provisions;
  - (b) when the receipt of the revenue from a particular sale is contingent on the derivation of revenue by the buyer from its sale of the goods;
  - (c) when the goods are shipped subject to installation and the installation is a significant part of the contract which has not yet been completed by the entity; and
  - (d) when the buyer has the right to rescind the purchase for a reason specified in the sales contract and the entity is uncertain about the probability of return.
- 17 If an entity retains only an insignificant risk of ownership, the transaction is a sale and revenue is recognised. For example, a seller may retain the legal title to the goods solely to protect the collectibility of the amount due. In such a case, if the entity has transferred the significant risks and rewards of ownership, the transaction is a sale and revenue is recognised. Another example of an entity retaining only an insignificant risk of ownership may be a retail sale when a refund is offered if the customer is not satisfied. Revenue in such cases is recognised at the time of sale provided the seller can reliably estimate future returns and recognises a liability for returns based on previous experience and other relevant factors.
- 18 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 be probable 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 the consideration from a sale in a foreign country. When the permission is granted, the uncertainty is removed and revenue is recognised. However, when an uncertainty arises about the collectibility of an amount already included in revenue, the uncollectible 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.



- 19 Revenue and expenses that relate to the same transaction or other event are recognised simultaneously; this process is commonly referred to as the matching of revenues and expenses. Expenses, including warranties and other costs to be incurred after the shipment of the goods can normally be measured reliably when the other conditions for the recognition of revenue have been satisfied. However, revenue cannot be recognised when the expenses cannot be measured reliably; in such circumstances, any consideration already received for the sale of the goods is recognised as a liability.

## Rendering of services

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- 20 **When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction shall be recognised by reference to the stage of completion of the transaction at the end of the reporting period. 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 reporting period can be measured reliably; and**
  - (d) **the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.<sup>2</sup>**
- 21 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 accounting periods 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 period. NZ IAS 11 also requires the recognition of revenue on this basis. The requirements of that Standard are generally applicable to the recognition of revenue and the associated expenses for a transaction involving the rendering of services.
- 22 Revenue is recognised only when it is probable that the economic benefits associated with the transaction will flow to the entity. However, when an uncertainty arises about the collectibility of an amount already included in revenue, the uncollectible 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.
- 23 An 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; and
  - (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 estimated reliably.
- 24 The stage of completion of a transaction may be determined by a variety of methods. An entity uses the method that measures reliably the services performed. Depending on the nature of the transaction, the methods may include:
- (a) surveys of work performed;
  - (b) services performed to date as a percentage of total services to be performed; or
  - (c) the proportion that costs incurred to date bear to the estimated total costs of the transaction. Only costs that reflect services performed to date are included in costs incurred to date. 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.
- 25 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

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<sup>2</sup> See also NZ SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease* and NZ SIC-31 *Revenue—Barter Transactions Involving Advertising Services*

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.

- 26 When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue shall be recognised only to the extent of the expenses recognised that are recoverable.**
- 27 During the early stages of a transaction, it is often the case that the outcome of the transaction cannot be estimated reliably. Nevertheless, it may be probable that the entity will recover the transaction costs incurred. Therefore, revenue is recognised only to the extent of costs incurred that are expected to be recoverable. As the outcome of the transaction cannot be estimated reliably, no profit is recognised.
- 28 When the outcome of a transaction cannot be estimated reliably and it is not probable that the costs incurred will be recovered, revenue is not recognised and the costs incurred are recognised as an expense. When the uncertainties that prevented the outcome of the contract being estimated reliably no longer exist, revenue is recognised in accordance with paragraph 20 rather than in accordance with paragraph 26.

## **Interest, royalties and dividends**

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- 29 Revenue arising from the use by others of entity assets yielding interest, royalties and dividends shall be recognised on the bases set out in paragraph 30 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.**
- 30 Revenue shall be recognised on the following bases:**
- (a) **interest shall be recognised using the effective interest method as set out in NZ IAS 39, paragraphs 9 and AG5-AG8;**
  - (b) **royalties shall be recognised on an accrual basis in accordance with the substance of the relevant agreement; and**
  - (c) **dividends shall be recognised when the shareholder's right to receive payment is established.**
- 31 [Deleted by IASB]
- 32 When unpaid interest has accrued before the acquisition of an interest-bearing investment, the subsequent receipt of interest is allocated between pre-acquisition and post-acquisition periods; only the post-acquisition portion is recognised as revenue.
- 33 Royalties accrue in accordance with the terms of the relevant agreement and are usually recognised on that basis unless, having regard to the substance of the agreement, it is more appropriate to recognise revenue on some other systematic and rational basis.
- 34 Revenue is recognised only when it is probable that the economic benefits associated with the transaction will flow to the entity. However, when an uncertainty arises about the collectibility of an amount already included in revenue, the uncollectible 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.

## **Disclosure**

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- 35 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 significant category of revenue recognised during the period including revenue arising from:**
    - (i) **the sale of goods;**
    - (ii) **the rendering of services;**
    - (iii) **interest;**
    - (iv) **royalties;**
    - (v) **dividends; and**
  - (c) **the amount of revenue arising from exchanges of goods or services included in each significant category of revenue.**

- 36 An entity discloses any contingent liabilities and contingent assets in accordance with NZ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Contingent liabilities and contingent assets may arise from items such as warranty costs, claims, penalties or possible losses.

## Effective date

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- 37 This Standard becomes operative for an entity's financial statements that cover annual accounting periods beginning on or after 1 January 2007. Early adoption of this Standard is permitted only when an entity complies with NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards* for an annual accounting period beginning on or after 1 January 2005.
- 38 *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* (Amendments to NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards* and NZ IAS 27 *Consolidated and Separate Financial Statements*), issued in June 2008, amended paragraph 32. An entity shall apply that amendment prospectively for annual periods beginning on or after 1 January 2009. Earlier application is permitted. If an entity applies the related amendments in paragraphs 4 and 38A of NZ IAS 27 for an earlier period, it shall apply the amendment in paragraph 32 at the same time.
- 41 NZ IFRS 11 *Joint Arrangements*, issued in June 2011, amended paragraph 6(b). An entity shall apply that amendment when it applies NZ IFRS 11.
- 42 NZ IFRS 13, issued in June 2011, amended the definition of fair value in paragraph 7. An entity shall apply that amendment when it applies NZ IFRS 13.
- NZ 42.1 *Framework: Tier 1 and Tier 2 For-profit Entities*, issued in November 2012, amended extant NZ IFRSs by deleting any public benefit entity paragraphs, deleting any differential reporting concessions, adding scope paragraphs for Tier 1 and Tier 2 for-profit entities and adding disclosure concessions for Tier 2 entities. It made no changes to the requirements for Tier 1 entities. A Tier 2 entity may elect to apply the disclosure concessions for annual periods beginning on or after 1 December 2012. Early application is permitted.

## HISTORY OF AMENDMENTS

### Table of Pronouncements – NZ IAS 18 Revenue

This table lists the pronouncements establishing and substantially amending NZ IAS 18. The table is based on amendments approved as at 30 November 2012 other than consequential amendments resulting from early adoption of NZ IFRS 9 *Financial Instruments*.

Pronouncements	Date approved	Early operative date	Effective date (annual reporting periods... on or after ...)
NZ IAS 18 <i>Revenue</i>	Nov 2004	1 Jan 2005	1 Jan 2007
NZ IAS 1 <i>Presentation of Financial Statements</i> (revised 2007)	Nov 2007	Early application permitted	1 Jan 2009
<i>Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i> (Amendments to NZ IFRS 1 and NZ IAS 27)	June 2008	Early application permitted	1 Jan 2009
Minor Amendments to NZ IFRSs	July 2010	Immediate	Immediate
NZ IFRS 11 <i>Joint Arrangements</i>	June 2011	Early application permitted	1 Jan 2013
NZ IFRS 13 <i>Fair Value Measurement</i>	June 2011	Early application permitted	1 Jan 2013
<i>Framework: Tier 1 and Tier 2 For-profit Entities</i> <sup>1</sup>	Nov 2012	Early application permitted	1 Dec 2012

Table of Amended Paragraphs in NZ IAS 18		
Paragraph affected	How affected	By ... [date]
Paragraph 6(b)	Amended	NZ IFRS 11 [June 2011]
Paragraph NZ 6.1	Amended	<i>Consequential Amendments</i> [Feb 2011]
Paragraph 32	Amended	<i>Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i> [June 2008]
Paragraph 38	Amended	<i>Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i> [June 2008]
Paragraph 41	Inserted	NZ IFRS 11 [June 2011]
Paragraph 42	Inserted	NZ IFRS 13 [June 2011]
Paragraph NZ 42.1	Inserted	<i>Framework: Tier 1 and Tier 2 For-profit Entities</i> [Nov 2012]

<sup>1</sup> This pronouncement amended extant NZ IFRSs by (i) deleting any public benefit entity paragraphs, (ii) deleting any differential reporting paragraphs, (iii) adding scope paragraphs for Tier 1 and Tier 2 for-profit entities, and (iv) adding RDR disclosure concessions.