

✓ 105 • It is probable that the economic benefits associated with the transaction will flow to the entity.

✓ 105 • The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from the rendering of services should be recognised when:

✓ 105 • The amount of revenue can be measured reliably.

✓ 105 • It is probable that the economic benefits associated with the transaction will flow to the entity.

✓ 105 • The stage or completion of the transaction at the end of the reporting period can be measured reliably

✓ 105 • The costs incurred or to be incurred in respect of the transaction can be measured reliably.

✓ 11 The main distinction between the two situations is that, with provision of services, the stage of completion can be measured reliably at the reporting date. With the provision of goods, there is the transfer of risks and rewards, together with loss of control over the good sold.

IAS18 Revenue has been criticised on the following grounds:

✓ 11 • The standard is not comprehensive in that it is not the sole source of authority on the timing and recognition of revenue. For example IAS 11 Construction contracts also deals with revenue recognition. Having more than one financial reporting standard dealing with an issue increases the likelihood of inconsistent accounting of similar items.

✓ 11 • The reporting standard is arguably inconsistent with the philosophy of the Framework i.e. it does not take an approach of recognising assets and liabilities; instead it adopts a conceptual approach to determine revenue. This approach is considered rather old fashioned and inconsistent with more recently published financial reporting standards e.g. on financial instruments and provisions. These standards initially regard the accounting problem as "what is the asset or liability that we have here" and as a secondary consideration consider whether there is any gain or loss arising.

✓ 11 • The reporting standard is not consistent with US GAAP. As such there would be benefits if both the US GAAP and IAS GAAP were revised as a joint project to create a greater degree of convergence between the two systems. Users would therefore have a greater ability to make comparisons and increase their understanding.

✓ 11 • The standard is not very detailed; as such it is open to interpretation. Whilst this may provide flexibility to tailor revenue recognition to the specific circumstances of an entity, it also creates a problem in that creative accountants can overstate and anticipate revenue to maximise reported earnings. Creative accounting reduces the reliability and hence usefulness of accounting.

(b) For sale transactions with an option or commitment to repurchase IAS 18 requires an analysis of the transaction to ascertain whether, in substance, the seller has transferred the risks and rewards of ownership to the buyer. If this transfer has not occurred, the transaction is treated as a financing arrangement that does not give rise to revenue.

✓ 11 A further consideration is that the transaction has taken place at something other than fair value. This is normally an indication that the substance of the transaction may be something other than it appears to be at first sight, and therefore merits further evaluation.