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Regulation of the Ministry of Finance on the
"Establishment of the Guidelines of the Accounting Standards Board"
Note 10
In force from: 01.01.2018
Applicable to the accounting periods, starting on 01.01.2017 or later.

ASBG 10 REVENUE RECOGNITION

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OBJECTIVE AND BASIS FOR PREPARARTION

1. The objective of this Accounting Standards Board's guideline ASBG 10 "*Revenue Recognition*" is to prescribe rules for the recognition of revenue arising from the sale of goods and services as well as from the enabling the use of the assets in the financial statements prepared in accordance with the Estonian financial reporting standard (hereinafter also *the financial statement*). Estonian financial reporting standard is a body of financial reporting requirements directed at the public and based on the internationally accepted accounting and reporting principles, which principal requirements are established by the Accounting Act and which is specified by a regulation of the minister responsible for the area established on the basis of subsection 34 (4) of the Accounting Act (hereinafter *guideline of the Standards Board* or for short *ASBG*).

2. The guideline ASBG 10 is based on IFRS for SMEs section 23 "*Revenue*" and concepts defined in section 2 "*Concepts and Pervasive Principles*". The guideline contains references to the specific paragraphs of IFRS for SMEs that the requirements of the guideline are based on. The comparison of ASBG 10 with IFRS for SMEs is presented in clause 49. In areas where ASBG 10 does not specify a particular accounting policy but that are covered by IFRS for SMEs, it is recommended to abide by the accounting policy described in IFRS for SMEs.

SCOPE

3. ***ASBG 10 "Revenue recognition" must be applied for recognising the revenue arising from the following transactions in the financial statements:***

- **(a)** ***revenue from the sale of goods;***
- **(b)** ***revenue from the provision of services;***
- **(c)** ***revenue from enabling the use of the entity's assets, if this is paid for in the form of interests, royalties or dividends.***

4. Goods include both goods produced by an entity for the purpose of sale as well as goods acquired by an entity for resale. (IFRS for SMEs 23.1 (a)) Goods also include assets held for sale such as for example real estate.

5. The rendering of services involves the performance by an entity of contractually determined tasks over an agreed period of time.

6. Interest is a charge for the use of cash or cash approximations as well as accounts receivable of an entity. Royalties are charges for the use of such long-term assets of an entity as patents, trademarks, rights and computer software. Dividends are distributions of profit to holders of equity instruments of an entity (for example, shares).

7. This guideline does not cover the recognition of revenue arising from the following types of transactions and events:

- (a) revenue from lease agreements (see ASBG 9 "*Accounting for Leases*");

(b) dividends from subsidiaries and associates that are accounted for using the equity method or consolidation method (see ASBG 11 "*Business Combinations and Accounting for Subsidiaries and Associates*");
(c) revenue of insurance undertakings from insurance contracts;
(d) gains from revaluation of assets;
(e) gains arising on the initial recognition of agricultural produce (see ASBG 7 "*Biological Assets*").

DEFINITIONS

8. ***In this guideline, the terms and definitions shall have the following meaning:***

<u>Income</u> is defined 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. (IFRS for SMEs 2.23).[1]

<u>Fair value</u> is the amount for which an asset could be exchanged or a liability settled in a transaction between knowledgeable, willing and independent parties in an arm's length transaction. (IFRS for SMEs 2.34 (b))

9. Revenue includes only the gross inflows of economic benefits received by an entity on its own account. Amounts collected on behalf of third parties (e.g. value added taxes) are not income of the entity. Similarly, gross amounts collected from agency and commission agreements are not revenue, only commissions earned on such agreements constitute revenue. (IFRS for SMEs 23.4).

MEASUREMENT OF REVENUE

10. ***Revenue shall be measured at the fair value of the consideration received or receivable. (IFRS for SMEs 23.3).***

11. The amount of revenue arising on a transaction is usually determined by a contract between an entity and a buyer of goods or services (or a user of assets). Income is measured at the fair value of the consideration received or receivable, taking into account the amount of any discounts as specified in the contract. (IFRS for SMEs 23.3).

12. In most cases, the consideration received is in the form of cash. When the payment is received immediately or will be received shortly after the transaction, the revenue on sale equals cash received or receivable. When the payment is deferred for a longer period (for example, a credit sale), the fair value of the consideration is below the nominal value of the cash inflow receivable. In such cases, the sales revenue is recognised at the present value of

[1] IFRS for SMEs uses the terms "*income*", "*revenue*" and "*gain*" to denote "revenue". All three IFRS for SMEs terms are substantively synonyms and the term "revenue" is used in this guideline to denote all of them.

the cash inflow receivable. One of the following discount rates is used for discounting purposes, depending on which one can be determined more reliably:

(a) average market rate for entities with similar credit ratings and instruments with similar risk; or

(b) interest rate, by discounting of which the present value of the consideration receivable would equal the sales price of the goods sold or services provided under normal conditions.

The difference between the nominal value and the fair value of the consideration receivable shall be recognised as interest income in the period between the recognition of the sale and the receipt of the consideration. (IFRS for SMEs 23.5, 23A.13).

<u>Example 1 – Credit sale, present value of sales price</u>

At 01.01.20X1, an entity sells its goods for the price of 1,500 euros, whereas the payment will be made in two years. The average prevailing rate of interest for payment in instalments with a similar repayment term is 8% on the transaction day. As the seller provides instalment financing to the buyer and according to the agreement, interest on the instalment loan is zero percent, sales revenue shall be recognised at the present value of the consideration receivable.

Using the average rate of interest at the transaction day, the present value of the consideration receivable is calculated as: $1{,}500 / (1+0.08)^2 = 1{,}286$

Revenue from the sale of goods is recognised at the present value of the consideration receivable (1 286):

D	Long-term receivables	1,286
C	Sales revenue	1,286

The difference between the nominal value (1 500) and the present value (1 286) of the consideration receivable is recognised as interest income during the payment term. At the end of year 1, interest income in the amount of 103 euros (1 286×8%) is recognised and the receivable is reclassified as short-term:

D	Short-term receivables	1,389
C	Long-term receivables	1,286
C	Interest income	103

At the end of year 2, interest income is recognised in the amount of 111 (1 389×8%):

D	Short-term receivables	111
C	Interest income	111

An accounting entry upon the collection of the receivable:

D	Cash	1,500
C	Short-term receivables	1,500

<u>Example 2 – Credit sale, effective interest rate calculation</u>

At 01.01.20X1, an entity sells goods whose sales price under normal conditions (i.e. with the payment term of 30 days) would be 1,500 euros. As the buyer of the goods wants to pay for them in two years, then it is agreed that the sales price of the goods is 1 815 euros.

As the effective rate of interest of the contract can be determined more reliably than the prevailing average rate of interest for similar transactions, then the effective rate of interest is used for determining the sales revenue.

The effective rate of interest on the contract is such a rate of interest by discounting of which the present value of the consideration receivable (1 815) would equal the normal sales price of the goods to be sold (1 500).
In order to find the effective interest rate, an equation must be solved (e.g. with Excel spreadsheet) and the discount rate found (i): $1{,}815 / (1+i)^2 = 1{,}500$
In this example, the answer is that i = 0.1 or 10%.

Revenue from the sale of goods is recognised at the present value of consideration receivable (1 500):

D	Long-term receivables	1,500
C	Sales revenue	1,500

At the end of year 1, interest income in the amount of 150 euros (1 500×10%) is recognised and the receivable is reclassified as short-term:

D	Short-term receivables	1,650
C	Long-term receivables	1,500
C	Interest income	150

At the end of year 2, interest income in the amount of 165 euros (1 650×10%) and the collection of receivables are recognised as:

D	Short-term receivables	165
C	Interest income	165
D	Cash	1,815
C	Short-term receivables	1,815

13. When goods or services are exchanged for goods or services of similar nature and value, the exchange is not regarded as a sale of goods or services. (IFRS for SMEs 23.6) In such a case, the goods or services received are recognised at the carrying amount of goods or services exchanged.

14. When goods or services are exchanged for dissimilar goods or services, then such an exchange is considered as a sale of goods or services. Revenue is in such case measured at the fair value of the goods or services receivable, to which any cash received is added and from which cash paid is subtracted. When the fair value of goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services exchanged, to which any cash received is added and from which cash paid is subtracted. When the fair value of assets given or received cannot be measured reliably, the revenue is measured at the carrying amount of the assets given, to which any cash received is added and from which cash paid is subtracted. (IFRS for SMEs 23.7).

<u>Example 3 – Exchange of similar goods</u>

A construction company has warehouse inventories of roofing tiles in Tallinn. Since the company is currently building a facility in Valga, then in order to save transport costs, the following agreement was reached with a local wholesaler of construction materials: the construction company will give its 35 000 roofing tiles in the Tallinn warehouse to the wholesale company of construction materials, receiving 35 000 roofing tiles of similar quality and parameters located at this company's Valga warehouse.

Since similar goods were exchanged, no revenue is recognised and the roofing tiles received are accounted for at the carrying amount of the roofing tiles exchanged.

Example 4 – Exchange of different goods

Let us assume that the construction company described in the aforementioned example exchanges 35 000 roofing tiles located in Tallinn for 100 000 bricks located in Valga.

Since different goods are exchanged, then the transaction is recognised as a sale of roofing tiles and purchase of bricks. The fair value for bricks received is accounted for as sales revenue or, if it cannot be determined reliably, the fair value of the roofing tiles exchanged. The difference between the fair value of the bricks received (or the fair value of the roofing tiles exchanged) and the carrying amount of the roofing tiles exchanged is recognised as a profit or loss on the sale.

15. As a rule, revenue is recognised separately for each transaction, but in certain circumstances it is appropriate to recognise revenue for separately identifiable components of a transaction. For example, when the sales price of a product includes after-sale service related to the product whose substance and timing are determined in the agreement, the service portion shall be accounted for as income at the time of rendering the service. (IFRS for SMEs 23.8, 23A.19).

Example 5 – Recognition of sale by components

An entity sells irrigation systems for the sales price of 45 000 euros. In accordance with the terms of the sales agreement, the sales price also includes the first scheduled technical maintenance of the irrigation systems to be carried out six months later. The price of the technical maintenance, if purchased separately, is 1 200 euros.
As the sales price includes two separate components (the sale of a product and the rendering of a service), with different realisation dates, then the revenue arising from both components is recognised separately.

The sale of irrigation systems:

D	Accounts receivable	45,000
C	Deferred income	1,200
C	Sales revenue	43,800

Revenue recognition for technical maintenance in 6 months:

D	Deferred income	1,200
C	Sales revenue	1,200

16. If an entity as part of a sale of goods or provision of service grants its customer a loyalty award (e.g. award credits, discount coupons and other similar awards) that the customer may redeem in the future for free or discounted goods or services, the consideration received or receivable in respect of the sales transaction shall be allocated between the following components based on the fair value of the components:

(a) consideration received for goods sold or services provided - recognised as income at the time of sales transaction; and

(b) consideration received for the future loyalty award (e.g. award credits) shall be recognised initially as a liability; income shall be recognised when the discounts are granted (e.g. award credits are redeemed) or when the loyalty award liability expires (e.g. expiry of award credits).

The consideration allocated to the award credits component shall be measured by reference to their fair value, i.e. the amount for which the entity would sell the award credits separately. (IFRS for SMEs 23.9).

17. Under certain circumstances when two or more transactions related in such a way that their economic substance can objectively be recognised only together are concluded, then such transactions are recognised as one transaction. (IFRS for SMEs 23.8) Examples of such transactions are:

(a) sale and leaseback transactions, if leaseback occurs under financial lease;

(b) repurchase transactions, in which case the “seller” of the goods undertakes to repurchase the “sold” goods at an agreed time and under agreed terms;

(c) the factoring sale of receivables where substantially all the risks of ownership are retained by the “seller”.

As all of the above-described transactions are essentially financing transactions (i.e. certain assets used as collateral for a loan) and not a purchase and sale transaction, the “sale” of assets is not recorded. The receipt of cash is recognised as a liability to the source of finance.

REVENUE RECOGNITION ON THE SALE OF GOODS

18. ***Revenue from the sale of goods is recognised only after all the below conditions have been met (IFRS for SMEs 23.10):***

(a) ***all significant risks and rewards of ownership have been transferred from the seller to the buyer;***

(b) ***the seller retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods or product;***

(c) ***the amount of sales revenue can be measured reliably;***

(d) ***it is probable that the economic benefits (e.g. receipt of revenue) 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.***

19. In most cases, the transfer of the risks and rewards incidental to ownership coincides with the transfer of the legal title (for example, in retail sales it occurs at the time of delivery of the goods; in the case of a sale with the delivery terms the time of the transfer of the legal title as prescribed in the delivery terms). Under certain circumstances the transfer of risks and rewards incidental to ownership occurs at a different time from the transfer of the legal title. (IFRS for SMEs 23.11).

20. If significant risks of ownership are not transferred to the buyer, then sales revenue is not recognised regardless of whether the legal title has been transferred or not. Examples of situations in which significant risks of ownership have not been transferred to the buyer and as a result, no sales revenue is recognised, are (IFRS for SMEs 23.12):

(a) income depends on whether and how the buyer manages to resell the goods;

b) when the equipment subject to installation has been delivered to the buyer but the installation has not been completed and installation is a significant part of the sales price as specified in the sales contract;(c) the buyer has the contractual right to unconditionally return the goods during a certain period of time and the seller cannot estimate the probability of the return.

21. If the seller retains only an insignificant part of risks incidental to ownership, sales revenue is recognised even if the legal title has not yet been transferred. Examples of situations in which significant risks of ownership have been transferred to the buyer and as a result, sales revenue is recognised, are (IFRS for SMEs 23.13):

(a) the buyer has a contractual right to return the goods during a time period and the seller is able to estimate the probability of the return based on previous experience. At the moment of sale, the seller records the sales revenue and recognises a provision for probable returns;

(b) legal ownership to the goods sold and delivered to the buyer shall be transferred to the buyer from the seller only after settlement of the invoice.

Example 6 – Revenue recognition upon a sale of goods

(a) The sale of goods subject to installation if the seller has the installation obligation

If installation is a significant part of the cost of a transaction, revenue is recognised after the installation process has been completed. As an exception, revenue is recognised immediately after the delivery of goods to the buyer if installation is neither complicated nor labour intensive (e.g., the installation of a washing machine). (IFRS for SMEs 23A.4, 23A.18).

(b) Consignment sales, when a dealer sells goods on behalf of the seller.

The seller recognises the revenue after the dealer sells the goods to the third party. (IFRS for SMEs 23A.6)

(c) The production of goods starts after the receipt of the purchase order and the buyer has made a prepayment for the goods

Revenue is recognised after the goods have been finished and delivered to the buyer. (IFRS for SMEs 23A.9)

(d) Prepayments for the delivery of goods during a certain period of time (e.g. prepayments for periodicals)

Sales revenue is distributed over the period during which the goods are delivered, in proportion to the sales price of the delivered goods. If the goods delivered are evenly distributed over the whole period (e.g. the sale of periodicals), revenue is recognised over the sales period on a straight-line basis. (IFRS for SMEs 23A.12)

(e) Real estate sales

Revenue from real estate sales is recognised when all significant risks and rewards incidental to ownership have been transferred from the seller to the buyer and the seller is not required to perform any additional significant work on the property. Generally, the date that revenue is recognised is the same as when legal title is transferred. See also example 7, clause (g). (IFRS for SMEs 23A.14-15).

REVENUE RECOGNITION UPON THE RENDERING OF SERVICES

Stage of Completion Method

22. ***Revenue from the rendering of services shall be recognised by reference to the stage of completion of the service to be rendered at the reporting date, assuming that the outcome of the transaction (i.e. revenue and expenses relating to the transaction) involving the rendering of services can be estimated reliably. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied (IFRS for SMEs 23.14):***

(a) ***the amount of revenue can be measured reliably;***

(b) ***it is probable that the economic benefits (e.g. receipt of revenue) associated with the transaction will flow to the entity;***

(c) ***the stage of completion of the transaction at reporting date can be measured reliably; and***

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

23. The following conditions generally have to be satisfied in order to make a reliable estimate of the outcome of the transaction:

(a) Existence of a service contract or another agreement with the service provider, which sets out:

i) rights and obligations of the service provider and customer;

ii) consideration for providing the service and the time and manner of settlement.

(b) The existence of an internal accounting system which enables to keep reliable track of revenue and expenses relating to the rendering of services by different projects.

24. Revenue from rendering services is recognised based on the stage of completion method. Under this method, revenue and profits from rendering services are recognised proportionately in the same periods as the expenses related to the rendering of services.

25. Determining the stage of completion is described in clauses 33-35; the recognition of revenue arising from the contract for rendering services in clauses 36-40 and the accounting for expenses relating to the contract for rendering services in clauses 41-46.

26. When a service is performed over a very short period of time, and the effect of the allocation of revenue into periods is insignificant, then revenue is recognised immediately after the rendering of a service.

27. ***When the outcome of a transaction involving the rendering of services cannot be estimated reliably, revenue shall be recognised only to the extent of actual expenses related to performing the contract assuming that it is probable that the service provider is able to at least recover the costs incurred for the rendering of the service. When it is improbable that the provider of a service is able to at least recover the costs incurred for the provision of a service, revenue from the provision of a service shall not be recognised. (IFRS for SMEs 23.16, 23.25).***

28. For example, during the early stages of rendering services there may be situations when it is difficult to reliably estimate the profitability of a project. Therefore, until reliable estimates can be made, revenue is recognised only to the extent of costs incurred and profit is not recognised. However, when it is probable that the revenue arising from the rendering of services will not cover costs to be incurred, the expected loss is recognised immediately. (IFRS for SMEs 23.26).

29. ***When it is probable that total service costs will exceed total service revenue, the expected loss shall be recognised immediately in full. (IFRS for SMEs 23.24, 23.26).***

30. The expected loss shall be recognised immediately and in full irrespective of the following factors:

(a) whether or not the actual works had been commenced;
(b) stage of completion of the service;
(c) the fact that profit is expected from the remaining service rendering contracts.

Combining and Segmenting of Service Rendering Contracts

31. When a service rendering contract covers several services, revenue and expenses shall be accounted for separately if (IFRS for SMEs 23.18, 23.19):

(a) separate price has been set out for each rendered service in the contract;
(b) each service in the contract has been subject to separate negotiation by the parties, who were able to accept or reject each service; and
(c) the costs and revenues of each service can be separately identified.

32. When a group of contracts covers several services, revenue and expenses shall be accounted for as a single contract when (IFRS for SMEs 23.18, 23.20):

(a) the group of contracts is negotiated and concluded as a single package;
(b) the contracts are so closely interrelated that they are, in effect, part of a single project; and
(c) the contracts are performed concurrently or in a continuous sequence.

Determining the Stage of Completion

33. The stage of completion of a service rendered is determined by using the following methods (IFRS for SMEs 23.22):

(a) the ratio of the actual costs relating to rendering the service compared to total budgeted costs;
(b) inspection of the work performed;
(c) quantitative share of the service rendered by the reporting date of the total service to be rendered (e.g. how many metres of road has been built out of the total prescribed length of road).

34. When the provider of a service has issued by the reporting date invoices to the customer for a larger or smaller amount than the revenue calculated under the stage of completion method, then the difference shall be recognised either as a liability or a receivable. (IFRS for SMEs 23.32).

35. The percentage of completion method shall be applied on a cumulative basis for each accounting period, taking into account the estimates for contract revenues and expenses as at the reporting date. The changes in estimates are recognised as revenue or expenses of the accounting period and not retrospectively. If the collectibility of an amount already recognised as revenue becomes improbable, the entity shall recognise the impairment of the receivable as an expense in the income statement rather than as an adjustment of the sales revenue (IFRS for SMEs 23.27).

Contract Revenue from Rendering Services

36. ***Revenue from Contract for Rendering Services includes:***

(a) ***consideration initially determined in the contract; and***

(b) ***changes in the contract volume occurred during the performance of the contract, additional claims for compensation and fees, whereas:***

i) ***their realisation shall be probable; and***

ii) ***they can be measured reliably.***

37. The contract revenue from rendering services is often affected by future events, therefore, the estimated contract revenue needs to be revised at each reporting date. The reasons for changes in contract revenue may, for example, be variations in the scope of the contract, additional fees or penalties for an early or late completion of the project and other similar reasons.

38. A variation taking place during the rendering of services is an attempt by the customer to change the scope of the work to be performed, which either increases or decreases contract revenue. A variation is included in determining contract revenue when:

(a) it is probable that the customer changes the order in terms of the scope of work; and

(b) the change in the contract revenue resulting from change in the scope of work can be measured reliably.

39. An additional claim is an amount that the service provider seeks to collect from the customer or another party as reimbursement for costs not initially included in the contract price. An additional claim is included in contract revenue when:

(a) negotiations regarding the additional claim with the customer have reached such a stage that its acceptance is probable; and

(b) the amount that is expected to be accepted by the customer can be measured reliably.

40. An incentive payment is an amount that the customer is willing to pay if specified performance standards are met or exceeded. For example, a contract may include an incentive payment to the service provider for the early rendering of a service. Incentive payments are included in contract revenue when:

(a) a service to be rendered is sufficiently advanced that is probable that the specified performance standards will be met or exceeded;

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

Contract Costs from Rendering Services

41. ***Contract costs from rendering services include the following costs:***

(a) ***costs directly related to performing the contract;***

(b) ***general costs related to performing the contract;***

(c) ***other costs, the compensation obligation of which lies with the customer.***

42. For example, in the case of a construction contract, the costs that relate directly to the rendering of services include:

(a) direct labour costs;
(b) direct material costs;
(c) depreciation of fixed assets involved in rendering of the service;
(d) transport costs of equipment and materials;
(e) cost of equipment leased for rendering of the service;
(f) costs of design and technical assistance;
(g) estimated warranty costs;
(h) third-party claim.

Contract costs may not be reduced by any incidental income that arises, for example, from the sale of surplus materials or the sale of equipment after the rendering of services.

43. Examples of general costs attributable to the contract for the rendering of services are:

(a) cost of insurance;
(b) costs of design and technical assistance that are not directly related to the rendering of a specific service.

Such costs are allocated to services to be rendered on a systematic and rational basis and in accordance with the normal scope of activity.

44. Costs that are neither directly related to the rendering of a service nor general costs, are excluded from the costs of rendering services, unless their compensation is provided for in the contract.
Examples of such costs are:

(a) administrative costs;
(b) marketing costs and costs to sell;
(c) research and development expenditures;
(d) depreciation of such fixed assets, which are not used for rendering the service.

45. General costs related to the contract for rendering services are included in the contract costs from the date of concluding the contract to the final completion of the work. Costs that relate directly to the contract and are incurred for signing the contract are also included as part of the contract costs if they can be separately identified and measured reliably. When direct costs incurred for signing a contract are recognised as an expense in the period in which they were incurred and the contract is signed in the next period then these costs are not included in contract costs retrospectively.

46. A service provider may incur costs when rendering a service under a service contract that are recognised as an expense in the next periods (for example, materials acquired but not yet used; advance payments made to subcontractors). Such costs are initially recognised as an asset under the appropriate balance sheet item and they are not included in contract expenses. (IFRS for SMEs 23.23, 23.22 (a))

<u>Example 7 – recognition of a sale upon sale of services</u>

<u>(a) Fees for one-time services</u>
One-time services to be rendered during a very short time period (e.g., in a day) shall immediately be recognised as revenue after rendering the service. One-time services to be

rendered over a longer period of time shall be recognised as revenue by reference to the stage of completion at the reporting date.

(b) Maintenance fees

When maintenance involves a one-time large operation, revenue shall be recognised after rendering the service. When maintenance is performed over a longer period of time, maintenance costs shall be recognised as revenue on a straight-line basis or under another method during the maintenance period as specified in the contract.

(c) Connection fees

Connection fees are recognised as revenue when the service that the connection is related to has been performed (i.e. non-current assets necessary for connecting have been built) and almost no risk of having to return the fees exists. As an alternative, the cost of non-current assets built for the connection may be reduced by the connection fees received.

(d) Membership fees

When a membership fee does not provide additional benefits to the members (for example, an opportunity to purchase goods at more favourable prices), the membership fee shall be recognised as revenue at the time when its collection is practically certain, taking into consideration the period for which it was paid. When the membership fee provides additional benefits to the members, it shall be recognised as revenue during the period of its expected use. (IFRS for SMEs 23A.24)

(e) Media and advertising services

For the sale and intermediation of media and advertising services, revenue is recognised at the time of publishing the advertisement in media. For the production of media and advertising services, revenue shall be recognised by reference to the stage of completion of the service. (IFRS for SMEs 23A.20)

(f) Performances, concerts and other events

Revenue from organising events is recognised at the time when the event takes place. If payment is made for a package of two or more events, revenue shall be recognised based on the costs incurred for each event. (IFRS for SMEs 23A.22)

(g) Agreement for the construction of real estate

In case of agreements for the construction of real estate, first it is determined whether they are for rendering of services or sale of goods. An agreement for the construction of real estate is a contract for services, if it is concluded for the construction of a specific property and the buyer has a right to specify the major structural elements of the real estate before construction begins and/or once construction is in progress (whether it exercises that right or not). On the other hand, an agreement for the construction of real estate whereby the buyer only has limited rights to influence the design of real estate (e.g. choose the design based on proposed options but not make significant construction-related changes) is deemed an agreement for the sale of goods. If an agreement for the construction of real estate is a contract for services, its contract revenue shall be recognised based on the percentage of completion method. See the example (e) in clause 6 for property as sale of goods. (IFRS for SMEs 23A.14-15).

RECOGNITION OF REVENUE FROM INTEREST, ROYALTIES AND DIVIDENDS

47. ***revenue arising from the use by others of entity assets yielding interest, royalties or dividends is recorded, when (IFRS for SMEs 23.28):***

(a) ***it is probable that the revenue will flow to the entity; and***

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

48. Revenue recognition shall be based on the following principles (IFRS for SMEs 23.29):

(a) interest income is accounted for based on the effective interest rate (calculation of effective interest rate is described in ASBG 3 “Financial Instruments”);

(b) revenue arising from license fees is recognised on the accrual basis, considering the terms and conditions of the agreement;

(c) dividend income is recognised when the owner has become entitled to receiving them.

COMPARISON WITH IFRS FOR SMES

49. The revenue recognition rules prescribed in ASBG 10 are in compliance with the accounting policies prescribed in section 23 of IFRS for SMEs.

NOTE

<u>Example – Recognition of revenue under the stage of completion method (see clause 6 of ASBG 4 "*Inventories*")</u>

An entity has entered into a fixed price contract to build a bridge for 900 000 euros. The estimated contract costs are 800,000 euros and the construction period is three years.

When evaluating the project's costs at the end of year 1, it becomes evident that the actual cost of the bridge will probably be 850 000 euros. During the course of negotiations, the customer approves 920 000 euros as the contract price in year 2. Costs incurred by the end of the second construction year include 100 000 euros for the materials that will only be used in construction in year 3. According to the estimate made at the end of year 2, the total cost of the project will be 870 000 euros. In year 3, the customer approves 925 000 euros as the final price of the contract. The actual cost of the project turns out to be 870 000 euros.

A summary of the financial data relating to the project is as follows (on a cumulative basis):

	Year 1	**Year 2**	**Year 3**
Initial price of the contract	900,000	900,000	900,000
-adjustment of the contract price	0	20,000	25,000
Total contract revenue	**900,000**	**920,000**	**925,000**
Contract costs incurred during the accounting period	221,000	522,800	126,200
Cumulative costs as at the reporting date	221,000	743,800	870,000
-incl. costs to be recognised in the next periods	0	100,000	0
Cumulative contract costs incurred by the reporting date	**221,000**	**643,800**	**870,000**
Total estimated contract costs	850,000	870,000	870,000
Stage of completion of the contract (on the basis of costs incurred)	26%	74%	100%
Cumulative contract revenue by the reporting date	**234,000**	**680,800**	**925,000**
-incl. revenue of the accounting period	234,000	446,800	244,200

In years 1, 2 and 3 of the contract, the company had issued invoices to the customer in the amounts of 270 000 euros, 110 000 euros and 545 000 euros, respectively. Of the invoices issued to the customer, outstanding receivables amounted to 70 000 euros, 40 000 euros and 25 000 euros, respectively at the end of years 1, 2 and 3.

Assets, liabilities, revenue and expenses relating to the performance of a contract are recorded in the books of the company as follows:

Balance sheet	**Year 1**	**Year 2**	**Year 3**
Assets			
Accounts receivable	70,000	40,000	25,000
Receivables from the customer		300,800	
Inventories		100,000	
Liabilities			
Payables to the customer	36,000		
Income statement	**Year 1**	**Year 2**	**Year 3**
Revenue	234,000	446,800	244,200
Cost of goods and services sold	221,000	422,800	226,200
Gross profit	13,000	24,000	18,000

Receivables from the customer/ payables to the customer are calculated as follows:

	Year 1	**Year 2**	**Year 3**
Sales revenue (on a cumulative basis)	234,000	680,800	925,000
Invoices issued (on a cumulative basis)	270,000	380,000	925,000
Receivables from the customer	0	300,800	0
Payables to the customer	36,000	0	0

<u>Example – Recognition of an expected loss</u>

An advertising agency enters into a fixed fee contract for implementing a two-year advertising campaign for a total price of 85 000 euros. The estimated cost of the contract is 78 000 euros. When estimating the project costs at the end of year 1, it becomes evident that the actual costs of the projects will probably be 12 000 euros higher. The customer is not willing to reimburse for the additional costs. An invoice for the service will be issued in year 2. A summary of the financial data relating to the project is as follows (on a cumulative basis):

	Year 1	**Year 2**
Contract price	85,000	85,000
Cumulative contract costs incurred by the reporting date	37,800	90,000
Total estimated contract costs	90,000	90,000
Stage of completion of the contract (on the basis of costs incurred)	42%	100%
Expected loss	5,000	5,000
Cumulative contract revenue by the reporting date	35,700	85,000

Because it is probable by the end of the first year that contract costs will exceed contract revenue by 5 000 euros, the expected loss shall be recognised immediately in full. Because as a result of accounting for costs incurred on performing the contract (37,800 euros) and the revenue recognised based on stage of completion (35,700 euros), a loss of 2,100 euros has been recorded from the contract, an additional expected loss of 2,900 euros must be recognised. Such amount shall not be recorded in the line "Provisions" on the balance sheet but in the line "Payables to customers" (or as a reduction of "Receivables from customers" if the line has a positive balance with respect to the same customer).

D	Receivables from the customer	35,700
C	Revenue	35,700
C	Receivables from the customer	2,900
D	Loss from loss-making contract	2,900

Example - Customer loyalty programme revenue recognition

An entity has a customer loyalty programme under which customers making purchases are issued a total of 1 million award credits. Award credits can be used to purchase goods from the entity. Management estimates that the fair value of one issued award credit is 0.1 euros and according to the estimate, 50% of award credits are redeemed. Thus, the amount of 100,000 euros is recognised as a liability (deferred revenue) and the sales revenue of the initial purchase and sale transaction is recognised as lower by the corresponding amount. Award credits expire after 3 years of their issuance date.

Year 1

At the end of the first year, a total of 200 000 award credits have been redeemed, i.e. 40% of award credits estimated to be redeemed (200 000 credits/ 500 000 credits). The entity shall recognise revenue of 40 000 euros (40% x 100 000).

Year 2

Management changes its estimate at year-end and estimates that a total of 80% of award credits shall be redeemed within three years. 400 000 award credits have been redeemed during year 2 (a total of 600 000 in two years). Thus, the ratio of award credits redeemed to award credits estimated to be redeemed is 75% (600 000 credits/ 800 000 credits). The entity's cumulative revenue by the end of the second year is thus 75,000 euros (75% x 100,000); as 40,000 euros was already recognised in the previous year, the revenue in the second year is 35,000 euros.

Year 3

In the third year, 100,000 award credits were redeemed, thus a total of 700,000 award credits were redeemed in three years. At the end of year 3, all unredeemed award credits expired. The entity shall recognise revenue of 25 000 euros (i.e. all the revenue remaining in the deferred revenue account). In total, the entity recognised revenue of 100,000 euros over three years, i.e. the total amount initially recognised as liability (deferred revenue).