

SSAP 18
STATEMENT OF STANDARD ACCOUNTING PRACTICE 18
REVENUE

(Issued September 1995; Revised January 2001 & May 2001)

*The standards, which have been set in **bold italic type**, should be read in the context of the background material and implementation guidance and in the context of the Foreword to Statements of Standard Accounting Practice and Accounting Guidelines. Statements of Standard Accounting Practice are not intended to apply to immaterial items (see paragraph 8 of the Foreword).*

Introduction

Income is the increase 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 enterprise and is referred to by a variety of different names including sales, fees, interest, dividends and royalties. The objective of this Statement 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 enterprise and these benefits can be measured reliably. This Statement 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

1. ***This Statement should 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 enterprise assets yielding interest, royalties and dividends.***
2. Goods includes goods produced by the enterprise 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.
3. The rendering of services typically involves the performance by the enterprise 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 Statement but is dealt with in accordance with the requirements for long-term contracts as specified in SSAP 3 "Stocks and work in progress".
4. The use by others of enterprise 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 enterprise;
 - b. royalties - charges for the use of intangible assets of the enterprise, 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.
5. This Statement does not deal with revenue arising from:
- a. leases and hire purchase contracts (which is dealt with in SSAP 14 "Accounting for leases and hire purchase contracts");
 - b. dividends arising from investments which are accounted for under the equity method of accounting in consolidated financial statements;
 - c. insurance contracts of insurance enterprises;
 - d. changes in the fair value of financial assets and financial liabilities or their disposal;
 - e. changes in the value of other current assets;
 - f. natural increases in herds, and agricultural and forest products; and
 - g. the extraction of mineral ores.

Definitions

6. *The following terms are used in this Statement 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 enterprise when those inflows result in increases in equity, other than increases relating to contributions from equity participants.

"Fair value" is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

7. Revenue includes only the gross inflows of economic benefits received and receivable by the enterprise 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 enterprise 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 enterprise. The amounts collected on behalf of the principal are not revenue. Instead, revenue is the amount of commission.

Measurement of revenue

8. *Revenue should be measured at the fair value of the consideration received or receivable.*

9. The amount of revenue arising on a transaction is usually determined by agreement between the enterprise and the buyer or user of the asset or the entity to which services are rendered. 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 enterprise.
10. 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 enterprise 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 falls outside the enterprise's normal commercial terms, it effectively constitutes a financing transaction, the fair value of the consideration may be 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 28 and 29.

11. 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 stocks 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.

Identification of the transaction

12. The recognition criteria in this Statement 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 enterprise 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

13. *Revenue from the sale of goods should be recognised when all the following conditions have been satisfied:*

- a. *the enterprise has transferred to the buyer the significant risks and rewards of ownership of the goods;*
 - b. *the enterprise 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 enterprise; and*
 - e. *the costs incurred or to be incurred in respect of the transaction can be measured reliably.*
14. The assessment of when an enterprise 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 the risks and rewards of ownership occurs at a different time from the transfer of legal title or the passing of possession.
15. If the enterprise retains significant risks of ownership, the transaction is not a sale and revenue is not recognised. An enterprise may retain a significant risk of ownership in a number of ways. Examples of situations in which the enterprise may retain the significant risks and rewards of ownership are:
- a. when the enterprise 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 enterprise; and
 - d. when the buyer has the right to rescind the purchase for a reason specified in the sales contract and the enterprise is uncertain about the probability of return.
16. If an enterprise 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 collectability of the amount due. In such a case, if the enterprise has transferred the significant risks and rewards of ownership, the transaction is a sale and revenue is recognised. Another example of an enterprise 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.
17. Revenue is recognised only when it is probable that the economic benefits associated with the transaction will flow to the enterprise. 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 collectability of an amount already included in revenue, the uncollectable 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.

18. 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

19. ***When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction should be recognised by reference to the stage of completion of the transaction at the balance sheet date. 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 enterprise;*
 - c. *the stage of completion of the transaction at the balance sheet date can be measured reliably; and*
 - d. *the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.*
20. 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.
21. Revenue is recognised only when it is probable that the economic benefits associated with the transaction will flow to the enterprise. However, when an uncertainty arises about the collectability of an amount already included in revenue, the uncollectable 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.
22. An enterprise 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 enterprise to have an effective internal financial budgeting and reporting system. The enterprise 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.

23. The stage of completion of a transaction may be determined by a variety of methods. An enterprise 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.

24. 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 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.
25. ***When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue should be recognised only to the extent of the expenses recognised that are recoverable.***
26. 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 enterprise 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.
27. 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 19 rather than in accordance with paragraph 25.

Interest, royalties and dividends

28. ***Revenue arising from the use by others of enterprise assets yielding interest, royalties and dividends should be recognised on the bases set out in paragraph 29 when:***
- a. ***it is probable that the economic benefits associated with the transaction will flow to the enterprise; and***
 - b. ***the amount of the revenue can be measured reliably.***
29. ***Revenue should be recognised on the following bases:***
- a. ***interest should be recognised on a time proportion basis that takes into account the effective yield on the asset;***
 - b. ***royalties should be recognised on an accrual basis in accordance with the substance of the relevant agreement; and***

- c. dividends should be recognised when the shareholder's right to receive payment is established.*
30. The effective yield on an asset is the rate of interest required to discount the stream of future cash receipts expected over the life of the asset to equate to the initial carrying amount of the asset. Interest revenue includes the amount of amortisation of any discount, premium or other difference between the initial carrying amount of a debt security and its amount at maturity.
31. 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.
- ~~32. In deciding which point in time the shareholder's right to receive dividend payment is established, consideration should be given to the substance and economic reality in addition to the legal form of the dividend arrangement. For example, normally, dividends from listed companies are recognised when the share price goes ex div; interim dividends from unlisted companies are recognised when the directors declare such dividends and final dividends from unlisted companies are recognised when the shareholders at the general meeting approve the dividends proposed by the directors. Notwithstanding the above, dividends from a subsidiary may be recognised by the holding company at the end of the subsidiary's financial period to which such dividends relate, even though such dividends are only formally declared or approved afterwards, as the holding company's right to receive payment is effectively established by virtue of its control over the subsidiary.~~
33. 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. When dividends on equity investments are declared from pre-acquisition net income, those dividends are deducted from the cost of the investment. If it is difficult to make such an allocation except on an arbitrary basis, dividends are recognised as revenue unless they clearly represent a recovery of part of the cost of the equity investments.
34. Revenue is recognised only when it is probable that the economic benefits associated with the transaction will flow to the enterprise. However, when an uncertainty arises about the collectability of an amount already included in revenue, the uncollectable 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

35. *An enterprise should 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 enterprise discloses any contingent ~~gains~~ liabilities and ~~contingent assets~~ losses in accordance with SSAP 28 "Provisions, contingent liabilities and contingent assets". ~~SSAP 8 "Accounting for contingencies."~~ Contingent ~~gains~~ liabilities and contingent ~~assets~~ losses may arise from items such as warranty costs, claims, penalties or possible losses.

Effective date

37. *The accounting practices set out in this Statement should be adopted as soon as possible and regarded as standard in respect of financial statements relating to periods ending on or after 31 December 1995.*

Transitional arrangements

38. Where the adoption of this Statement constitutes a change in accounting policy, an enterprise should adjust its financial statements in accordance with SSAP 2 "~~Extraordinary items and prior period adjustments.~~" "Net profit or loss for the period, fundamental errors and changes in accounting policies". In addition, where historical summaries of financial information are provided, these should be adjusted to reflect the accounting practices set out in this Statement.

Notes on legal requirements in Hong Kong

39. Paragraph 13(1)(g) of the Tenth Schedule to the Companies Ordinance requires the amounts respectively of income from listed investments and income from unlisted investments to be disclosed.
40. Paragraph 16 of the Tenth Schedule to the Companies Ordinance requires the disclosure of turnover and the method by which it is arrived at. It should be noted that turnover, however, is not defined in the Companies Ordinance. Whilst turnover does not necessarily include all items of revenue, the recognition and measurement criteria set out in this Statement normally apply equally to turnover.

Compliance with International Accounting Standards

41. Compliance with this Statement ensures compliance in all material respects with International Accounting Standard IAS 18 (revised 1993) "Revenue".

APPENDIX

This Appendix is illustrative only and does not form part of the Statement of Standard Accounting Practice. The purpose of this Appendix is to illustrate the application of the Statement to assist in clarifying its meaning in a number of commercial situations. The examples focus on particular aspects of a transaction and are not a comprehensive discussion of all the relevant factors which might influence the recognition of revenue. The examples generally assume that the amount of revenue can be measured reliably, it is probable that the economic benefits will flow to the enterprise and the costs incurred or to be incurred can be measured reliably. The examples do not modify or override the provisions in the Statement.

Sale of goods

The law in different countries may mean the recognition criteria in the Statement are met at different times. In particular, the law may determine the point in time at which the enterprise transfers the significant risks and rewards of ownership. Therefore, the examples in this section of the Appendix need to be read in the context of the laws relating to the sale of goods in the country in which the transaction takes place.

A1. "Bill and hold" sales, in which delivery is delayed at the buyer's request but the buyer takes title and accepts billing.

Revenue is recognised when the buyer takes title, provided:

- a. it is probable that delivery will be made;
- b. the item is on hand, identified and ready for delivery to the buyer at the time the sale is recognised;
- c. the buyer specifically acknowledges the deferred delivery instructions; and
- d. the usual payment terms apply.

Revenue is not recognised when there is simply an intention to acquire or manufacture the goods in time for delivery.

A2. Goods shipped subject to conditions.

- a. *installation and inspection.*

Revenue is normally recognised when the buyer accepts delivery, and installation and inspection are complete. However, revenue is recognised immediately upon the buyer's acceptance of delivery when:

- i. the installation process is simple in nature, for example the installation of a factory tested television receiver which only requires unpacking and connection of power and antennae; or
- ii. the inspection is performed only for purposes of final determination of contract prices, for example, shipments of iron ore, sugar or soya beans.

- b. on approval when the buyer has negotiated a limited right of return.*

If there is uncertainty about the possibility of return, revenue is recognised when the shipment has been formally accepted by the buyer or the goods have been delivered and the time period for rejection has elapsed.

- c. consignment sales under which the recipient (buyer) undertakes to sell the goods on behalf of the shipper (seller).*

Revenue is recognised by the shipper when the goods are sold by the recipient to a third party.

- d. cash on delivery sales.*

Revenue is recognised when delivery is made and cash is received by the seller or its agent.

- A3. Lay away sales under which the goods are delivered only when the buyer makes the final payment in a series of instalments.*

Revenue from such sales is recognised when the goods are delivered. However, when experience indicates that most such sales are consummated, revenue may be recognised when a significant deposit is received provided the goods are on hand, identified and ready for delivery to the buyer.

- A4. Orders when payment (or partial payment) is received in advance of delivery for goods not presently held in stocks, for example, the goods are still to be manufactured or will be delivered directly to the customer from a third party.*

Revenue is recognised when the goods are delivered to the buyer.

- A5. Sale and repurchase agreements (other than swap transactions) under which the seller concurrently agrees to repurchase the same goods at a later date, or when the seller has a call option to repurchase, or the buyer has a put option to require the repurchase, by the seller, of the goods.*

The terms of the agreement need to be analysed to ascertain whether, in substance, the seller has transferred the risks and rewards of ownership to the buyer and hence revenue is recognised. When the seller has retained the risks and rewards of ownership, even though legal title has been transferred, the transaction is a financing arrangement and does not give rise to revenue.

- A6. Sales to intermediate parties, such as distributors, dealers or others for resale.*

Revenue from such sales is generally recognised when the risks and rewards of ownership have passed. However, when the buyer is acting, in substance, as an agent, the sale is treated as a consignment sale.

- A7. Subscriptions to publications and similar items.*

When the items involved are of similar value in each time period, revenue is recognised on a straight line basis over the period in which the items are despatched. When the items vary in value from period to period, revenue is recognised on the basis of the sales value of the item despatched in relation to the total estimated sales value of all items covered by the subscription.

A8. Instalment sales, under which the consideration is receivable in instalments.

Revenue attributable to the sales price, exclusive of interest, is recognised at the date of sale. The sale price is the present value of the consideration, determined by discounting the instalments receivable at the imputed rate of interest. The interest element is recognised as revenue as it is earned, on a time proportion basis that takes into account the imputed rate of interest.

A9. Property sales.

Revenue is normally recognised when legal title passes to the buyer. However, the equitable interest in a property may vest in the buyer before legal title passes and therefore the risks and rewards of ownership have been transferred at that stage. In such cases, provided that the seller has no further substantial acts to complete under the contract, it may be appropriate to recognise revenue. In either case, if the seller is obliged to perform any significant acts after the transfer of the equitable and/or legal title, revenue is recognised as the acts are performed. An example is a building or other facility on which construction has not been completed.

In some cases, property may be sold with a degree of continuing involvement by the seller such that the risks and rewards of ownership have not been transferred. Examples are sale and repurchase agreements which include put and call options, and agreements whereby the seller guarantees occupancy of the property for a specified period, or guarantees a return on the buyer's investment for a specified period. In such cases, the nature and extent of the seller's continuing involvement determines how the transaction is accounted for. It may be accounted for as a sale, or as a financing, leasing or some other profit sharing arrangement. If it is accounted for as a sale, the continuing involvement of the seller may delay the recognition of revenue.

A seller must also consider the means of payment and evidence of the buyer's commitment to complete payment. For example, when the aggregate of the payments received, including the buyer's initial down payment, or continuing payments by the buyer, provide insufficient evidence of the buyer's commitment to complete payment, revenue is recognised only to the extent cash is received.

Rendering of services*A10. Installation fees.*

Installation fees are recognised as revenue by reference to the stage of completion of the installation, unless they are incidental to the sale of a product in which case they are recognised when the goods are sold.

A11. Servicing fees included in the price of the product.

When the selling price of a product includes an identifiable amount for subsequent servicing (for example, after sales support and product enhancement on the sale of software), that amount is deferred and recognised as revenue over the period during which the service is performed. The amount deferred is that which will cover the expected costs of the services under the agreement, together with a reasonable profit on those services.

A12. Advertising commissions.

Media commissions are recognised when the related advertisement or commercial appears before the public. Production commissions are recognised by reference to the stage of completion of the project.

A13. Insurance agency commissions.

Insurance agency commissions received or receivable which do not require the agent to render further service are recognised as revenue by the agent on the effective commencement or renewal dates of the related policies. However, when it is probable that the agent will be required to render further services during the life of the policy, the commission, or part thereof, is deferred and recognised as revenue over the period during which the policy is in force.

A14. Financial service fees.

The recognition of revenue for financial service fees depends on the purposes for which the fees are assessed and the basis of accounting for any associated financial instrument. The description of fees for financial services may not be indicative of the nature and substance of the services provided. Therefore, it is necessary to distinguish between fees which are an integral part of the effective yield of a financial instrument, fees which are earned as services are provided, and fees which are earned on the execution of a significant act.

a. Fees which are an integral part of the effective yield of a financial instrument.

Such fees are generally treated as an adjustment to the effective yield. However, when the financial instrument is to be measured at fair value subsequent to its initial recognition the fees are recognised as revenue when the instrument is initially recognised.

i. Origination fees received by the enterprise relating to the creation or acquisition of a financial instrument which is held by the enterprise as an investment.

Such fees may include compensation for activities such as evaluating the borrower's financial condition, evaluating and recording guarantees, collateral and other security arrangements, negotiating the terms of the instrument, preparing and processing documents and closing the transaction. These fees are an integral part of generating an ongoing involvement with the resultant financial instrument and, together with the related direct costs, are deferred and recognised as an adjustment to the effective yield.

ii. Fees received by the enterprise to originate or purchase a loan.

If it is probable that the enterprise will enter into a specific lending arrangement, the fee received is regarded as compensation for an ongoing involvement with the acquisition of a financial instrument and, together with the related direct costs, is deferred and recognised as an adjustment to the effective yield. If the commitment expires without the enterprise making the loan, the fee is recognised as revenue on expiry.

b. Fees earned as services are provided.

i. Fees charged for servicing a loan.

Fees charged by an enterprise for servicing a loan are recognised as revenue as the services are provided. If the enterprise sells a loan but retains the servicing of that loan at a fee which is lower than a normal fee for such services, part of the sales price of the loan is deferred and recognised as revenue as the servicing is provided.

ii. Fees to originate or purchase a loan.

If it is unlikely that a specific lending arrangement will be entered into, the fee is recognised as revenue on a time proportion basis over the commitment period.

- c. *Fees earned on the execution of a significant act, which is much more significant than any other act.*

The fees are recognised as revenue when the significant act has been completed, as in the examples below.

- i. *Commission on the allotment of shares to a client.*

The commission is recognised as revenue when the shares have been allotted.

- ii. *Placement fees for arranging a loan between a borrower and an investor.*

The fee is recognised as revenue when the loan has been arranged.

- iii. *Loan syndication fees.*

It is necessary to distinguish between fees earned on completion of a significant act and fees related to future performance or risk retained. A syndication fee received by an enterprise which arranges a loan and which retains no part of the loan package for itself (or retains a part at the same effective yield for comparable risk as other participants) is compensation for the service of syndication. Such a fee is recognised as revenue when the syndication has been completed. However, when a syndicator retains a portion of the loan package at an effective yield for comparable risk which is lower than that earned by other participants in the syndicate, part of the syndication fee received relates to the risk retained. The relevant portion of the fee is deferred and recognised as revenue as an adjustment to the effective yield of the investment, as in paragraph A14. a. above. Conversely, when a syndicator retains a portion of the loan package at an effective yield for comparable risk which is higher than that earned by other participants in the syndicate, part of the effective yield relates to the syndication fee. The relevant portion of the effective yield is recognised as part of the syndication fee when the syndication has been completed.

- A15. *Admission fees.*

Revenue from artistic performances, banquets and other special events is recognised when the event takes place. When a subscription to a number of events is sold, the fee is allocated to each event on a basis which reflects the extent to which services are performed at each event.

- A16. *Tuition fees.*

Revenue is recognised over the period of instruction.

- A17. *Initiation, entrance and membership fees.*

Revenue recognition depends on the nature of the services provided. If the fee permits only membership, and all other services or products are paid for separately, or if there is a separate annual subscription, the fee is recognised as revenue when no significant uncertainty as to its collectability exists. If the fee entitles the member to services or publications to be provided during the membership period, or to purchase goods or services at prices lower than those charged to non members, it is recognised on a basis that reflects the timing, nature and value of the benefits provided.

A18. Franchise fees.

Franchise fees may cover the supply of initial and subsequent services, equipment and other tangible assets, and know-how. Accordingly, franchise fees are recognised as revenue on a basis that reflects the purpose for which the fees were charged. The following methods of franchise fee recognition are appropriate:

a. Supplies of equipment and other tangible assets.

The amount, based on the fair value of the assets sold, is recognised as revenue when the items are delivered or title passes.

b. Supplies of initial and subsequent services.

Fees for the provision of continuing services, whether part of the initial fee or a separate fee are recognised as revenue as the services are rendered. When the separate fee does not cover the cost of continuing services together with a reasonable profit, part of the initial fee, sufficient to cover the costs of continuing services and to provide a reasonable profit on those services, is deferred and recognised as revenue as the services are rendered.

The franchise agreement may provide for the franchisor to supply equipment, stocks, or other tangible assets, at a price lower than that charged to others or a price that does not provide a reasonable profit on those sales. In these circumstances, part of the initial fee, sufficient to cover estimated costs in excess of that price and to provide a reasonable profit on those sales, is deferred and recognised over the period the goods are likely to be sold to the franchisee. The balance of an initial fee is recognised as revenue when performance of all the initial services and other obligations required of the franchisor (such as assistance with site selection, staff training, financing and advertising) has been substantially accomplished.

The initial services and other obligations under an area franchise agreement may depend on the number of individual outlets established in the area. In this case, the fees attributable to the initial services are recognised as revenue in proportion to the number of outlets for which the initial services have been substantially completed.

If the initial fee is collectable over an extended period and there is a significant uncertainty that it will be collected in full, the fee is recognised as cash instalments are received.

c. Continuing franchise fees.

Fees charged for the use of continuing rights granted by the agreement, or for other services provided during the period of the agreement, are recognised as revenue as the services are provided or the rights used.

d. Agency transactions.

Transactions may take place between the franchisor and the franchisee which, in substance, involve the franchisor acting as an agent for the franchisee. For example, the franchisor may order supplies and arrange for their delivery to the franchisee at no profit. Such transactions do not give rise to revenue.

A19. Fees from the development of customised software.

Fees from the development of customised software are recognised as revenue by reference to the stage of completion of the development, including completion of services provided for post delivery service support.

Interest, royalties and dividends

A20. Licence fees and royalties.

Fees and royalties paid for the use of an enterprise's assets (such as trademarks, patents, software, music copyright, record masters and motion picture films) are normally recognised in accordance with the substance of the agreement. As a practical matter, this may be on a straight line basis over the life of the agreement, for example, when a licensee has the right to use certain technology for a specified period of time.

An assignment of rights for a fixed fee or non refundable guarantee under a non cancellable contract which permits the licensee to exploit those rights freely and the licensor has no remaining obligations to perform is, in substance, a sale. An example is a licensing agreement for the use of software when the licensor has no obligations subsequent to delivery. Another example is the granting of rights to exhibit a motion picture film in markets where the licensor has no control over the distributor and expects to receive no further revenues from the box of office receipts. In such cases, revenue is recognised at the time of sale.

In some cases, whether or not a licence fee or royalty will be received is contingent on the occurrence of a future event. In such cases, revenue is recognised only when it is probable that the fee or royalty will be received, which is normally when the event has occurred.