



## Solution 91.1

<b>Component</b>	Service and construction contract revenue
<b>Index</b>	Services performed within the period
<b>Short title</b>	Recognition of professional fees

**Attention:** This guidance is based on the revised standards and interpretations that are mandatory for accounting periods commencing 1 January 2005. A company may early adopt an individual revised standard, but only in its entirety. Guidance based on the previous version of the standards is included in the “Applying IFRS 2004” guidance.

### Issue

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 transaction’s stage of completion at the balance sheet date [IAS18R.20].

At what point should management recognise revenue in the following example?

### Background

Entity G is involved in providing tax services. One of its activities is to prepare and file value added tax (VAT) returns on behalf of foreign entities. The tax authorities process the returns and submit cash refunds (if any) to the foreign entities via entity G. G receives a commission of 5% of VAT refunded.

The tax authorities accept seventy-five per-cent of claims without additional service from G. The tax authorities take between three and nine months to process a return.

### Solution

Management should recognise revenue when the tax authorities approve the claim.

Revenue from the rendering of services may be recognised using the percentage of completion method only if the transaction costs and revenue can be measured reliably. The fact that 25% of the claims submitted need to be reprocessed is a rather high percentage of failure, and an indication that G cannot estimate revenue with sufficient reliability.

G’s management should disclose a contingent asset in respect of the commission receivable. The revenue and the corresponding receivable should be recognised only after the tax authorities have approved the claim.



The costs incurred in preparing the claim should be expensed as incurred. The costs do not meet the definition of an asset because the flow of economic benefits is contingent on the approval of the claim as noted above.