

РОЗДІЛ 4

БУХГАЛТЕРСЬКИЙ ОБЛІК В УКРАЇНІ ТА СВІТІ: ТЕОРІЇ, КОНЦЕПЦІЇ ТА ПЕРСПЕКТИВИ

UDC 657

Jaana Alver,
PhD, professor, Department of Business Administration,
Lehte Alver,
PhD, professor, Department of Business Administration,
Tallinn University of Technology,
Tallinn, Estonia

INCOME, REVENUE AND GAIN/LOSS IN IFRS FRAMEWORKS

1. Income, Revenue and Gain/Loss in the IFRS Framework 2018. *Income* may have several meanings. First, *income* can be used interchangeably with *revenue*. Second, *income* may refer to a secondary type of *revenue* that comes from sources other than main operating activities; for example, interest income, rent income, or commission income. Third, *net income* refers to the excess of *revenues* over *expenses*.

According to the IFRS Framework 2018, paras. 4.2 and 4.68, *income* is defined as increases in assets, or decreases in liabilities, that result in increases in equity, other than those relating to contributions from holders of equity claims. Para. 4.72 specifies that different transactions and other events generate income and expenses with different characteristics. Providing information separately about income and expenses with different characteristics can help users of financial statements to understand the entity's financial performance (see paras. 7.14–7.19). The differentiation is applied through classification. According to the para. 7.15 income and expenses are classified and included either: (a) in the statement of profit or loss; or (b) outside the statement of profit or loss, in other comprehensive income. Para. 7.18 states that income and expenses that arise on a historical cost measurement basis (see para. 6.42) are included in the statement of profit or loss. That is also the case when income and expenses of that type are separately identified as a component of a change in the current value of an asset or liability: „For example, if a financial asset is measured at current value and if interest income is identified separately from other changes in value, that interest income is included in the statement of profit or loss.” [IASB 2018, para. 7.18]

In March 2018, the IASB issued „Basis for Conclusions on the Conceptual Framework for Financial Reporting”. The IASB explains why various types of income and expenses (for example revenue, gain and losses) were not included: „That material was not included in the 2018 Conceptual Framework. The material was originally included to emphasise that *income* includes *revenue* and *gains* and that *expenses* include *losses*. The Board decided that emphasis is now unnecessary and the implication that the Conceptual Framework defines subclasses of income and expenses

is unhelpful. The Board does not expect the removal of that material to cause any changes in practice.” [IASB 2018b, BC4.96].

Comment. We do not agree with the IASB’s opinion that the definition of subclasses of income and expenses is unhelpful. On the contrary, we believe that there is a serious problem that has not been addressed so far. The IFRS Framework 2018 does not pay any attention to the terms like *revenue* and *gain*. For example, *revenue* is mentioned only three times without any definition under para. 2.10: „for example, revenue information for the current year, which can be used as the basis for predicting revenues in future years, can also be compared with revenue predictions” However, still according to the IFRS 15 *revenue* is *income* arising in the course of an entity’s ordinary activities. Such modification is not in line with the framework.

The IFRS Framework 2018 does not apply term *gain*; this term is mentioned only five times without any definition. The effect of a change in prices is sometimes referred to as *holding gain* or a *holding loss* [IASB 2018a], but according to para. 8.7 increases in the prices of assets held over the period, conventionally referred to as *holding gains*, are, conceptually, profits. In this case, it is not clear why the terms *holding gain* and *holding loss* have been used.

Comment. The term *gain* is used in many standards (IAS 1, IAS 16, IAS 21, IAS 36, IAS 38, IFRS 5, IFRS 9), but it is not defined. If *gain* is a subclass of *income*, it should be clearly stated, if not, it should be defined. As *gain/loss* are not defined or specified in the IFRS Framework 2018, to clarify the problem, let us look at how the IFRS Framework 2010 treated *gain/loss*.

2. Income, Revenue and Gain/Loss in the IFRS Framework 2010. In accordance with the IFRS Framework 2010, the definition of *income* encompasses both *revenue* and *gains* [IASB 2010, para. 4.29]. According to the IFRS Framework 2010, para. 4.29, *revenue* arises in the course of the ordinary activities of an entity and is referred to by a variety of different names including sales, fees, interest, dividends, royalties and rent.

Term *profit* is not defined in the IFRS Framework 2018. According to para. 8.4, *profit* is the residual amount that remains after *expenses* have been deducted from *income*. If expenses exceed income, the residual amount is a *loss*.

According to the IFRS Framework 2010, para. 4.25, income is 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.

In accordance with the IFRS Framework 2010, para. 4.29, the definition of *income* encompasses both *revenue* and *gains*. *Revenue* arises in the course of the ordinary activities of an entity and is referred to by a variety of different names including sales, fees, interest, dividends, royalties and rent.

In the IAS 18 para. 7 *revenue* was defined as the gross inflow of economic benefits during the period arising in the course of ordinary activities of an entity when those inflows result in increases in equity, other than increases in relation to contributions from equity participants. After 1 January 2017, the IFRS 15 replaced the IAS 18. According to the IFRS 15, *revenue* is *income* arising in the course of an

entity's ordinary activities. Because the definition of income did not change, revenue can be defined as the gross amount of economic benefit flowing to an entity from its ordinary business activities that results in increases in equity other than from contributions made by equity holders [Burton & Jermakowicz, 2015, p. 467]. **Therefore, revenue** is understood to be that part of a company's income resulting from its main (= operating) activities. In pure accounting terms, *revenue* is an increase in assets or decrease in liabilities on the company's books.

In accordance with the IFRS Framework 2010, para. 4.30, *gains* represent other items that meet the definition of income and may, or may not, arise in the course of the ordinary activities of an entity. *Gains* represent increases in economic benefits and as such are no different in nature from revenue. Hence, they are not regarded as constituting a separate element in the IFRS Framework 2010, para. 4.30.

Gains are commonly distinguished from *revenues* for three reasons:

- *Gains* result from incidental or peripheral activities of the entity when *revenues* usually result from an entity's central operations;
- *Gains* often result from nonreciprocal transactions (such as winning a lawsuit or receiving a gift) or other economic events for which there is no earnings process when *revenues* are usually earned;
- *Gains* are reported *net* when *revenues* are reported *gross*.

Comments. ***Gains*** are a secondary type of *income*, referring to incidental and nonrecurring transactions. According to the IFRS Framework 2010, para. 4.31, *gains* include, for example, those arising from the disposal of non-current assets. The disposal of fixed assets is called a *gain* because the sale of fixed assets does not take place regularly. The definition of *income* also includes unrealized *gains*. When *gains* are recognized in the statement of profit or loss, they are usually displayed separately because knowledge of them is useful for making business decisions. The distinction between *revenues* and *gains* was once a subject of considerable controversy. One school of thought believed that only revenues should be reported on income statements. The secondary or peripheral nature of gains means that they did not represent recurring income from the entity's main area of income-producing activities and therefore should be excluded from the income statement. This approach has been called the *current operating income concept* [Wolk *et al.*, 2001, p. 393]. The competing position was called *all-inclusive income concept*. Its proponents believed that all revenues and *gains*, regardless of source, should be included in the income statement [Wolk *et al.*, 2001, p. 393]. There has been an evolution away from the current operating income concept to the all-inclusive concept.

According to the IFRS Framework 2010, para. 4.33, the definition of *expenses* encompasses *losses* as well as those *expenses* that arise in the course of the ordinary activities of the entity. According to the IFRS Framework 2010, para. 4.34, *losses* represent other items that meet the definition of *expenses* and may, or may not, arise in the course of the ordinary activities of the entity. *Losses* represent decreases in economic benefits and as such, they are no different in nature from other *expenses*. Hence, they are not regarded as constituting a separate element in the IFRS Framework 2010, para. 4.34.

Losses are commonly distinguished from other *expenses* for three reasons:

- *Losses* result from incidental or peripheral activities of the entity when *other expenses* usually result from an entity's central operations;
- *Losses* often result from nonreciprocal transactions (such as thefts or fines) or other economic events unrelated to an earnings process when *other expenses* often incurred during earnings process;
- *Losses* are reported *net* when *other expenses* are reported *gross*.

Comments. *Losses* are a secondary type of *expenses*, referring to incidental and nonrecurring transactions. The definition of *expenses* also includes unrealised *losses*. When *losses* are recognized in the income statement, they are usually displayed separately because knowledge of them is useful for making business decisions. To the user of the IASs/IFRSs (written in English), it seems that authors of the individual standards have applied whichever English terminology they are used to, and this terminology then becomes the IASs/IFRSs English terminology. For example, North American accountants frequently talk about *net income* or *earnings* instead of *profit*. Although named the *income statement*, the format shown in the appendix to the IAS 1 employs the term *profit* rather than *income* to individual items. In some countries (for example, in Germany, Russia, Finland, Estonia) in local language, the same word is used for *profit/gain* as well as for their two counterparts – *losses*.

References:

1. Burton, G. F., Jermakowicz, E. K. (2015). *International Financial Reporting Standards: A Framework-Based Perspective*, New York: Routledge.
2. IASB (2010). „The Conceptual Framework for Financial Reporting”, retrieved 23.11.2022 from <http://eifrs.ifrs.org/eifrs/bnstandards/en/2015/framework.pdf>.
3. IASB (2015). „IFRS 15 Revenue from Contracts with Customers”, retrieved 22.11.2022 from <http://eifrs.ifrs.org/eifrs/bnstandards/en/2015/ifrs15.pdf>
4. IASB (2018a). „The Conceptual Framework for Financial Reporting”, retrieved 22.11.2022 from <http://eifrs.ifrs.org/eifrs/bnstandards/en/2018/framework.pdf>
5. IASB (2018b). „Basis for Conclusions on the Conceptual Framework for Financial Reporting, retrieved 23.11.2022 from <http://eifrs.ifrs.org/eifrs/bnstandards/en/2018/framework.pdf>
6. Wolk, H. I., Tearney, M. G., Dodd, J. L. (2001). *Accounting Theory. A Conceptual and Institutional Approach*. 5th ed., Ohio: South-Western College Publishing.

UDC 657

Paweł Bielawski,
Prof. dr hab, katedra Rachunkowości,
Uniwersytet Ekonomiczny w Krakowie,
Kraków, Polska

EMPIRYCZNA WERYFIKACJA MODELI EKONOMICZNO-FINANSOWYCH ZASTOSOWANYCH DO SZACOWANIA WARTOŚCI GODZIWEJ AKCJI SPÓŁEK GIEŁDOWYCH SEGMENTÓW 50 PLUS I 5 PLUS W OKRESIE WZROSTÓW I SPADKÓW NOTOWAŃ NA GPW

1. Wprowadzenie. Celem artykułu jest porównanie na podstawie metod statystycznych wyceny bilansowej akcji szacowanej na podstawie modeli ekonomiczno-finansowych do ich wartości godziwej pochodzącej z aktywnego rynku