Collegiate Research Journals

OPEN ACCESS

Journal of Humanities and Advancements
Vol 6(1) pp. 010-016 October, 2026.
https://collegiatejournals.us/ijha
Copyright © 2026 Collegiate Research Journals

Full Length Manuscript

Revenue Recognition in Modern Accounting

Abdullah Yusuf

Accepted 19th July 2026

Abstract

Revenue is a central measure of financial performance and a major area of accounting judgement. IFRS 15 Revenue from Contracts with Customers and the converged US GAAP framework in ASC 606 establish a principles-based model intended to improve consistency and comparability in revenue reporting. This manuscript reviews revenue recognition from an accounting perspective, focusing on the five-step model: identifying contracts with customers; identifying performance obligations; determining transaction price; allocating transaction price; and recognizing revenue when or as performance obligations are satisfied. The review also examines variable consideration, significant financing components, contract modifications, principal-versus-agent assessments, warranties, customer options, contract assets and liabilities, and disclosure requirements. Illustrative accounting examples show why revenue recognition differs from billing and cash collection. The analysis indicates that the central accounting question is when control of promised goods or services transfers to the customer and how consideration should be measured and allocated. Effective revenue accounting therefore requires disciplined contract analysis, reliable estimates, operational evidence, strong internal controls and transparent disclosures.

Keywords: revenue recognition; IFRS 15; ASC 606; accounting; performance obligations; transaction price; variable consideration

1. Introduction

Revenue provides information about an entity's operating activity and is closely monitored by investors, lenders, managers and other users of financial statements. Differences in earlier revenue requirements sometimes resulted in economically similar transactions being accounted for differently. In May 2014, the IASB and FASB jointly issued converged revenue-recognition requirements, with IFRS 15 replacing several earlier IFRS requirements and Topic 606 establishing the US GAAP framework [4,5]. IFRS 15 became effective for annual reporting periods beginning on or after 1 January 2018 [1].

The core principle is to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled [1,2]. This approach makes the customer contract, performance obligations and transfer of control central to revenue accounting. It also means that invoicing or cash collection does not automatically establish that revenue should be recognized.

2. Objectives

- Explain the accounting foundations of revenue recognition under IFRS 15 and ASC 606.
- Examine the five-step revenue recognition model and major judgement areas.
- Distinguish revenue recognition from billing, receivables and cash collection.
- Illustrate accounting treatment through numerical examples, tables and journal entries.
- Identify internal-control and disclosure implications of revenue recognition.

3. Method

This study uses a narrative accounting literature-review method. Primary authoritative materials from the IFRS Foundation and Financial Accounting Standards Board were reviewed, supplemented by established technical accounting literature [1–8]. The review focused on contract identification, performance obligations, transaction price, allocation, transfer of control, variable consideration, contract modifications, principal-versus-agent assessments, contract balances and disclosures. Illustrative numerical examples were developed solely for academic explanation. The manuscript is a narrative review rather than a systematic review or meta-analysis and therefore does not report pooled empirical estimates.

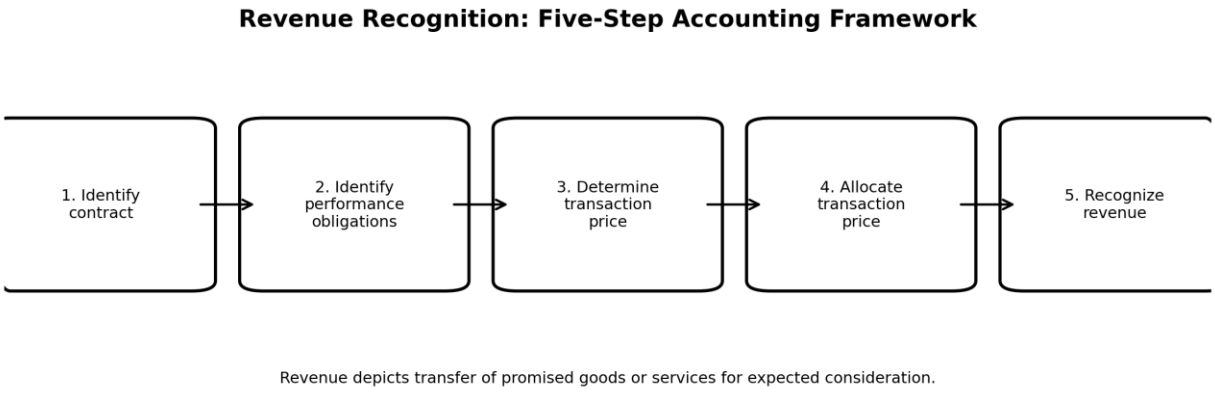


Figure 1. Five-step revenue recognition framework under IFRS 15 and the broadly converged ASC 606 model.

4. Results

4.1 The Five-Step Model

Step 1 requires identification of a contract with a customer that meets the applicable recognition criteria. IFRS 15 requires, among other matters, approval and commitment of the parties, identifiable rights and payment terms, commercial substance and probable collectability [1,3].

Step 2 identifies each distinct promise to transfer a good or service. A performance obligation can be a distinct good or service or a series of distinct goods or services that are substantially the same and transferred in the same pattern [1].

Step 3 determines the transaction price, including fixed and variable consideration. Variable consideration may include rebates, refunds, discounts, incentives, penalties and performance bonuses. The estimate is constrained so that consideration is included only to the extent that it is highly probable that a significant reversal of cumulative revenue will not occur when uncertainty is resolved [1,3].

Step 4 allocates the transaction price to performance obligations, generally using relative stand-alone selling prices. Observable prices are preferred; otherwise, estimation techniques are used [1,3].

Step 5 recognizes revenue when or as a performance obligation is satisfied by transferring control. Revenue can therefore be recognized at a point in time or over time depending on the applicable criteria [1,3].

Table 1. Five-step revenue recognition model

Step	Accounting question	Evidence	Key judgement
1	Is there a contract within scope?	Agreement, order, customary practice	Approval, rights, collectability
2	What promises are performance obligations?	Contract terms and specifications	Distinctness
3	How much consideration is expected?	Price, rebates, returns, incentives	Variable consideration, financing
4	How is consideration allocated?	Stand-alone selling prices	Estimation and allocation
5	When is control transferred?	Delivery, acceptance, service evidence	Point-in-time vs over-time

4.2 Revenue, Billing and Cash Are Different Events

A central result of the accounting analysis is that billing and cash collection are not equivalent to revenue recognition. When a customer pays before the entity transfers the promised goods or services, the amount is generally reflected as a contract liability until the relevant performance obligation is satisfied. Conversely, revenue can be recognized before invoicing when the applicable recognition requirements are met [1,3].

4.3 Illustrative Annual Service Contract

Assume a company sells a 12-month service for CU120,000 and collects the full amount at inception. If the service represents one performance obligation satisfied evenly over the year, CU10,000 of revenue is recognized each month.

At inception: Dr Cash CU120,000; Cr Contract liability CU120,000.

Each month: Dr Contract liability CU10,000; Cr Revenue CU10,000.

After six months: cumulative revenue = CU60,000; remaining contract liability = CU60,000.

Table 2. Contract balances and revenue

Event	Cash	Receivable	Contract balance	Revenue
Customer prepays before service	+	—	Contract liability increases	Deferred until performance
Service is provided	—	May be billed	Contract liability decreases	Recognized as service transfers
Product delivered and unpaid	—	Receivable increases	Usually none after transfer	Recognized if control transfers
Billing before performance	May occur	May occur	Contract liability may arise	Generally deferred

4.4 Variable Consideration

Variable consideration creates estimation risk. Rebates, returns, discounts, credits and incentives can reduce the consideration ultimately retained by the entity. Accounting estimates should therefore incorporate contractual terms, historical experience, current customer behavior and other relevant evidence, and should be updated as uncertainty changes [1,3].

4.5 Contract Modifications

Contracts often change after inception. Depending on the facts, a modification may be treated as a separate contract, as termination of the original contract and creation of a new contract, or through a cumulative catch-up adjustment [1,6]. The classification depends heavily on whether additional goods or services are distinct and whether the additional consideration reflects appropriate stand-alone selling prices.

4.6 Principal Versus Agent

An entity assesses whether it controls a specified good or service before transfer to the customer. A principal generally reports revenue on a gross basis for the consideration associated with transferring the controlled good or service, while an agent generally recognizes the net amount of its fee or commission [1,6]. This judgement can materially change reported revenue without changing underlying cash flows.

4.7 Contract Assets and Contract Liabilities

A contract asset generally arises when an entity has transferred goods or services but its right to consideration is conditional on something other than the passage of time. A receivable is an unconditional right to consideration. A contract liability generally arises when consideration is received or due before the related goods or services are transferred [1,3].

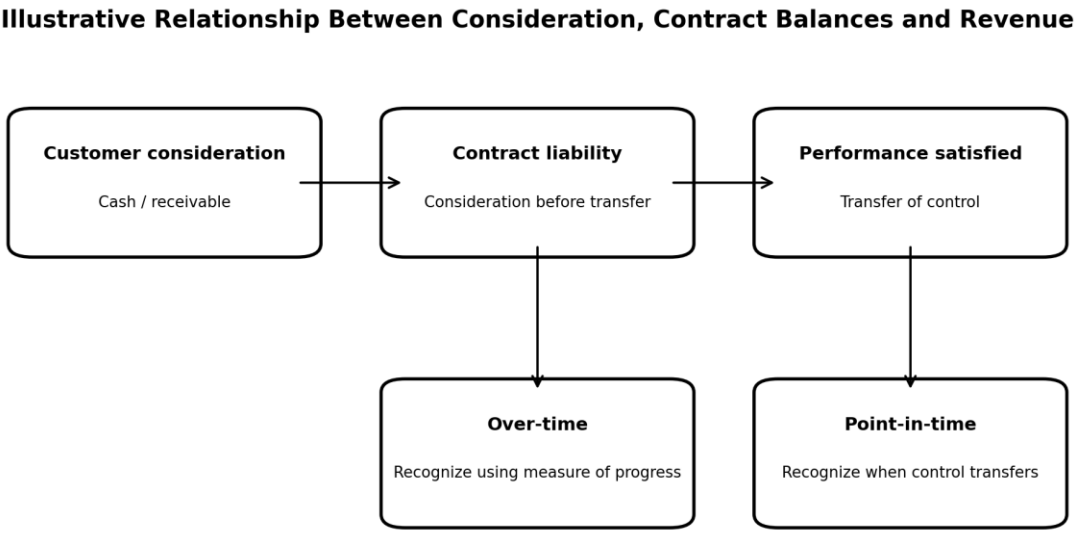


Figure 2. Illustrative relationship between consideration, contract balances and revenue.

Table 3. Major judgement areas in revenue accounting

Area	Accounting issue	Potential effect	Suggested control
Multiple elements	Identify distinct promises	Timing/allocation of revenue	Technical contract review
Rebates and discounts	Estimate variable consideration	Over/understatement	Estimate model and subsequent validation
Returns	Estimate expected returns	Revenue/profit volatility	Return-rate analytics
Long-term services	Measure progress	Premature/delayed revenue	Milestone and progress reconciliation
Principal/agent	Assess control	Gross vs net revenue	Documented control analysis
Modifications	Select modification model	Catch-up or future recognition	Formal modification workflow
Customer acceptance	Assess transfer of control	Cut-off errors	Acceptance documentation

5. Discussion

The five-step model links revenue recognition to the economics of the customer contract. Its major benefit is a common conceptual framework that can be applied across industries and transaction types. The IASB and FASB designed the standards to improve comparability and provide more useful information about the nature, timing and uncertainty of revenue [4,5].

The same principles-based structure creates significant areas of professional judgement. Stand-alone selling prices may require estimation; variable consideration requires probability assessments; and control can be difficult to determine in complex service, licensing or intermediary arrangements. These judgements should be documented and supported by evidence.

Revenue cut-off is another important accounting risk. Transactions close to period end should be tested against delivery records, customer acceptance, service completion and other evidence of transfer. A sales invoice dated before year-end is not sufficient evidence of revenue recognition if the underlying performance obligation has not been satisfied.

Table 4. Suggested revenue-recognition internal-control framework

Control area	Example control	Evidence	Frequency
Contract review	Review significant/non-standard contracts	Signed contract + accounting memo	At inception/modification
Billing-to-revenue reconciliation	Reconcile invoices to performance evidence	Reconciliation	Monthly
Variable consideration	Review rebates/returns/incentives	Estimate model	Monthly/quarterly
Cut-off	Test transactions around reporting date	Delivery/service evidence	Monthly/year-end
Contract balances	Reconcile opening and closing balances	Roll-forward	Monthly
Disclosure review	Validate disaggregation and judgements	Disclosure checklist	Quarterly/year-end

6. Disclosure Implications

IFRS 15 requires disclosures intended to help users understand the amount, timing and uncertainty of revenue and related cash flows. These include disaggregated revenue, contract balances, information about performance obligations, significant judgements and certain contract-related assets [1]. Such disclosures connect recognition and measurement decisions to the information presented in the financial statements.

7. Practical Implications for Accountants

- Maintain documented accounting policies for recurring contract types.
- Map significant contracts to performance obligations before revenue is posted.
- Reconcile revenue to operational evidence, not merely to invoices.
- Update variable consideration estimates using current and historical evidence.
- Monitor contract assets and contract liabilities separately from receivables.
- Reassess revenue accounting when contracts are modified, renewed or repriced.
- Integrate revenue recognition with internal controls over sales, delivery, billing and reporting.

8. Limitations

This is a narrative accounting review rather than a systematic review, empirical study, audit opinion or entity-specific accounting memorandum. IFRS and US GAAP contain detailed application guidance and may differ in particular circumstances. Complex arrangements should therefore be evaluated against the complete applicable standard and relevant jurisdictional guidance.

9. Conclusion

Revenue recognition is fundamentally the accounting process of determining what an entity has promised to a customer, what consideration it expects to receive, how that consideration should be allocated, and when control of the promised goods or services transfers. IFRS 15 and ASC 606 provide a structured five-step framework that improves consistency while requiring judgement in complex contracts. The analysis demonstrates that revenue cannot be determined solely from cash receipts or invoices. Reliable revenue reporting requires contract interpretation, accurate estimates, evidence of performance, appropriate journal entries, effective internal controls and transparent disclosures.

References

1. IFRS Foundation. IFRS 15 Revenue from Contracts with Customers. London: IFRS Foundation; 2024 edition.

2. IFRS Foundation. IFRS 15 Revenue from Contracts with Customers: About the Standard. IFRS Foundation.

3. Deloitte IAS Plus. IFRS 15 — Revenue from Contracts with Customers. Deloitte technical accounting summary.

4. IFRS Foundation. IASB and FASB issue converged Standard on Revenue Recognition. 2014.

5. Financial Accounting Standards Board. Revenue Recognition: Topic 606, Revenue from Contracts with Customers. FASB.

6. IFRS Foundation. Clarifications to IFRS 15 Revenue from Contracts with Customers. 2016.

7. Financial Accounting Standards Board. Revenue Recognition Implementation Q&As. January 2020.

8. IFRS Foundation. IFRIC Update: Revenue recognition in a real estate contract—IFRS 15.

9. IFRS Foundation. IFRS 15 supporting implementation materials and illustrative examples.

10. IFRS Foundation. IFRS 15 project history and post-implementation review materials.