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**NATIONAL ACCOUNTING STANDARD
FOR COMMERCIAL ORGANISATIONS No. 6
“INCOME”**

CONTENTS

GENERAL PROVISIONS	3
SCOPE	3
DEFINITIONS	3
MEASUREMENT OF INCOME	4
SALE OF GOODS	5
RENDERING OF SERVICES	6
INTEREST, ROYALTIES AND DIVIDENDS	7
OTHER INCOME	8
PRESENTATION AND DISCLOSURE	9
EFFECTIVE DATE	9
Appendix 1 - Comparison with IAS 18 Revenue	10

NATIONAL ACCOUNTING STANDARD FOR COMMERCIAL ORGANISATIONS No. 6

“INCOME”

GENERAL PROVISIONS

Purpose

1. This standard has been prepared in accordance with the Accounting Law of the Republic of Azerbaijan and based on International Accounting Standard No.18 - Income.

Objective

2. The objective of this Standard is to ensure that reporting entities recognise, measure and disclose income in the Income Statement in a consistent, reliable and transparent manner, in accordance with National Accounting Standard 1 - Presentation of Financial Statements.

SCOPE

3. This Standard will be applied by all types of commercial enterprise that prepare financial statements in accordance with Article 10 of the Accounting Law of the Azerbaijan Republic, taking into account the additional provisions contained in the Explanations and recommendations on its Application.
4. In the case of contradictions between effective normative-legal Acts on accounting regulation and this National Accounting Standard, the National Accounting Standard should be applied.
5. This standard applies to income arising from the following transactions and events:
 - (a) the sale of goods whether produced by the enterprise for the purpose of sale or goods, land or other property purchased for resale;
 - (b) the rendering of services;
 - (c) the use by others of enterprise assets yielding interest, royalties and dividends;
 - (d) all other transactions and events except transactions and events disclosed in paragraph 6 of this standard.
6. This standard doesn't applies to income arising from the following transactions and events:
 - (a) lease agreements;
 - (b) dividends arising from investments which are accounted for under the equity method;
 - (c) insurance contracts of insurance enterprises;
 - (d) changes in the fair value of financial assets and financial liabilities or their sale;
 - (e) changes in the value of other of current assets;
 - (f) initial recognition and from changes in the fair value of biological assets related to agricultural activity;
 - (g) initial recognition of agricultural produce;
 - (h) the rendering of services directly related to construction contracts;
 - (i) the extraction of mineral ores.
 - (j) transactions and events resulted in other gains that are recognized directly in accounts of equity according to requirements of National Accounting Standard 2 and other appropriate National Accounting Standards.

DEFINITIONS

7. The terms used in this standard have the following meanings:

Ordinary activity is the activity normally undertaken by an enterprise in pursuit of its business objectives.

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

Recognition

8. Income as defined by this standard is recognised in the Income Statement when it is probable that future economic benefits will flow to the enterprise and these benefits can be measured reliably
9. Income as defined by this standard includes only the gross inflows of economic benefits received or receivable by the enterprise on its own account. Amounts collected on behalf of third parties are not economic benefits which flow to the enterprise and do not result in increases in equity. Therefore, they are excluded from income and not recognised in either the Income Statement or in equity.

MEASUREMENT OF INCOME

10. The amount of income arising on a transaction is usually determined by agreement between the enterprise and the buyer or user of the asset. This amount of income is measured at the fair value of the consideration received or receivable from asset sale taking into account the amount of any trade discounts and volume rebates allowed by the enterprise. This consideration can be realized in the form of cash or cash equivalents, non-cash assets and decreasing of enterprise's liabilities
11. When the inflow of cash or cash equivalents is deferred, the present value of the deferred consideration may be less than the nominal amount of cash. 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 effectively constitutes a financing transaction, the present value of the consideration is 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 under the stipulation of immediate payment for goods and services.The difference between the present value and the nominal amount of the consideration is recognised as interest income.
12. 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 income.
13. When goods are sold and services are rendered in exchange for dissimilar goods or services, generated income is measured at the fair value (increased to the amount of any cash or cash equivalents received or decreased to the amount of any cash or cash equivalents retired) of the goods or services received

Identification of the transaction

14. Income is usually recognised from single transactions which are the subject of signed contracts between the contracting parties. 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 (a process known as segmentation). For example, when the selling price of a product includes an identifiable amount for subsequent servicing, that amount is deferred and recognised as income 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 of transaction cannot be understood without reference to these transactions as a whole.

SALE OF GOODS

15. Income 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 income can be measured reliably;
 - (d) it is probable that the economic benefits associated with the transaction will flow to the enterprise.
 - (e) the amount of prior and future expenses associated with the transaction can be measured reliably

16. 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. In another cases, this events don't take place at the same time.

17. If the enterprise retains significant risks of ownership, the transaction is not a sale and income is not recognised. Examples of situations in which the enterprise may retain the significant risks and rewards of ownership are:
 - (a) when the enterprise retains and obligation for unsatisfactory performance not covered by normal warranty provisions;
 - (b) when the receipt of the income from a particular sale is contingent on the derivation of income 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;
 - (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

18. If an enterprise retains only an insignificant risk of ownership, the transaction is a sale and income 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 income 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. Income 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.

19. Income arising from any transaction is recognised only when it is probable that the economic benefits associated with this transaction will flow to the enterprise. In some cases, this may not be probable that the economic benefits associated with the transaction will flow to the enterprise until the consideration is received or until income-related uncertainty is removed. For example, if remitting of the consideration from a sale in a foreign country to another countries depend on the permission of a foreign governmental authority then it will be uncertain that economic benefits associated with the transaction will flow to the enterprise. Only when the permission is granted, the uncertainty is removed and income is recognised.

20. In practice, in further periods an uncertainty may arise about the collectability of an amount recognised as income in previous periods. In this case, 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 income originally recognized.
21. Income and expenses that relate to the same transaction or event are recognised simultaneously in accordance with the matching conception. 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 income have been satisfied. However, when the expenses cannot be measured reliably, any consideration already received for the sale of the goods is recognised as a liability rather than income

RENDERING OF SERVICES

22. When the outcome of a transaction involving the rendering of services can be estimated reliably, income associated with the transaction should be recognised by reference to the stage of completion of the transaction at the balance sheet date. The recognition of income by reference to the stage of completion of a transaction is often referred to as the percentage of completion method. Under this method, income is recognised in the accounting periods in which the services are rendered.
23. The outcome of a transaction involving the rendering of services can be estimated reliably when all the following conditions are satisfied:
 - (a) the amount of income 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;
 - (d) the costs incurred for the transaction and costs that will be incurred for the completion of this transaction can be measured reliably
24. On occasions the date on which the service activity is entered into and the date when the activity is completed fall into different accounting periods. Income arising from such transactions shall be considered at the appropriate accounting periods in which the concrete works are performed. The recognition of income on this basis provides useful information on the extent of service activity and performance during the reporting period
25. Income arising from any transaction is recognised only when it is probable that the economic benefits associated with this transaction will flow to the enterprise. However, in further periods an uncertainty may arise about the collectability of an amount recognised as income in previous periods. In this case, the uncollectable amount or the amount in respect of which recovery has ceased to be probable is recognised as an expense incurred in the reporting period, rather than as an adjustment of the amount of income originally recognised
26. 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 legal rights regarding the service to be provided and received by the parties;
 - (b) the consideration to be exchanged;
 - (c) the manner and terms of settlement.

The enterprise using an effective internal financial budgeting and reporting system reviews and, when necessary, revises the estimates of income as the service is performed. The need for such revision and revaluation does not necessarily indicate that the outcome of the transaction cannot be estimated reliably

27. 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 method;
 - (b) services performed to date as a percentage of total services to be performed method;
 - (c) the proportion that costs incurred to date bear to the estimated total costs of the transaction method.
- 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
28. When services are performed by an indeterminate number of acts over a specified period of time, income is recognised on a straight line basis
29. When services are performed by one or some number of acts over a specified period of time, income is recognised upon completion of this act or acts. When a specific act is much more significant than any other acts, the recognition of income is postponed until the significant act is executed
30. When the outcome of the transaction involving the rendering of services cannot be estimated reliably, income should be recognised only to the extent of the expenses recognised that are recoverable
31. Generally, during the early stages of a transaction, the outcome of the transaction cannot be estimated reliably. Nevertheless, it may be probable that the enterprise will recover the transaction costs incurred. Therefore, income is recognised only to the extent of recognised expenses that are expected to be recoverable. As the outcome of the transaction cannot be estimated reliably, no profit is recognised.
32. When the outcome of a transaction cannot be estimated reliably and it is not probable that the costs incurred will be recovered, income 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, income is recognised in accordance with paragraph 22 and 235 rather than in accordance with paragraph 30.

INTEREST, ROYALTIES AND DIVIDENDS

33. Using by others of enterprise's assets results in income arising in the following forms:
- (a) interests are the payments for the use of cash or cash equivalents held by the enterprise;
 - (b) royalties are the payments for the use of an enterprise's non-current assets (patents, merchandise marks, copyrights, software and others);
 - (c) dividends are the amounts of enterprise's net profit allocated between shareholders to the extent of appropriate equity contributions.
34. Income arising in the form of interest, royalties and dividends should be recognised on the bases set out in paragraphs 35-38 when:
- (a) it is probable that the economic benefits associated with the transaction will flow to the enterprise;
 - (b) the amount of the income can be measured reliably.
35. Income in the form of interest should be recognized on a proportional basis that takes into account the effective yield on the asset.
36. Income in the form of royalties should be recognised on an accrual basis in accordance with the substance of the relevant agreement.

37. Income in the form of dividends should be recognised when the shareholder's right to receive payment is established.
38. Income arising in the form of interest, royalties and dividends should be recognised at a total amount, including any withholding taxes.
39. 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 income includes the amount of amortisable difference between the initial carrying amount of a debt security and its amount at maturity.
40. An enterprise may acquire the interest-bearing debt instruments (debt securities and similar contracts) after the interests has accrued but before the receipt of interest on of these instruments. In such cases, the subsequent receipt of interest is allocated between pre-acquisition and post-acquisition periods. Only the post-acquisition portion of interest is recognised as income.
41. When dividends on equity instruments acquired by the enterprise are fully or partially related with the period of the allocation of earned capital then these dividends are deducted from the cost of these equity instruments. If it is difficult to make such an allocation by the method other than based on judgement,, the total amount of dividends is recognised as income for the post-acquisition period. However, when this amount clearly represents a recovery of part of the cost of the equity instrument then it is not recognized as dividend income and deducted from the cost of equity instrument.
42. Income arising in the form of royalties measured and recognised in accordance with the terms of the relevant agreement. But in some cases, having regard to the substance of the agreement, it is more appropriate to recognise income on some other systematic and rational basis (in accordance with the substance over form principle).
43. Income arising in the form of interest, royalties and dividends should be recognised only when it is probable that the economic benefits associated with the transaction will flow to the enterprise. However, in further periods an uncertainty may arise about the collectability of an amount recognised as income in a previous periods. In such case, the uncollectable amount or the amount in respect of which recovery has ceased to be probable is recognised as an expense of the period, rather than as an adjustment of the amount of income originally recognised.

OTHER INCOME

44. Other income arising from the changes in value or sale of the non-current tangible and intangible assets should be recognized in accordance with the requirements of NASCO 7 and NASCO 12.
45. Other income is arised also as a result of subsequent increase of the cost of revalued inventories decreased to its net realizable value in previous periods. In this case, other income is recognized as a reduction of expenses in the reporting period. This income is estimated at an amount of increase of inventory's current carrying amount upto but not exceeding its original cost. Any excess of inventory's net realizable value over its cost is not recognise as income
46. Other income arising from the decrease of the estimated amount of doubtful debts occurred in the reporting period is recognized as a reduction of expenses in the reporting period. This income is estimated as a difference between the new estimated amount of doubtful debts and its previous amount, which is accounted for as an adjustment to accounts receivable in the Balance Sheet. Other income arising in case of payment of the amounts of accounts receivable written-down in the previous reporting periods is recognized at an expected amount as a reduction of

expenses in the reporting period. In this case, the probability that the economic benefits will flow to the enterprise should be taken into account.

PRESENTATION AND DISCLOSURE

47. Income from the sale of goods or services and the disposal of assets is shown less VAT, excise and other taxes, trade discounts granted and sales returns, except for cases disclosed in the paragraph 50 of the standart.
48. Items of income and expense should be offset only when:
- (a) another National Accounting Standard requires or supposes it; or
 - (b) other income and related expenses arising from the same or similar transactions and events are not material;
49. The following classifications of income are presented in the Income Statement:
- (a) sale;
 - (b) other operating income;
 - (c) income on discontinuing of operation;
 - (d) finance gains;
 - (e) share of profit of associates and joint ventures;
50. An enterprise should disclose the following information concerning income recognized in the reporting period:
- (a) the accounting policy adopted for the recognition of income including the information about methods adopted to determine the stage of completion of transactions involving the rendering of services;
 - (b) the amount of each significant category of income recognised during the period including:
 - sale of goods;
 - rendering of services;
 - interests;
 - royalties;
 - dividends.
 - (c) the amount of income arising from exchanges of goods or services included in each significant category of income;

EFFECTIVE DATE

51. The effective date of this standard is determined by appropriate order of Ministry of Finance of the Republic of Azerbaijan

Appendix 1 - Comparison with IAS 18 Revenue

This National Accounting Standard for Commercial Organisations (NASCO) 6 - Income is drawn primarily from International Accounting Standard (IAS) 18 (2006) – Revenue. The main differences between NASCO 6 and IAS 18 are as follows:

- Paragraph 1 is added to NASCO 6 and relates the standard to the Accounting Law. IAS 18 does not contain such a section.
- Paragraphs 3 and 4 of NASCO 6 define the scope of the organisations required to apply the standard as set out in the Accounting Law. IAS 18 does not contain such a section.
- This standard applies the definitions of principle and other income and contains requirements concerning accounting for these incomes. IAS 18 applies the definition of principal income only and does not contain rules regarding the accounting of other income.
- For transparency purposes the disclosure and presentation requirements of this standard are more detailed than those prescribed by IAS 18.
- The non-application of the NASCO is extended beyond that of IAS 18 to include services under a construction contract and transactions that are to be shown directly in equity
- For recognition purposes, IAS 18 requires that costs associated with a revenue generating transaction should be reliably measurable. This requirement has been omitted in NASCO 6
- The ordering of paragraphs in NASCO 6 is sometimes different from that in IAS 18. In addition, some paragraphs in IAS 18 have been split into two or more paragraphs in NASCO 6. This has been done to improve clarity.
- Paragraphs 46, 47, and 48 have been added to NASCO 6 and do not appear in IAS 18. They refer to the accounting consequences of introducing the concept of “Other Income” to the NASCO
- IAS 18 contains a number of illustrative examples, explanations and introductions. In line with established policy, all such explanations and examples have been removed from NASCO 6 and will be covered in the Explanations document