Revenue Recognition Principles

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1. **Core Principle**
   - Revenue is recognized when it is earned - typically when goods are delivered or services are performed - not necessarily when cash is received.
2. **Five-Step Model (IFRS 15)**
   - Identify the contract, identify performance obligations, determine the transaction price, allocate the price, and recognize revenue as obligations are satisfied.
3. **Point-in-Time vs. Over-Time Recognition**
   - Goods sales are typically recognized at a point in time (delivery); long-term service contracts or construction projects may be recognized over time as work progresses.
4. **Common Pitfalls**
   - Recognizing revenue too early (before delivery/performance) overstates profit and can constitute financial statement fraud.
5. **Why It Matters**
   - Revenue recognition timing directly affects reported profit, making it one of the most scrutinized areas in financial reporting and auditing.