



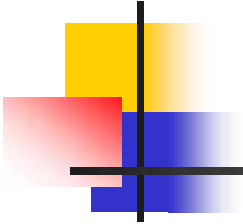
# Stuart & Hamlyn

CHARTERED ACCOUNTANTS



DUBAI | SHARJAH | RAK | AUSTRALIA | INDIA | USA

25 YEARS OF  
PROFESSIONAL  
EXCELLENCE



# IFRS 15

## Revenue from Contracts with Customers

- CA Joseph Philip.



## Introduction

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**Revenue** is income from ‘ordinary activities’.

A **contract** has rights and obligations between two or more parties.

A **customer** receives a good or service.



## Issue date

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- Issued May 2014.
- Sets out the requirements for recognising revenue that apply to all contracts with customers except for contracts within the scope of;
  - leases,
  - insurance contracts and
  - financial instruments.
- Effective from 1 January 2018.
- Earlier application is permitted.



## Supersedes

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- IFRS 15 replaces the previous revenue Standards:
  - IAS 18 Revenue
  - IAS 11 Construction Contracts,
- the related Interpretations on revenue recognition:
  - IFRIC 13 Customer Loyalty Programmes,
  - IFRIC 15 Agreements for the Construction of Real Estate,
  - IFRIC 18 Transfers of Assets from Customers and
  - SIC-31 Revenue – Barter Transactions Involving Advertising Services.



## Scope exclusions

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- Leases, insurance, financial instruments, certain guarantee contracts and certain non-monetary exchanges
- Contracts with elements in multiple standards
  - Evaluate under other standards first



## Brief comparison

*IAS 18 /11*

**Separate models for:**

- Construction contracts
- Goods
- Services

**Focus on risk and rewards**

**Limited guidance on:**

- Multiple element arrangements
- Variable consideration
- Licences

*IFRS 15*

**Single model for performance obligations:**

- Satisfied over time
- Satisfied at a point in time

**Focus on control**

**More guidance:**

Separating elements, allocating the transaction price, variable consideration, licences, options, repurchase arrangements  
**and so on....**

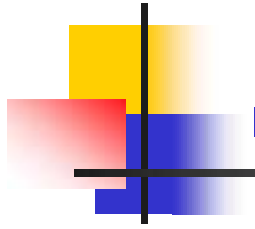


# Risk & Rewards Vs. Control

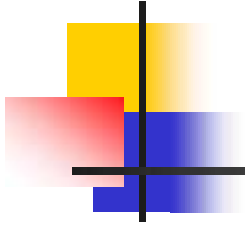
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- Entity A has an order to deliver goods to a customer overseas. These goods could be shipped on any of the four categories of Incoterms below: • “E”-term (EXW): Entity A only makes goods available to the customer at Entity A’s factory. •.





- “F”-term (FOB): Entity A is required to deliver the goods to a carrier appointed by the customer.
- “C”-term (CIF): Entity A contracts for carriage, but without assuming the risk of loss or damage to the goods or additional cost due to events occurring after shipment.
- “D”-term (DAF): Entity A bears all costs and risks needed to bring the goods to their destination



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- Controll:
  - DVD sale with control on resale



# Revenue recognition

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- Customer acceptance
- Legal title to the customer
- Transfer of risk and rewards
- Supplier has the right to payment
- Transfer of physical possession



## Need for change

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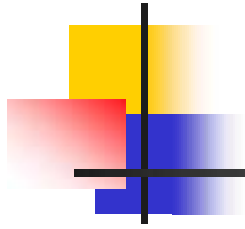
- Significant diversity in revenue recognition practices
- Limited guidance on many important topics, such as accounting for arrangements with multiple elements.
- Difficult for investors and analysts ('investors') to understand and compare a company's revenue.
- Difficult to apply to complex transactions due to lack of basis for conclusions.
- numerous industry and transaction specific requirements, which often resulted in economically similar transactions being accounted for differently.
- new types of transactions emerges.



# Example

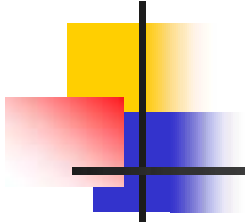
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- Etisalat mobile sells bundle offer :
- Free handset for one year contract with 500 flexible minutes " AED 200 pm
- Handset has a standalone price of AED 700
- 500 flexible minures stand alone :AED 140

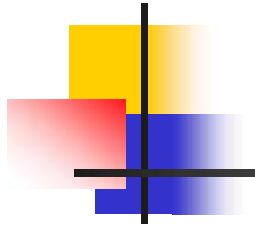


- Total to pay by customer : AED 2400
- SASP:  $140 \times 12 = 1680 + 700 = 2380$
- | PO         | SASP | TP   | Revenue |
|------------|------|------|---------|
| 1) FM      | 1680 | 1694 | 141     |
| 2) Handset | 700  | 706  | 706     |

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1680/2380    2380    2400



- Handset to recognize immediately :706
  - FM : $1694/12 = 141$  revenue
  - Difference =  $200-141 = 59/-$
  - Journal Entry:
    - Contract Asset 706
    - To Revenue 706
- DR - COS CR inventory



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- AR Dr: 200
  - Revenue 141
  - Contractual asset 59





## The framework five steps

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Identify the contract(s) with the customer

Identify the performance obligations in the contract

Determine the transaction price

Allocate the transaction price

Recognise revenue when a performance obligation is satisfied



## Order of application

Core principle

Revenue recognised to depict transfer of goods or services

**Step 1** - Identify the contract with the customer



**Step 2** - Identify the performance obligations in the contract



**Step 3** - Determine the transaction price



**Step 4** - Allocate the transaction price



**Step 5** - Recognise revenue when (or as) a performance obligation is satisfied



## Step 1

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- Agreement between two or more parties that creates enforceable rights and obligations
- No contract unless customer committed, criteria include:
  - it is probable that the entity will collect the consideration to which it will be entitled
- Combine two or more contracts with the same customer when:
  - negotiated as a package with a single commercial objective;
  - amount of consideration to be paid in one contract depends on the price or performance of the other contract; or
- goods or services promised in the contracts are a single performance obligation (see step 2)



## Step 2: Performance obligation

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- Performance obligations are promises to transfer goods or services to a customer that are:
  - explicit,
  - implicit, or
- arise from customary business practices
- Identifying performance obligations is critical to measurement and timing of recognition



## Step 3 transaction price

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- Probability weighted or best estimate
- More specific guidance covering:
  - time value of money
  - constraint on variable consideration
  - non-cash consideration
- consideration payable to customers: reduction to transaction price unless for a distinct good or service.



## Step 4: Allocation of price

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- Allocate transaction price to separate performance obligations based on relative standalone selling price:
- Actual or estimated
- Residual 'approach' if selling price is highly variable or uncertain (change from current practice)
- Initial allocation and changes to variable consideration might be allocated to a single performance obligation if:
- Contingent payment relates only to satisfaction of that performance obligation, and
- Allocation is consistent with the amount the entity expects to be entitled to for that performance obligation



## Step 5: Revenue recognition

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- Guidance applies to each separate performance obligation
- First, evaluate if performance obligation satisfied 'over time'
- recognise revenue based on the pattern of transfer to the customer
  
- If not point in time
- recognise revenue when control transfers



## Transaction cost

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- Incremental costs of obtaining a contract required to be capitalised if expected to be recovered (e.g. sales commissions)
- May be expensed if expected contract period less than 1 year
- Contract fulfilment costs
- Look to other guidance first (inventory, PPE)
- If out of scope of other standards, required to be capitalised if:
  - Relate directly to a contract and
  - Relate to future performance and
  - Expected to be recovered
- Amortise capitalised costs as control transfers
- Impairment reversals required





## Disclosures

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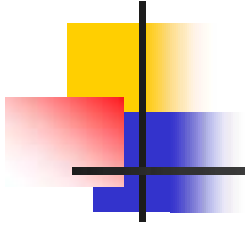
- Both qualitative and quantitative information including;
- Disaggregated information
- Contract balances and a description of significant changes
- Amount of revenue related to remaining performance obligations and an explanation of when revenue is expected to be recognised
- Significant judgments and changes in judgments



## More implementation guidelines

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- Customer options
- Warranties
- Breakage
- Non-cash consideration
- Consideration payable to the customer
- Returns
- Repurchase options
- Principal or agent



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- Interactive session
  - Question and answers