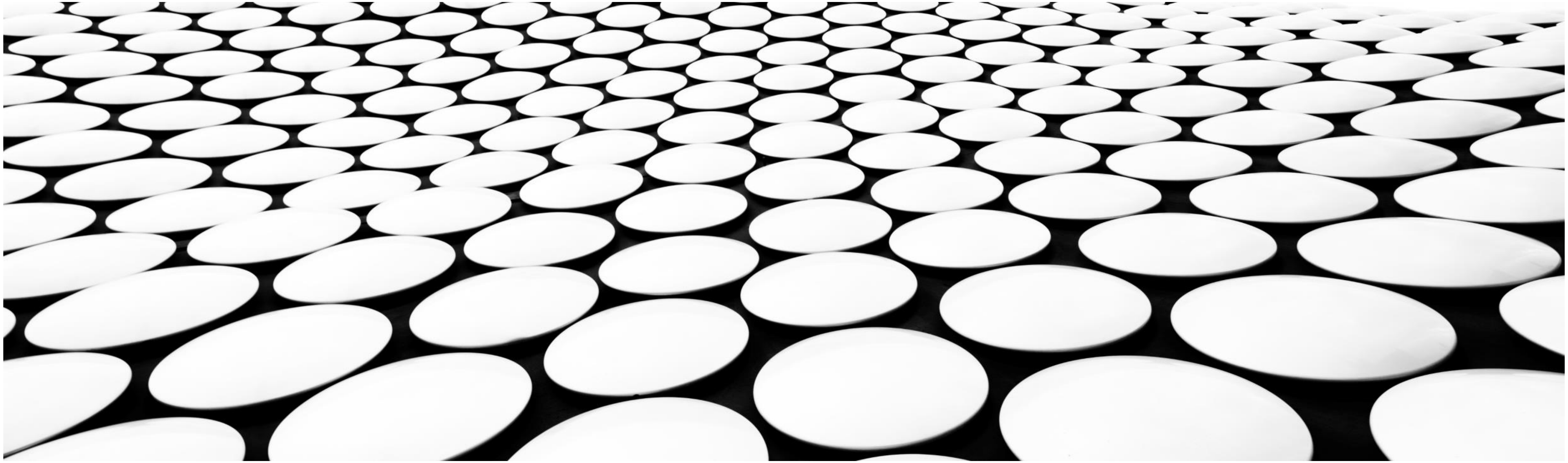
INTERNATIONAL FINANCIAL REPORTING STANDARDS REVENUE FROM CONTRACT WITH CUSTOMERS– IFRS 15

B D CHATTERJEE FCA, ACMA, ACS, DIP IFR (ACCA) – UNITED KINGDOM



INTERNATIONAL FINANCIAL REPORTING STANDARDS
REVENUE FROM CONTRACT WITH CUSTOMERS - IFRS 15

Core Principle

The core principle of this Standard is that

- **an entity shall recognize revenue to depict the transfer of promised goods or services to customers**
- **at an amount that reflects the consideration to which the entity expects to be entitled**
- **in exchange for those goods or services.**

REVENUE FROM CONTRACT WITH CUSTOMERS - IFRS 15

Definitions

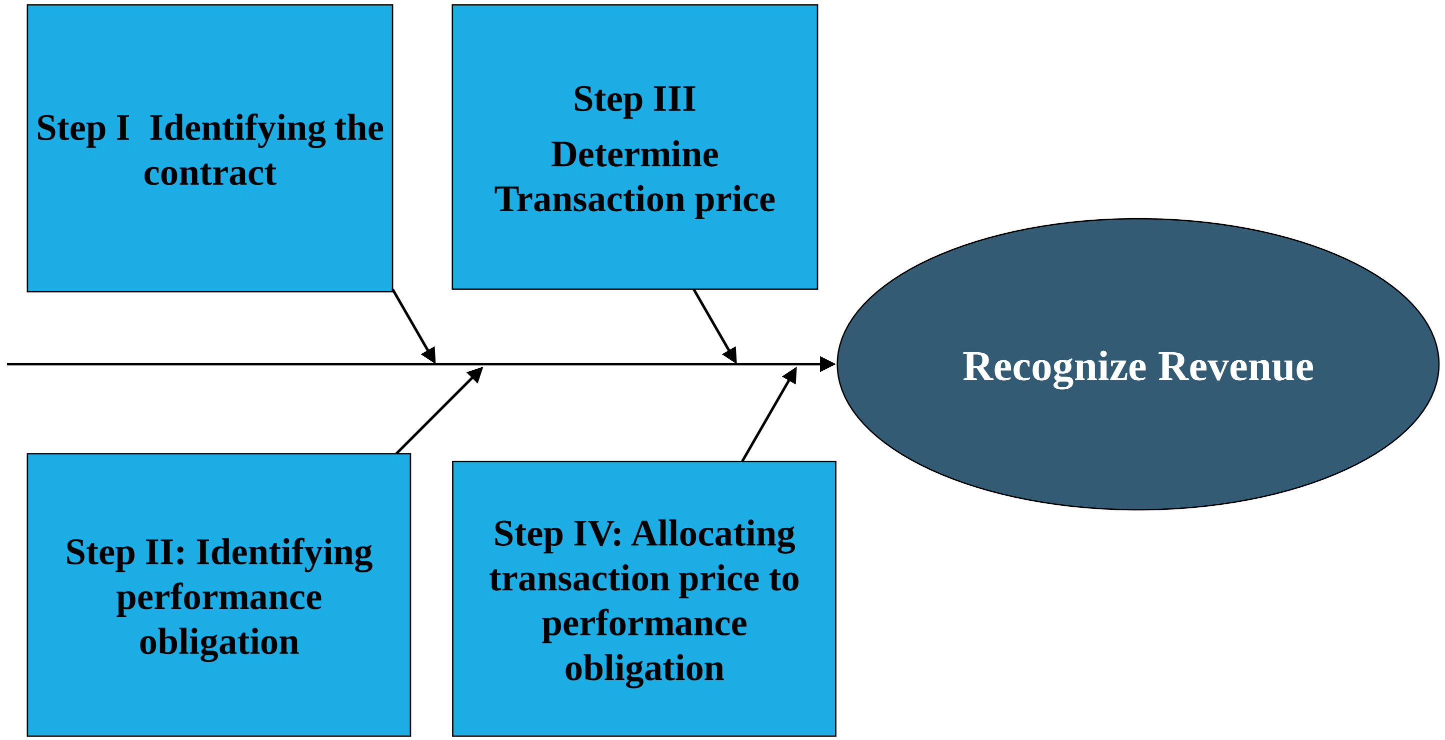
Name	Definition
Contract	An agreement between two or more parties that creates enforceable rights and obligations.
Contract asset	An entity's right to consideration in exchange for goods or services that the entity has transferred to a customer when that right is conditioned on something other than the passage of time (for example, the entity's future performance).
Contract liability	An entity's obligation to transfer goods or services to a customer for which the entity has received consideration (or the amount is due) from the customer.
Customer	A party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration.
Income	Increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in an increase in equity, other than those relating to contributions from equity participants.

Definitions

Name	Definition
Performance obligation	A promise in a contract with a customer to transfer to the customer either: (a) a good or service (or a bundle of goods or services) that is distinct; or (b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.
Revenue	Income arising in the course of an entity's ordinary activities
Stand-alone selling price (of a good or service)	The price at which an entity would sell a promised good or service separately to a customer
Transaction price (for a contract with a customer)	The amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

REVENUE FROM CONTRACT WITH CUSTOMERS - IFRS 15

Recognition



Step I - Identify the contract

An entity shall account for a contract with a customer that is within the scope of this Standard only when all of the following criteria are met:

- the parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations.
- the entity can identify each party's rights regarding the *goods or services to be transferred.*
- the entity can identify the *payment terms* for the goods or services to be transferred.
- the contract has *commercial substance* (i.e. the risk, timing, or amount of the entity's future cash flows is expected to change as a result of the contract); and
- it is *probable that the entity will collect the consideration* to which it will be entitled in *exchange for the goods or services that will be transferred to the customer*.

Step II - Identify performance obligation

At the inception of the contract, an entity shall assess the goods or services promised in a contract with a customer and shall identify as a performance obligation each promise to transfer to the customer either:

(a) a good or service (or a bundle of goods or services) that is distinct; or

(b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

According to Para 23 A series of distinct goods or services has the same pattern of transfer to the customer if both of the following criteria are met:

(a) each distinct good or service in the series that the entity promises to transfer to the customer would meet the criteria in paragraph 35 to be a performance obligation satisfied over time; and

(b) in accordance with paragraphs 39–40, the same method would be used to measure the entity’s progress towards complete satisfaction of the performance obligation to transfer each distinct good or service in the series to the customer.

What are distinct goods and services?

A good or service that is promised to a customer is distinct if both of the following criteria are met:

- the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (i.e. the good or service is capable of being distinct); and

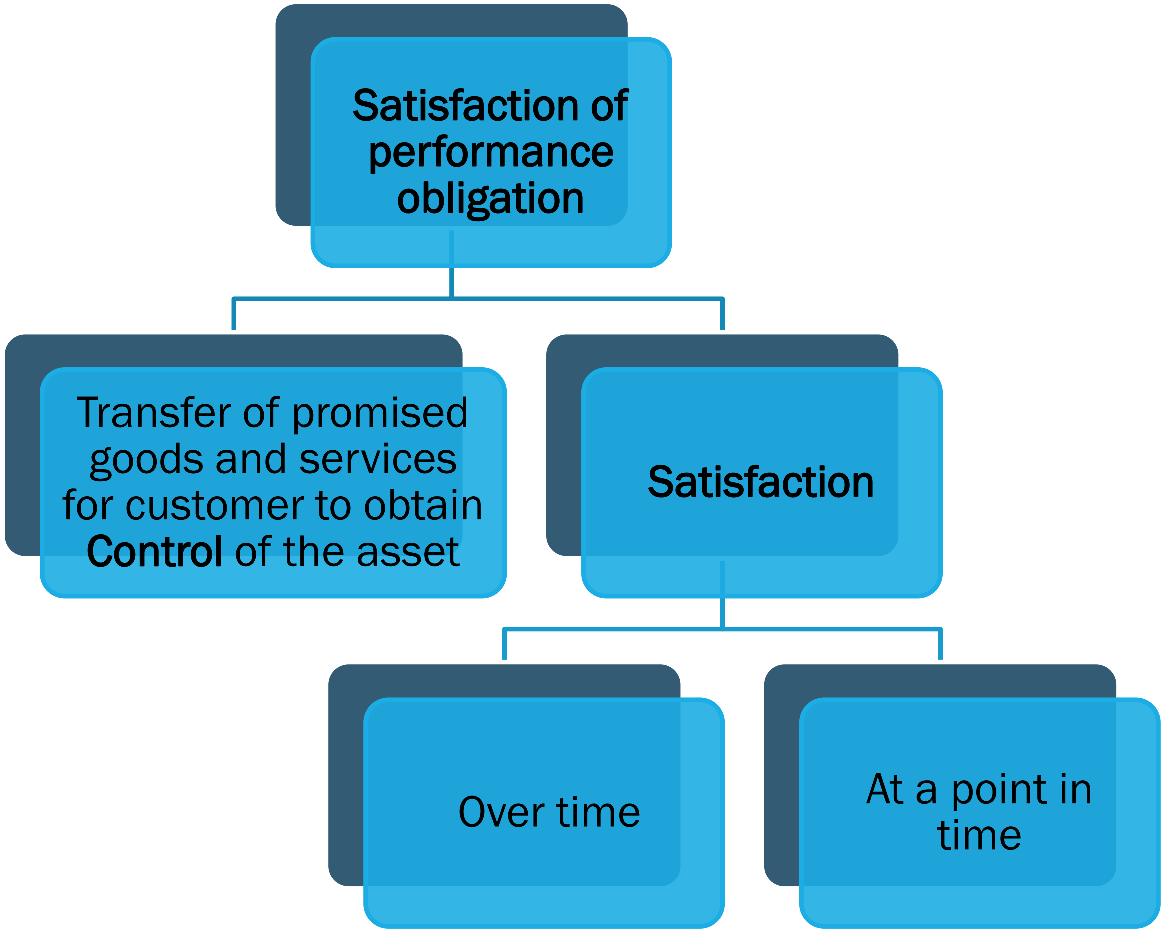
- the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (i.e. the good or service is distinct within the context of the contract).

Examples of distinct goods and services

- sale of goods produced by an entity (for example, inventory of a manufacturer)
- resale of goods purchased by an entity (for example, merchandise of a retailer);
- resale of rights to goods or services purchased by an entity (for example, a ticket resold by an entity acting as a principal,
- performing a contractually agreed-upon task (or tasks) for a customer,
- providing a service of standing ready to provide goods or services (for example, unspecified updates to software that are provided on a when-and-if-available basis) or of making goods or services available for a customer to use as and when the customer decides,
- providing a service of arranging for another party to transfer goods or services to a customer (for example, acting as an agent of another party);
- granting rights to goods or services to be provided in the future that a customer can resell or provide to its customer (for example, an entity selling a product to a retailer promises to transfer an additional good or service to an individual who purchases the product from the retailer),
- constructing, manufacturing, or developing an asset on behalf of a customer, (i) granting licenses; and
- granting options to purchase additional goods or services (when those options provide a customer with a material right).

REVENUE FROM CONTRACT WITH CUSTOMERS - IFRS 15

Satisfaction of performance obligation



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Satisfaction of performance obligation

Control of an asset refers to the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset.

Control of an asset represented by

(a) using the asset to produce goods or Provide services (including public services);
(b) using the asset to enhance the value of other assets,
(c) using the asset to settle liabilities or reduce expenses,
(d) selling or exchanging the asset,
(e) pledging the asset to secure a loan; and
(f) holding the asset.

REVENUE FROM CONTRACT WITH CUSTOMERS - IFRS 15

Satisfaction of performance obligation over time

Performance obligations satisfied over time	(a) the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs, (b) the entity's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced or (c) the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

Satisfaction of performance obligation at a point in time

Performance obligations satisfied at a point in time	(a) The entity has a present right to payment for the asset (b) The customer has legal title to the asset (c) The entity has transferred physical possession of the asset (d) The customer has the significant risks and rewards of ownership of the asset (e) The customer has accepted the asset

Step III – Determine Transaction Price

The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (for example, some sales taxes).

Determinants of transaction price

(a) variable consideration,
(b) constraining estimates of variable consideration,
(c) the existence of a significant financing component in the contract
(d) non-cash consideration and
(e) consideration payable to a customer

Variable consideration

a) If the consideration promised in a contract includes a variable amount, an entity shall estimate the amount of consideration to which the entity will be entitled in exchange for transferring the promised goods or services to a customer.

b) An amount of consideration can vary because of discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, or other similar items.

c) The promised consideration can also vary if an entity's entitlement to the consideration is contingent on the occurrence or non-occurrence of a future event. For example, an amount of consideration would be variable if either a product was sold with a right of return or a fixed amount is promised as a performance bonus on achievement of a specified milestone.

d) In some contracts penalties are determinants of transfer price.

e) An entity shall estimate an amount of variable consideration by using either of the following methods, depending on which method the entity expects to better predict the amount of consideration to which it will be entitled:

   (a) The expected value—the expected value is the sum of probability-weighted amounts in a range of possible consideration amounts

   (b) The most likely amount—the most likely amount is the single most likely amount in a range of possible consideration amounts (i.e. the single most likely outcome of the contract).

Existence of Financing component

- In determining the transaction price, an entity shall adjust the promised amount of consideration for the effects of the time value of money if the timing of payments agreed to by the parties to the contract (either explicitly or implicitly) provides the customer or the entity with a significant benefit of financing the transfer of goods or services to the customer.

- In those circumstances, the contract contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract.

REVENUE FROM CONTRACT WITH CUSTOMERS - IFRS 15

Non-cash transaction

a) To determine the transaction price for contracts in which a customer promises consideration in a form other than cash, an entity shall measure the non-cash consideration (or promise of non-cash consideration) at fair value.

b) If an entity cannot reasonably estimate the fair value of the non-cash consideration, the entity shall measure the consideration indirectly by reference to the stand-alone selling price of the goods or services promised to the customer (or class of customer) in exchange for the consideration.

REVENUE FROM CONTRACT WITH CUSTOMERS - IFRS 15
Consideration payable to a customer

i) Consideration payable to a customer includes cash amounts that an entity pays, or expects to pay, to the customer (or to other parties that purchase the entity’s goods or services from the customer). Consideration payable to a customer also includes credit or other items (for example, a coupon or voucher) that can be applied against amounts owed to the entity (or to other parties that purchase the entity’s goods or services from the customer).

ii) Accordingly, if consideration payable to a customer is accounted for as a reduction of the transaction price, an entity shall recognize the reduction of revenue when (or as) the later of either of the following events occurs:

(a) the entity recognizes revenue for the transfer of the related goods or services to the customer; and

(b) the entity pays or promises to pay the consideration (even if the payment is conditional on a future event).

That promise might be implied by the entity’s customary business practices.

Step IV – Allocating Transaction Price to Performance Obligation

i) The objective when allocating the transaction price is for an entity to allocate the transaction price to each performance obligation (or distinct good or service) in an amount that depicts the amount of consideration to which the entity expects to be entitled in exchange for transferring the promised goods or services to the customer.

ii) To meet the allocation objective, an entity shall allocate the transaction price to each performance obligation identified in the contract on a relative stand-alone selling price basis.

Allocation based on Stand-alone selling price

i) To allocate the transaction price to each performance obligation on a relative ***stand-alone selling price*** basis, an entity shall determine the ***stand-alone selling price*** at contract inception of the distinct good or service underlying each performance obligation in the contract and allocate the transaction price in proportion to those stand-alone selling prices.

ii) The ***stand-alone selling price*** is the price at which an entity would sell a promised good or service separately to a customer.

- The best evidence of a ***stand-alone selling price*** is the observable price of a good or service when the entity sells that good or service separately in similar circumstances and to similar customers.

- A contractually stated price or a list price for a good or service may be (but shall not be presumed to be) the ***stand-alone selling price*** of that good or service.

Methods of estimating Stand-alone selling price

a) Adjusted market assessment approach	an entity could evaluate the market in which it sells goods or services and estimate the price that a customer in that market would be willing to pay for those goods or services.
b) Expected cost plus a margin approach	an entity could forecast its expected costs of satisfying a performance obligation and then add an appropriate margin for that good or service.
c) Residual approach	an entity may estimate the stand-alone selling price by reference to the total transaction price less the sum of the observable stand-alone selling prices of other goods or services promised in the contract

Allocation of discount to Stand-alone selling price

- An entity shall allocate a discount entirely to one or more, but not all, performance obligations in the contract if all of the following criteria are met:
  (a) the entity regularly sells each distinct good or service (or each bundle of distinct goods or services) in the contract on a stand-alone basis,
  (b) the entity also regularly sells on a stand-alone basis a bundle (or bundles) of some of those distinct goods or services at a discount to the stand-alone selling prices of the goods or services in each bundle; and
  (c) the discount attributable to each bundle of goods or services described in (b) above is substantially the same as the discount in the contract and an analysis of the goods or services in each bundle provides observable evidence of the performance obligation (or performance obligations) to which the entire discount in the contract belongs.

Changes in transaction price

- After contract inception, the transaction price can change for various reasons, including the resolution of uncertain events or other changes in circumstances that change the amount of consideration to which an entity expects to be entitled in exchange for the promised goods or services.

- An entity shall allocate to the performance obligations in the contract any subsequent changes in the transaction price on the same basis as at contract inception.

- Consequently, an entity shall not reallocate the transaction price to reflect changes in stand-alone selling prices after contract inception.

- Amounts allocated to a satisfied performance obligation shall be recognised as revenue, or as a reduction of revenue, in the period in which the transaction price changes.

Contract cost

- An entity shall recognize an asset from the costs incurred to fulfil a contract only if those costs meet all of the following criteria:
  - ➢ the costs relate directly to a contract or to an anticipated contract that the entity can specifically identify (for example, costs relating to services to be provided under renewal of an existing contract or costs of designing an asset to be transferred under a specific contract that has not yet been approved)
  - ➢ the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and
  - ➢ the costs are expected to be recovered.

Costs directly attributable to a contract

- Costs that are directly attributable to a contract (or a specific anticipated contract) include any of the following:
  - direct labour (for example, salaries and wages of employees who provide the promised services directly to the customer);
  - direct materials (for example, supplies used in providing the promised services to a customer);
  - allocations of costs that relate directly to the contract or to contract activities (for example, costs of contract management and supervision, insurance and depreciation of tools and equipment used in fulfilling the contract);
  - costs that are explicitly chargeable to the customer under the contract; and
  - other costs that are incurred only because an entity entered into the contract (for example, payments to subcontractors).

Costs not directly attributable to a contract

- An entity shall recognize the following costs as expenses when incurred:
  - general and administrative costs (unless those costs are explicitly chargeable to the customer under the contract, in which case an entity shall evaluate those costs;
  - costs of wasted materials, labour or other resources to fulfil the contract that were not reflected in the price of the contract.
  - costs that relate to satisfied performance obligations (or partially satisfied performance obligations) in the contract (i.e. costs that relate to past performance); and
  - costs for which an entity cannot distinguish whether the costs relate to unsatisfied performance obligations or to satisfied performance obligations (or partially satisfied performance obligations).

Disclosure Requirements

Objective

- The objective of the disclosure requirements is for an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

- To achieve that objective, an entity shall disclose qualitative and quantitative information about all of the following:
  - its contracts with customers,
  - the significant judgements, and changes in the judgements, made in applying this Standard to those contracts; and
  - any assets recognised from the costs to obtain or fulfil a contract with a customer.

Disclosure Requirements

Contracts with customers

- Revenue recognized from contract with customers,
- any impairment losses recognised (in accordance with IFRS 9) on any receivables or contract assets arising from an entity's contracts with customers,
- Disaggregation of revenues into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors,
- Contract balances and the opening and closing balances of receivables, contract assets and contract liabilities from contracts with customers thereto,
- Performance obligations in contracts with customers,
- Transaction price allocated to remaining performance obligations,
- For performance obligations that an entity satisfies over time, an entity shall disclose both of the following:

  (a) the methods used to recognize revenue (for example, a description of the output methods or input methods used and how those methods are applied); and

  (b) an explanation of why the methods used provide a faithful depiction of the transfer of goods or services.
- For performance obligations satisfied at a point in time, an entity shall disclose the significant judgements made in evaluating when a customer obtains control of promised goods or services.

Disclosure Requirements

Determining the transaction price and the amounts allocated to performance

- Disclose information about the methods, inputs and assumptions used for all of the following:
  - determining the transaction price, which includes, but is not limited to, estimating variable consideration, adjusting the consideration for the effects of the time value of money and measuring non-cash consideration;
  - assessing whether an estimate of variable consideration is constrained;
  - allocating the transaction price, including estimating stand-alone selling prices of promised goods or services and allocating discounts and variable consideration to a specific part of the contract (if applicable); and
  - measuring obligations for returns, refunds and other similar obligations.
- An entity shall reconcile the amount of revenue recognised in the statement of profit and loss with the contracted price showing separately each of the adjustments made to the contract price, on account of discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, etc., specifying the nature and amount of each such adjustment separately.

Disclosure Requirements

Assets recognised from the costs to obtain or fulfil a contract with a customer

- An entity shall describe both of the following:

  (a) the judgements made in determining the amount of the costs incurred to obtain or fulfil a contract with a customer; and

  (b) the method it uses to determine the amortization for each reporting period.

- An entity shall disclose all of the following:

  (a) the closing balances of assets recognised from the costs incurred to obtain or fulfil a contract with a customer (in accordance with paragraph 91 or 95), by main category of asset (for example, costs to obtain contracts with customers, pre-contract costs and setup costs); and

  (b) the amount of amortization and any impairment losses recognised in the reporting period.

THANK YOU!