DIGITAL CFO SOLUTIONS • IFRS SERIES

ACTIVE STANDARD

INTERNATIONAL FINANCIAL REPORTING STANDARDS

IFRS 15 — Revenue from Contracts with Customers

One core principle, five steps, and the special cases every revenue recognition judgement eventually runs into

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PART I — CORE PRINCIPLE, SCOPE & DEFINITIONS

One Core Principle

Revenue is recognised to depict the transfer of promised goods or services, at the amount the entity expects to be entitled to in exchange.

The Core Principle

An entity shall recognise 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.

Scope — What's In, What's Out

IFRS 15 applies to contracts with customers, except those that fall within the scope of other standards — even if a transaction looks like it involves "revenue".

Lease Contracts

Scoped out to IFRS 16

Insurance Contracts

Scoped out to IFRS 17

Financial Instruments

Scoped out to IFRS 9 / 10 / 11

Non-Monetary Exchanges

Between entities in the same line of business, to facilitate sales to customers or potential customers

Key Definitions

Contract
An agreement between two or more parties that creates enforceable rights and obligations

Performance Obligation
A promise to transfer a distinct good or service, or a series of substantially the same distinct goods/services

Customer
A party that contracts with the entity for goods or services that are an output of its ordinary activities, in exchange for consideration

Transaction Price
The consideration an entity expects to be entitled to, excluding amounts collected on behalf of third parties

Contract Asset
The entity's right to consideration in exchange for transferred goods/services, conditioned on something other than the passage of time

Stand-Alone Selling Price
The price at which an entity would sell a promised good or service separately to a customer

Contract Liability
The entity's obligation to transfer goods/services for which it has already received consideration

Revenue
Income arising in the course of an entity's ordinary activities

PART II — THE FIVE-STEP MODEL

The Five-Step Model

Every revenue recognition judgement under IFRS 15 works through the same five steps, in the same order.

THE FIVE-STEP MODEL

The Five Steps, at a Glance

1	2	3	4	5
Identify the Contract	Identify Performance Obligations	Determine the Transaction Price	Allocate the Transaction Price	Recognise Revenue

Steps 1 and 2 identify what's being promised. Steps 3 and 4 price it. Step 5 decides when the revenue actually lands in profit or loss.

STEP 1 — IDENTIFY THE CONTRACT

Contract Identification Criteria

An entity accounts for a contract with a customer only when all five of the following criteria are met:

1. The parties have approved the contract and are committed to perform their obligations
2. Each party's rights regarding the goods or services can be identified
3. The payment terms for the goods or services can be identified
4. The contract has commercial substance
5. It is probable the entity will collect the consideration it will be entitled to

Combination of Contracts

Two or more contracts entered into at or near the same time with the same customer (or related parties) are combined and accounted for as a single contract if any one of the following applies:

1

Negotiated as a Package

The contracts are negotiated as a package with a single commercial objective

2

Interdependent Pricing

The consideration in one contract depends on the price or performance of the other contract

3

Single Performance Obligation

The goods or services promised are, or are part of, a single performance obligation

What Makes a Good or Service "Distinct"?

A promised good or service is distinct — and therefore a separate performance obligation — if both of the following criteria are met:

1 Capable of Being Distinct

The customer can benefit from the good or service either on its own, or together with other readily available resources.

2 Separately Identifiable

The entity's promise to transfer the good or service is separately identifiable from other promises in the contract — not just an input into a combined output.

Series of Goods & Customer Options

Series of Distinct Goods/Services

1. Substantially the same, with the same pattern of transfer to the customer
2. Each item would independently meet the "satisfied over time" criteria
3. The same measure of progress applies to each item in the series

Treated as a single performance obligation — e.g. a monthly cleaning service contract.

Customer Options — Material Rights

1. An option to acquire additional goods/services (discount vouchers, loyalty points, renewal options)
2. Gives rise to a separate performance obligation only if it provides a material right the customer would not receive without the contract
3. Revenue is deferred and recognised when the option is exercised or expires

Common in loyalty programmes and "buy more, save more" offers.

PART III — DETERMINE & ALLOCATE THE TRANSACTION PRICE

Pricing the Promise

Steps 3 and 4 turn the identified performance obligations into numbers — first pricing the whole contract, then splitting that price fairly between promises.

Five Determinants of Transaction Price

The transaction price is the consideration an entity expects to be entitled to in exchange for the promised goods or services, excluding amounts collected on behalf of third parties.

1. **Variable Consideration**
2. **Constraining Estimates**
3. **Significant Financing Component**
4. **Non-Cash Consideration**
5. **Consideration Payable to a Customer**

Variable Consideration

Consideration can vary due to discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties, or rights of return. An entity estimates the amount it expects to be entitled to.

1

Expected Value

The sum of probability-weighted amounts in a range of possible consideration outcomes — best used when an entity has a large number of contracts with similar characteristics.

2

Most Likely Amount

The single most likely amount in a range of possible outcomes — best used when a contract has only two possible outcomes (e.g. a bonus is achieved or it is not).

Constraining Estimates of Variable Consideration

Include variable consideration in the transaction price only to the extent it is highly probable that a significant reversal in the cumulative revenue recognised will not occur once the uncertainty is resolved.

STEP 3 — DETERMINE THE TRANSACTION PRICE

Financing, Non-Cash & Payments to Customers

Significant Financing Component

If contract payment timing gives the customer or the entity a significant benefit of financing, the promised consideration is adjusted for the time value of money — whether the financing is explicit or implied by the payment terms.

Non-Cash Consideration

Measured at fair value. If fair value cannot be reasonably estimated, the entity measures it indirectly by reference to the stand-alone selling price of the goods or services promised in exchange.

Consideration Payable to a Customer

Cash, credits, coupons or vouchers paid or payable to a customer are treated as a reduction of the transaction price, recognised when the later of revenue recognition or payment occurs.

Allocation Objective & Stand-Alone Selling Price

The objective is to allocate the transaction price to each performance obligation in an amount that depicts the consideration the entity expects to be entitled to for transferring those goods or services.

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The transaction price is allocated on a relative stand-alone selling price basis — the price at which the entity would sell that good or service separately to a customer. The best evidence is an observable price from selling the item separately in similar circumstances to similar customers; a list price may be evidence but cannot simply be presumed to be the stand-alone selling price.

Estimating SSP, Discounts & Later Price Changes

1

Adjusted Market Assessment

Evaluate the market and estimate the price customers in that market would be willing to pay

2

Expected Cost Plus Margin

Forecast the expected costs of satisfying the obligation, then add an appropriate margin

3

Residual Approach

Total transaction price less the sum of observable stand-alone selling prices of the other goods/services — used only in limited circumstances

A contract discount is allocated entirely to specific performance obligations only when there is observable evidence of which obligations it belongs to. Later changes in transaction price are allocated on the same basis as at inception — stand-alone selling prices are not re-estimated retrospectively.

PART IV — RECOGNISE REVENUE

When Does Control Actually Transfer?

Step 5 is where the accounting meets reality — revenue is recognised only as the customer gains control of the promised good or service.

Control — The Central Concept

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

1. Using the asset to produce goods or provide services
2. Using the asset to enhance the value of other assets
3. Using the asset to settle liabilities or reduce expenses
4. Selling or exchanging the asset
5. Pledging the asset to secure a loan
6. Holding the asset

Satisfied Over Time vs At a Point in Time

Satisfied Over Time — if ANY apply

1. The customer simultaneously receives and consumes the benefits as the entity performs
2. The entity's performance creates or enhances an asset the customer controls as it's built (e.g. work in progress)
3. The performance creates an asset with no alternative use to the entity, and the entity has an enforceable right to payment for work completed to date

Satisfied at a Point in Time — indicators

1. The entity has a present right to payment for the asset
2. The customer has legal title to the asset
3. The entity has transferred physical possession
4. The customer has the significant risks and rewards of ownership
5. The customer has accepted the asset

PART V — SPECIAL APPLICATION TOPICS

Where the Judgement Gets Harder

Modifications, licences, warranties, and principal-versus-agent calls are where the five-step model meets real commercial complexity.

Contract Modifications

A modification is a change in scope or price (or both) that both parties approve. It is accounted for as a SEPARATE contract only if both of the following apply:

1. Scope increases due to distinct additional goods/services
2. Price increases by an amount reflecting the stand-alone selling price of those additions

If NOT a separate contract, account for the unsatisfied portion as:

1 Prospectively

Remaining goods/services are distinct — treat as termination of the old contract and creation of a new one

2 Cumulative Catch-Up

Remaining goods/services are NOT distinct — part of a partially satisfied obligation, adjust revenue at the modification date

3 Combination

A mix of both — allocate the effect between the two treatments accordingly

Licensing — Right to Access vs Right to Use

Right to Access (Over Time)

1. The contract requires — or the customer reasonably expects — the entity to undertake activities that significantly affect the IP
2. The rights granted expose the customer to the positive or negative effects of those activities
3. Those activities do not transfer a separate good or service as they occur

e.g. a brand licence the licensor continues to actively develop.

Right to Use (Point in Time)

1. The licence does not meet the right-to-access criteria
2. Revenue is recognised when control of the licence transfers
3. Revenue cannot be recognised before the customer is able to use and benefit from the licence

e.g. a static software licence delivered as-is.

Warranties & Principal vs Agent

Warranties

1. Assurance-type — the product simply meets agreed specifications: accounted for under IAS 37 as a provision, not a separate performance obligation
2. Service-type — provides a service beyond assurance: a separate performance obligation, with part of the transaction price allocated to it

Principal vs Agent

1. Principal: the entity controls the good or service before transfer to the customer — recognises revenue GROSS
2. Agent: the entity's role is to arrange for another party to provide the good or service — recognises revenue NET, as a fee or commission

PART VI — CONTRACT COSTS

Costs That Sit on the Balance Sheet

Not every contract-related cost is expensed immediately — some qualify to be recognised as an asset and amortised as revenue is earned.

Costs to Obtain vs Costs to Fulfil a Contract

Costs to Obtain a Contract

1. Incremental costs the entity would not have incurred if the contract had not been won — e.g. a sales commission
2. Recognised as an asset if the entity expects to recover them
3. Practical expedient: may be expensed immediately if the amortisation period would be one year or less

Costs to Fulfil a Contract

1. Recognised as an asset only if the costs relate directly to an identifiable contract
2. The costs generate or enhance resources used in satisfying future performance obligations
3. The costs are expected to be recovered

PART VII — ILLUSTRATION & DISCLOSURES

Putting It All Together

A worked example applying all five steps, followed by the disclosures that let users see the judgements behind the numbers.

WORKED ILLUSTRATION

Applying the Five-Step Model — Scenario

SCENARIO

Nova Systems Ltd sells a hardware device bundled with a 2-year software support and updates plan for a combined contract price of $12,000, payable upfront. Sold separately, the hardware's stand-alone selling price is $8,000 and the 2-year support plan's is $4,000.

Five-Step Application	Conclusion
Step 1 — Contract	All 5 criteria met: signed contract, clear rights & payment terms, commercial substance, collection probable
Step 2 — Performance Obligations	Two distinct POs: (a) the hardware device, (b) the 2-year support & updates service
Step 3 — Transaction Price	$12,000 fixed consideration, no variable elements or financing component

WORKED ILLUSTRATION

Applying the Five-Step Model — Solution

Step 4 — Allocate the Transaction Price (Relative Stand-Alone Selling Price)

Performance Obligation	SSP	% of Total	Allocated Price
Hardware device	$8,000	66.7%	$8,000
2-year support & updates	$4,000	33.3%	$4,000
Total	**$12,000**	**100%**	**$12,000**

Step 5 — Recognise Revenue

The hardware device transfers control at a point in time, on delivery — Nova Systems recognises $8,000 of revenue immediately. The support & updates plan is a stand-ready obligation satisfied over time — the $4,000 allocated to it is recognised evenly over the 2-year term, i.e. $2,000 per year ($166.67 per month). Until earned, the unrecognised portion sits on the balance sheet as a contract liability.

DISCLOSURES

Disclosure Objective & Core Areas

The objective is to disclose sufficient qualitative and quantitative information for users to understand the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers.

1. Disaggregation of revenue into categories depicting how economic factors affect its nature, amount, timing and uncertainty

2. Contract balances — opening and closing receivables, contract assets and contract liabilities

3. Performance obligations — when typically satisfied, significant payment terms, and remaining transaction price allocated to unsatisfied obligations

4. Methods used to recognise revenue for obligations satisfied over time, and judgements for those satisfied at a point in time

Judgements, Pricing & Contract Costs

1

Significant Judgements

The judgements, and changes in judgements, made in applying the standard to the entity's contracts

2

Determining & Allocating the Price

Methods, inputs and assumptions used for estimating variable consideration, adjusting for financing, measuring non-cash consideration, and estimating stand-alone selling prices

3

Contract Cost Assets

Judgements in determining the costs to obtain or fulfil a contract, the amortisation method used, and closing balances by major category

THANK YOU

IFRS 15 — Revenue from Contracts with Customers

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A Career Built on Making IFRS Understandable

B D Chatterjee is a Chartered Accountant and financial thought leader with over 35 years of global experience spanning corporate finance, accounting standards, financial reporting, business valuation and financial due diligence. As a seasoned CFO, he has led finance functions across major corporations and now heads Digital CFO Solutions, a platform delivering institutional-grade IFRS, US GAAP and valuation workbooks alongside fractional CFO services.

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Digital CFO Solutions provides institutional-grade Excel-based CFO workbooks, fractional CFO advisory, and published finance literature on IFRS, US GAAP, business valuation and financial due diligence.

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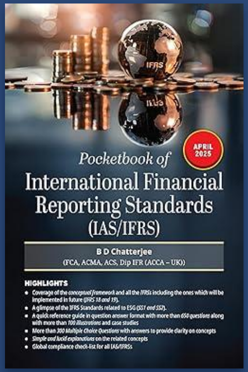
Books by B D Chatterjee — IFRS Library



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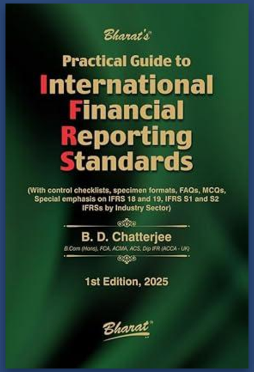
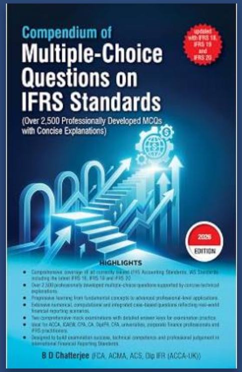
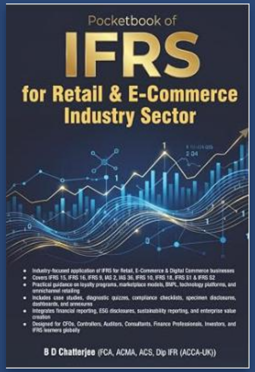


Practical Guide to International Financial Reporting Standards

Pocketbook of IFRS 18 — Presentation, Analysis & Industry Applications



Compendium of Multiple-Choice Questions on IFRS Standards



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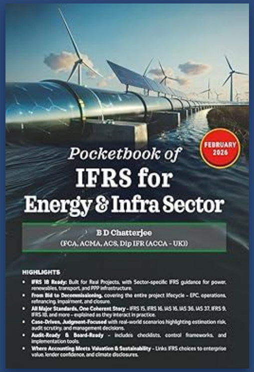

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