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IFRS® Standard 15 Revenue from Contracts with Customers

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CASE STUDY – IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

Introduction

The recognition of revenue in accounting is a significant and complex issue. With the development of new forms of business, the content of contracts signed with customers has changed due to new marketing tools, new pricing systems, new methods for the delivery of goods and the conditions of the provision of services as well as other factors. IFRS® Standard 15 Revenue from Contracts with Customers was introduced by the IASB to provide a single comprehensive revenue recognition model for all contracts with customers in order to reflect relevant changes and developments in the business world.

It is very important for the recognition of revenue and recording it in accounting to establish the elements and content of the contract. This recognition includes five stages: 1) contract identification; 2) combination of related contracts; 3) identification of existing contract modification; 4) identification of performance obligations; 5) fulfilment of the obligations. The composition of the transaction price can vary, so it is very important to identify different elements of prices set in contracts, namely variable and fixed price elements. Moreover, in order to allocate the transaction price for each obligation fulfilled, it is necessary to refer to the contract signed, and to assess whether separate prices were set for a specific good or service in the contract or whether a proportional calculation needs to be applied, i.e. adjusted market assessment, expected cost plus a margin or residual approaches.

Aim of this case study is to provide understanding of the principles and rules on how revenue received from the contracts signed with customers should be accounted, taking into account the size, nature, timing and other aspects of the cash flow and revenue.

The Case Information

Company "Beauty Goods" (BG) engages in wholesale trade and trades in beauty products. In order to maintain customer loyalty, BG concludes contracts with customers for the sale of goods and contracts related to the delivery of goods. Contracts cover a variety of aspects, from concessions to penalties for non-fulfilment.

One of such regular customers is the company "Beauty House" (BH). BG has concluded several contracts with BH for the supply of goods and services. The following information is known about these contracts and related events:

Data	Information
July 26, 20xx	A contract was concluded for a period of 12 months and covers: ✓ Selling goods without the full ready-to-use preparation service, CU1,000 per unit; ✓ A 9% discount will be applied for orders over CU50,000; ✓ The payment term will be 30 days; ✓ If the payment is made within 5 days after the completion of the order, an additional 1% discount will be applicable;

	✓ The delayed payment fine is 0.2% per day.
August 1, 20xx	A contract was concluded for a period of 12 months and covers: ✓ Transportation of good shall cost CU500 per order; ✓ Transportation must be provided within 3 days of order confirmation; ✓ The delayed transportation fee is CU10 per day; ✓ The payment term will be 30 days; ✓ The delayed payment fine is 0.2% per day.
August 5, 20xx	The customer ordered 55 units of goods and transportation.
August 6, 20xx	The order of 5 August 20xx was completed.
August 9, 20xx	The customer has paid for the order.
September 5, 20xx	The customer ordered 25 units of goods and transportation.
September 10, 20xx	The order of 5 September was completed (there was a delay in transportation).
September 25, 20xx	The customer has paid for the order.
October 3, 20xx	An amendment to the 26 July 20xx contract was concluded, which provides: ✓ Selling goods with the full ready-to-use preparation, CU1,050 per unit; ✓ All other conditions remain valid under the original contract concluded on 26 July 20xx; ✓ The conditions of transportation remain valid under the contract concluded on 1 August 20xx.
October 5, 20xx	The customer ordered 50 units of goods and transportation.
October 6, 20xx	The order of 5 October was completed.
October 31, 20xx	The customer has paid for the order.

Discussion Questions

1. Analyse the case study according to the stages of revenue recognition from contracts with customers.

2. Discuss the elements of transaction price in this case study between BG and BH companies.

3. Identify the method that can be used to calculate the stand-alone selling price of a goods and services.

SOLUTION FOR CASE STUDY – IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

It is known that the following transactions have taken place in relation to all contracts between BG and BH:

Month	**Goods**	**Delivery**	**Customer Payment**
August, 20xx	✓ On time ✓ Exceeds CU50,000	On time	✓ On time ✓ Payment is made within 5 days
September, 20xx	On time	Delayed	On time
October, 20xx	✓ On time ✓ Exceeds CU50,000	On time	On time

The following is the solution to decide how BG should apply the IFRS 15 for recognition of revenue from contracts with BH:

Stages	Identification of elements and content of a contract
1. Contract identification	Contract to sell goods.
2. Combination of related contracts	Related contract for the transportation of goods.
3. Identification of contract modification	Two months later, additional preparation service for goods has been ordered.
4. Identification of performance obligations	There are two obligations: ✓ To sell goods without and with the full ready-to-use preparation service; ✓ To provide the transportation service within 3 days after the order. The transaction price set for obligations consists of fixed and variable price elements. Fixed price elements for goods are as follows: ✓ without the full ready-to-use preparation service the price of goods is CU1,000; ✓ for goods with the full ready-to-use preparation service the price is CU1,050; Variable price elements for goods are as follows: ✓ 9% discount will be applicable for orders over CU50,000; ✓ additional 1% discount will be applicable, if the payment is made within 5 days; ✓ the delayed payment fine is 0.2% per day; Fixed price elements for transportation are as follows: ✓ for transportation of goods, the price is CU500 per order; Variable price elements for transportation: ✓ the delayed transportation fee is CU10 per day; ✓ the delayed payment fine is 0.2% per day;

5. Fulfilment of the obligations	Throughout all the months, both obligations were fulfilled – goods were sold and transported. Revenue was recognized in accordance with the identification of obligation and the allocation of price. In August: *Goods sold 55 units x CU1000 = CU55,000* *Discount (goods) CU55000x 9% = CU4,950* *Discount (payment) CU55000x 1%= CU550* *Transportation service CU500 x 1 order = CU500* *Total revenue: CU55000– CU4950 - CU550+CU500= CU50,000* In September: *Goods sold 25 units x CU1000 = CU25,000* *Transportation service CU500 x 1 order = CU500* *Delayed transportation fee CU10*2=CU20* *Total revenue: CU25000+ CU500-CU20= CU25,480* In October: *Goods sold 50 units x CU1000 = CU50,000** *Full ready-to-use preparation service 50 units x CU50 = CU2,500* *Discount (goods) CU52500x 9% = CU4,725* *Transportation service CU500 x 1 order = CU500* *Total revenue: CU50000+ CU2500 - CU4725+CU500= CU48,275* **The entity has applied a separate selling price in reference to the total contract price minus the sum of the observed separate selling prices of other goods or services promised in the other contracts.*