PASSFR.EU

A Digital Learning Platform for Generation Z:
Passport to IFRS®

IFRS® Standard 15 Revenue from Contracts with Customers

TÜRKİYE ULUSAL AJANSI

Co-funded by the
Erasmus+ Programme
of the European Union

Why Revenue from Contracts with Customers Recognition is Important?

What is the Aim of IFRS Standard 15?

- **IFRS Standard 15 defines how an entity must recognize revenue related to the delivery of the promised services or goods to their customers.**

What is the Aim of IFRS Standard 15?

- IFRS Standard 15 defines how an entity must recognize revenue related to the delivery of the promised services or goods to their customers.
- **The IFRS Standard 15 is intended to account for each individual contract, but in practice, the accounting may be performed for contracts with parallel characteristics or to a portfolio of** contracts, depending on the size and composition of the portfolio.

What is Main Definition?

Contract	refers to an agreement establishing enforceable rights and obligations between several (two or more) parties.

What is Main Definition?

Contract	refers to an agreement establishing enforceable rights and obligations between several (two or more) parties.
Customer	refers to a party seeking to obtain goods or services that result from the regular activities of an entity and enters into a contract with such entity.

What is Main Definition?

Contract	refers to an agreement establishing enforceable rights and obligations between several (two or more) parties.
Customer	refers to a party seeking to obtain goods or services that result from the regular activities of an entity and enters into a contract with such entity.
Revenue	refers to income from the ordinary activities of the entity.

Recognition of Revenue from Contracts with Customers

Stages of Revenue Recognition from Contracts with Customers

1 stage. Contract identification

2 stage. Combination of related contracts

3 stage. Identification of contract modification

4 stage. Identification of performance obligations

5 stage. Fulfilment of the obligations

Stages of Revenue Recognition from Contracts with Customers

1 stage. Contract identification

2 stage. Combination of related contracts

3 stage. Identification of contract modification

4 stage. Identification of performance obligations

5 stage. Fulfilment of the obligations

Stages of Revenue Recognition from Contracts with Customers

1 stage. Contract identification

2 stage. Combination of related contracts

3 stage. Identification of contract modification

4 stage. Identification of performance obligations

5 stage. Fulfilment of the obligations

Stages of Revenue Recognition from Contracts with Customers

1 stage. Contract identification

2 stage. Combination of related contracts

3 stage. Identification of contract modification

4 stage. Identification of performance obligations

5 stage. Fulfilment of the obligations

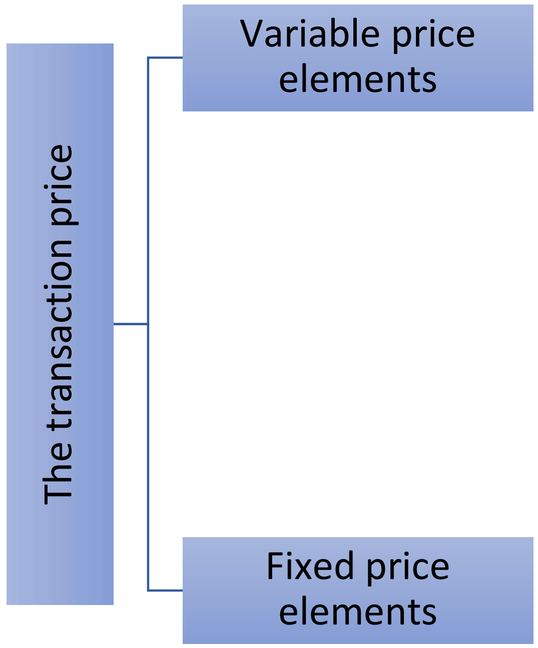
Stages of Revenue Recognition from Contracts with Customers

- 1 stage. Contract identification
- 2 stage. Combination of related contracts
- 3 stage. Identification of contract modification
- 4 stage. Identification of performance obligations
- 5 stage. Fulfilment of the obligations

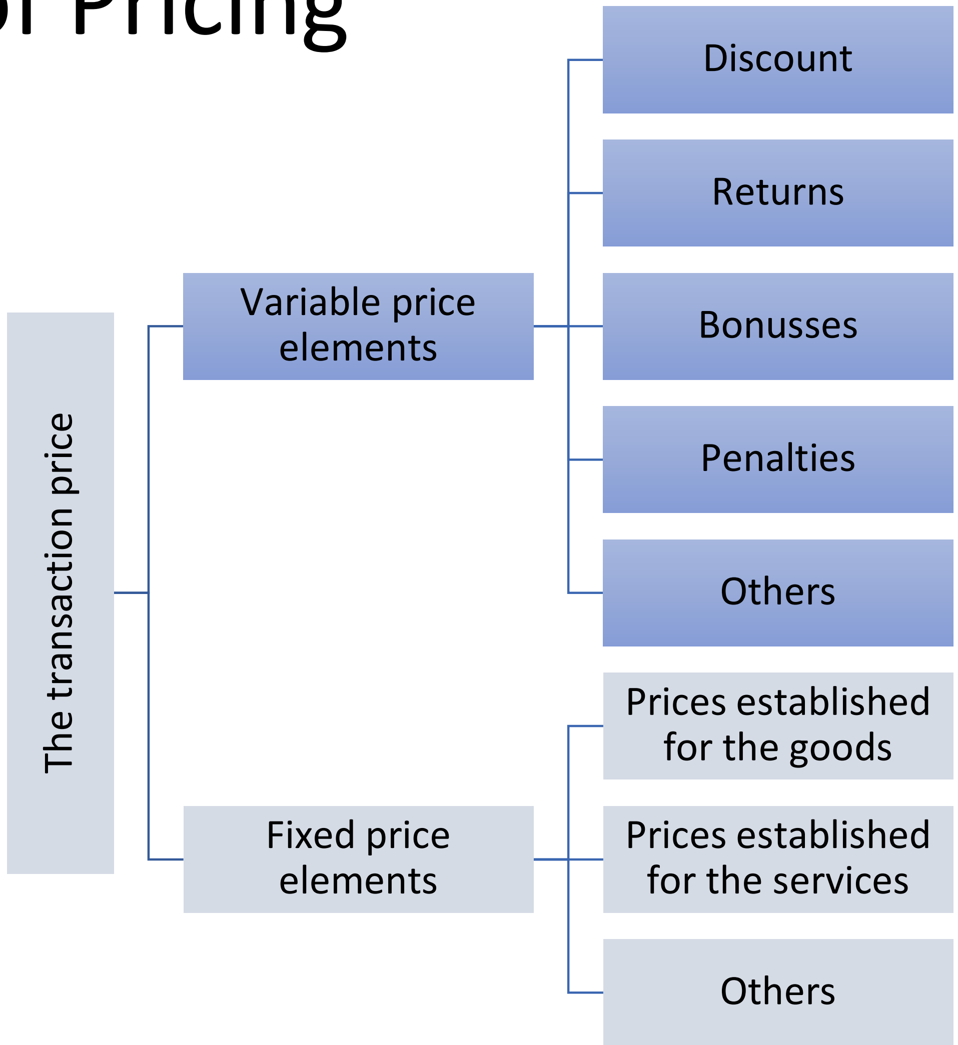
Revenue Measurement

- Step 1. Determination of the transaction price
- Step 2. Price allocation for the obligations fullfilled
- Step 3. Estimation of price changes

Elements of Pricing



Elements of Pricing



Variable Pricing Examples

Variable price depends on **Promised goods or services**

- The advertising brochure printing entity has set the following prices in the long-term contract with the customer:
  - when up to 10,000 pieces of brochures are ordered per month, the price is CU3.0 per unit;
  - when 10,000–15,000 pieces of brochures are ordered per month, the price is CU2.5 per unit;
  - when 15,000 pieces of brochures are ordered per month, the price is CU2.0 per unit.

Variable Pricing Examples

Variable price depends on **Future aspects**

- The paper manufactory sets the following pricing in a contract with customers.
- When a customer orders paper products for more than CU10,000 per month, the said customer is given 10% discount.

Variable Pricing Examples

Variable price depends on **Entity policy**

- In the contract with a customer, the entities set penalty at the rate of 0.05% for late payment.
- However, the entity’s internal policy establishes a 3-day grace period, where no penalty is charged to the customer, if the said customer is late with the payment for up to 3 days after the deadline.

What are the Methods to Estimate the Amount of Variable Price?

- ➢The methods of **expected value**
- ➢The methods of the **most likely amount**

The Methods of Expected Value

- The estimated value is the sum of the probability-weighted amounts from the range of possible amounts.
- The expected value may be an adequate estimate of the amount of a variable price, provided the entity has several contracts with similar characteristics.

The Methods of the Most Likely Amount

- The most probable amount is the only most probable amount in the range of possible consideration amounts.
- The most likely amount may be an appropriate estimate of the amount of variable consideration, provided the contract has only two possible outcomes.

Role of Financing Component

Example, if Financing Component is Significant

Both of the following should be considered:

1) the difference between the price promised (consideration) and the cash price of the goods or services promised;

Example, if Financing Component is Significant

Both of the following should be considered:

1) the difference between the price promised (consideration) and the cash price of the goods or services promised;

2) the combined effect of both of these factors:

- the estimated time from the moment the goods/services are delivered to the customer until the time the customer pays for it;
- and interest rates prevailing in the relevant market.

Example, if Financing Component is Significant

On July 5, 20xx, an entity signed a contract with the customer for the sale of the goods, which is a new product in the market. The contract establishes the sale price of goods as CU130,000. In the contract, the entity provided conditions for a financing scheme and undertook to compensate the customer for its losses, if the customer experienced them due to the fall of the price of the goods in the market. The loss is expected to be offset, if the price of goods falls until November 1, 20xx. The entity has no information on the amount of losses that may need to be compensated.

Example, if Financing Component is Significant

On October 12, 20xx, due to the false information about the quality of goods in the fake news, the price of goods on the market began to fall. Until November 1, 20xx the customer sold 20% of the goods. It is estimated that from October 12 to 1 November, the entity must compensate the customer 10% for the decrease of the selling price on the market from the selling price of 20% of the goods sold.

Example, if Financing Component is Insignificant

Whether any of the following factors exists:

1) the customer has paid for the goods/services in advance and the time for the delivery depends on the customer;

Example, if Financing Component is Insignificant

Whether any of the following factors exists:

1) the customer has paid for the goods/services in advance and the time for the delivery depends on the customer;

2) a significant part of the transaction price is variable, and the amount or timing of that price varies depending on the future event or the customers;

Example, if Financing Component is Insignificant

Whether any of the following factors exists:

1) the customer has paid for the goods/services in advance and the time for the delivery depends on the customer;

2) a significant part of the transaction price is variable, and the amount or timing of that price varies depending on the future event or the customers;

3) the difference between the transaction price promised and the cash sale price of the good/service arises for reasons other than financing to the customer or the entity, and the difference between those amounts is proportionate to the reason for the difference.

Examples, if Financing Component is Insignificant

On July 5, 20xx, a entity signed an contract with the customer for the sale of the goods. The contract establishes the sale price of goods for CU130,000. The contract establishes the delivery of goods only after receiving the customer's advance payment. The delivery term specified in the contract is 30 days.
The customer paid on August 25, 20xx, and the goods were delivered on September 20, 20xx.

Examples, if Financing Component is Insignificant

On September 10, 20xx, information was received about market changes, which caused the value of goods to fall by 15% in the market and the customer will suffer a loss.
In this case, the entity is not obliged to adjust the promised amount of remuneration to the customer.

Payment Methods

- Non-cash payment
- Cash payment
- Credit or other items (for example, a coupon or a voucher) of payment
- Debt settlement

The Stand-alone Selling Price Methods

- adjusted market assessment;
- expected cost plus a margin;
- residual approaches.

Examples of Stand-alone Selling Price Methods

Situation

The contract specifies the sale of windows together with the installation service. The contract does not set a separate price for the goods and services. The value of the transaction specified in the contract is CU20,000. The entity delivered the windows to the customer (transferred control) but did not install them yet due to the change in circumstances. In order to recognize revenue, an entity should allocate the transaction price to separate obligations (goods – windows; services – installation).

Adjusted Market Assessment

Examples of Stand-alone Selling Price Methods: Adjusted Market Assessment

An entity has chosen to apply the adjusted market assessment methods for the valuation of windows price. It was determined that the market value of windows is CU14,000. The price distributed for windows is CU14,000 and CU6,000 for installation works.

Expected Cost Plus a Margin

Expected Cost Plus a Margin

An entity has chosen to apply the expected cost plus a margin method for the valuation of price for windows. It was determined that the manufacturing costs for windows was CU11,000 and expected margin is 20%. The price is distributed for windows CU13,200 and for installation works it is CU6,800.

Residual

Residual

An entity has chosen to apply residual methods for the valuation of price for windows. It is known that on the basis of the contract signed with other customers (at a similar time), the price for the same window was CU13,000. The price is distributed for windows CU13,000 and for installation works it is CU7,000.

What is Procedures of Costs Accounting Related with Customers Contracts?

- **Incremental costs incurred in concluding a contract must be recognized as an asset, provided it is known that these costs would not have been incurred in cases, when the contract has not been obtained.**

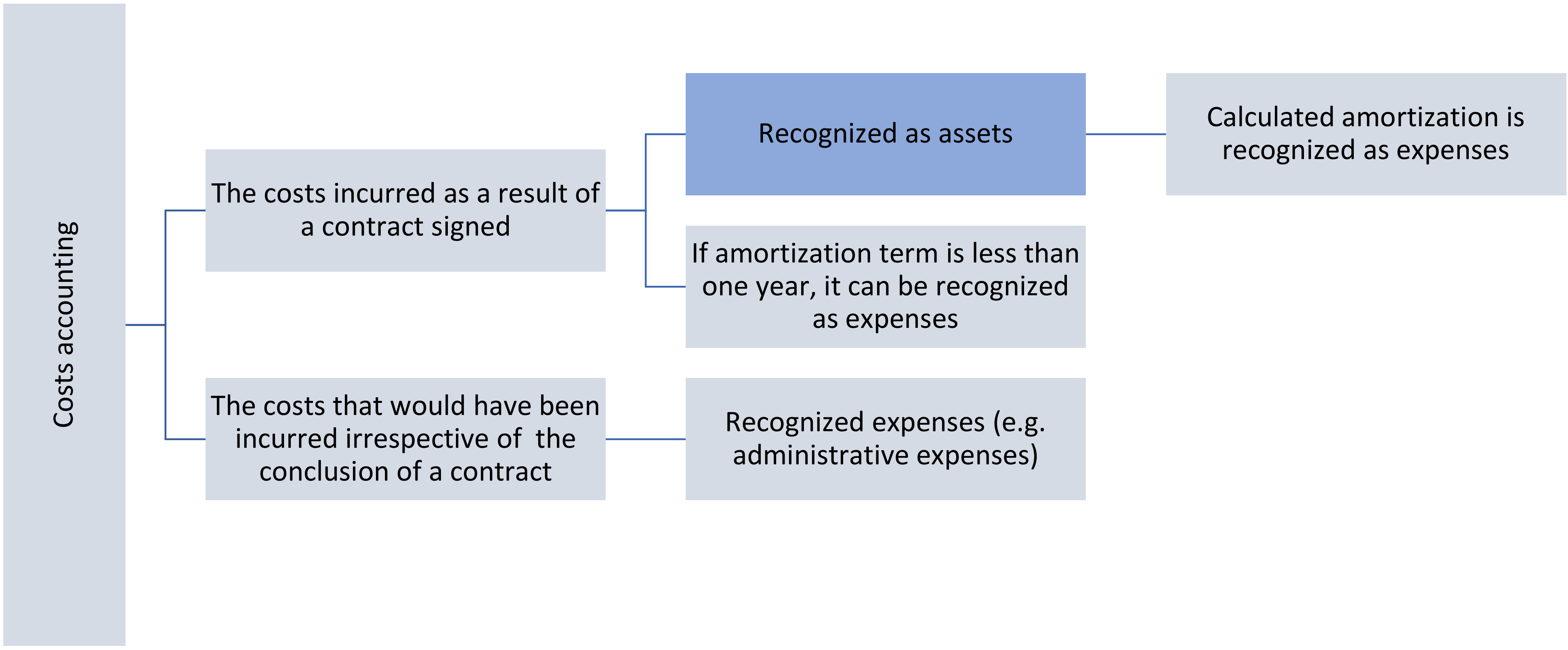
What is Procedures of Costs Accounting Related with Customers Contracts?

- Incremental costs incurred in concluding a contract must be recognized as an asset, provided it is known that these costs would not have been incurred in cases, when the contract has not been obtained.
- **Incremental costs of contract may be recognized as an expense immediately, provided the costs were accounted as an asset and its amortisation would be recognized as an expense in less than one year.**

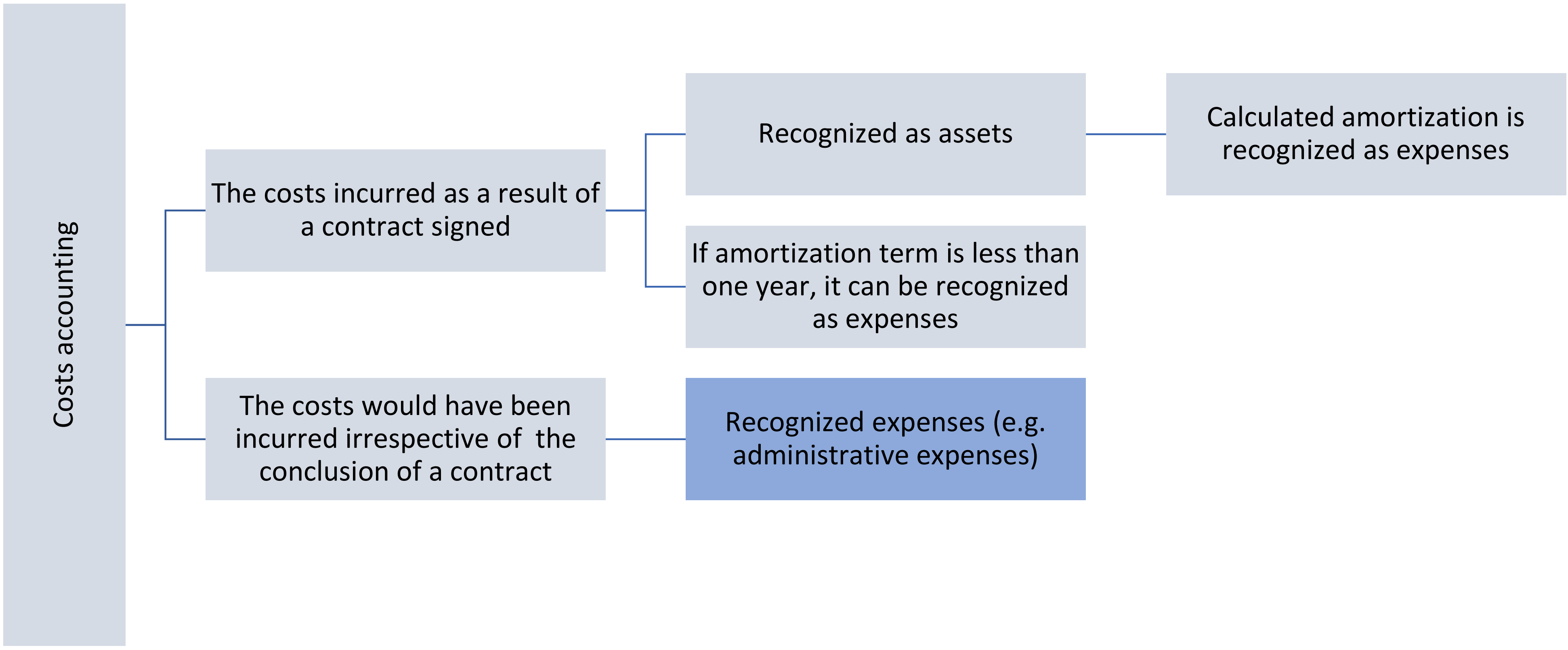
What is Procedures of Costs Accounting Related with Customers Contracts?

- Incremental costs incurred in concluding a contract must be recognized as an asset, provided it is known that these costs would not have been incurred in cases, when the contract has not been obtained.
- Incremental costs of contract may be recognized as an expense immediately, provided the costs were accounted as an asset and its amortisation would be recognized as an expense in less than one year.
- **Incremental costs must be recognized as expenses directly, provided the costs incurred independently of the contract signed.**

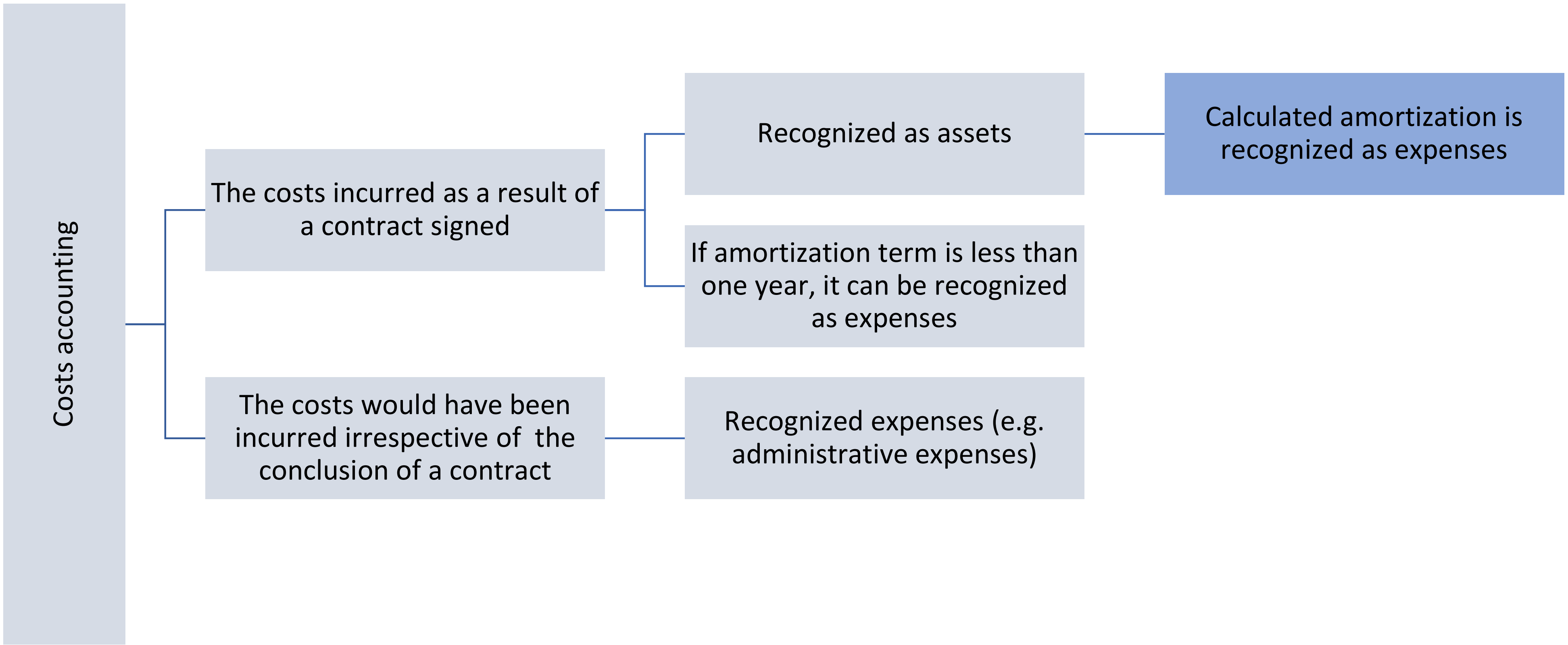
Costs Accounting



Costs Accounting



Costs Accounting



Disclosures in Financial Statement

- **Financial information disclosure is necessary to understand the amount, nature, timing and uncertainty of the revenue and cash flows related to customer's contracts.**

Disclosures in Financial Statement

- Financial information disclosure is necessary to understand the amount, nature, timing and uncertainty of the revenue and cash flows related to customer's contracts.
- **The level of detail of the information is determined by the entity to be sufficient to disclose the information. When providing information, an entity should aggregate or disaggregate the information, so that the useful information would not be obscured by various insignificant details.**

Disclosures in Financial Statement

- Financial information disclosure is necessary to understand the amount, nature, timing and uncertainty of the revenue and cash flows related to customer's contracts.
- The level of detail of the information is determined by the entity to be sufficient to disclose the information. When providing information, an entity should aggregate or disaggregate the information, so that the useful information would not be obscured by various insignificant details.
- **A set of financial statements prepared by an entity must disclose information about revenue recognition resulting from contracts with customers, display them separately of other revenue, provide information about any impairment losses recognized on contract assets or any receivables arising from the entity contracts, which must be disclosed individually from the amounts of other contracts.**

Disclosures in Financial Statement

- **Revenue information disclosure is related to the operating segments, provided the entity applies IFRS 8 Standard Operating Segments.**

Disclosures in Financial Statement

- Revenue information disclosure is related to the operating segments, provided the entity applies IFRS 8 Standard Operating Segments.
- **An entity shall disclose information about the opening and closing balances of receivables, assets and liabilities related to contracts; revenue recognized in the period that is included in the contract liability balance; and revenue recognized in the period from performance obligations satisfied during the previous periods.**

Disclosures in Financial Statement

Disclosure Example No. 1

<table>
<tr><td colspan="3">Notes to the financial statement: Contract liabilities
When purchasing the goods, customers often make a prepayment. Advances paid by customers are settled when the goods are sold and its usually takes up to 6 months. A customer may hold extended warranties for the purchase of goods which are recognized in revenue over the warranty period (up to 3 years).</td></tr>
<tr><td>Liabilities (20x3)</td><td>Liabilities (20x2)</td><td>Liabilities (20x1)</td></tr>
<tr><td>Advances from customers</td><td>Advances from customers</td><td>Advances from customers</td></tr>
<tr><td>Extended warranties</td><td>Extended warranties</td><td>Extended warranties</td></tr>
<tr><td>Total:</td><td>Total:</td><td>Total:</td></tr>
</table>

Disclosures in Financial Statement

Disclosure Example No. 2

<table>
<tr><td colspan="5">The table below shows the methods used to recognize revenue over time. Methods were applied in our services reflecting the variability in contracts with customers and performance obligations.</td></tr>
<tr><td rowspan="2">Methods</td><td colspan="4">Services</td></tr>
<tr><td>Software license</td><td>Computer Services</td><td>Support Services</td><td>Consulting</td></tr>
<tr><td>Costs incurred</td><td>X</td><td>X</td><td>X</td><td></td></tr>
<tr><td>Labour hours expended</td><td></td><td>X</td><td>X</td><td>X</td></tr>
</table>

Practical Example

- **It is known that on 2 June, 20xx, a entity entered into a contract with a customer in regard to the sale of the smart tables for the period of 12 months.**

Practical Example

- It is known that on 2 June, 20xx, a entity entered into a contract with a customer in regard to the sale of the smart tables for the period of 12 months.
- **The price set in contracts was CU120 per unit.**

Practical Example

- It is known that on 2 June, 20xx, a entity entered into a contract with a customer in regard to the sale of the smart tables for the period of 12 months.
- The price set in contracts was CU120 per unit.
- **The contract had a condition for a discount, i.e. the discount was applicable, if orders for the table per month amounted to CU10,000. The rate of the discount was 5% of the total sales value.**

Practical Example

- It is known that on 2 June, 20xx, a entity entered into a contract with a customer in regard to the sale of the smart tables for the period of 12 months.
- The price set in contracts was CU120 per unit.
- The contract had a condition for a discount, i.e. the discount was applicable, if orders for the table per month amounted to CU10,000. The rate of the discount was 5% of the total sales value.
- **The other condition of contracts was set that a customer must pay for goods after received invoice per 14 days. The delayed payment fine was 0.2% per day.**

Practical Example

- **An entity entered into one more contract on 2 June, 20xx with the customer for the transportation services.**

Practical Example

- An entity entered into one more contract on 2 June, 20xx with the customer for the transportation services.
- **The transportation service price is CU200 per order.**

Practical Example

- An entity entered into one more contract on 2 June, 20xx with the customer for the transportation services.
- The transportation service price is CU200 per order.
- **The conditions for the customer payment included settling the invoice received within 14 days.**

Practical Example

- An entity entered into one more contract on 2 June, 20xx with the customer for the transportation services.
- The transportation service price is CU200 per order.
- The conditions for the customer payment included settling the invoice received within 14 days.
- **The delayed payment fee was 0.02% per day.**

Practical Example

- An entity entered into one more contract on 2 June, 20xx with the customer for the transportation services.
- The transportation service price is CU200 per order.
- The conditions for the customer payment included settling the invoice received within 14 days.
- The delayed payment fee was 0.02% per day.
- **Transportation services were to be provided within 10 days after the customer had placed an order for goods. The contract condition for the delay of goods transportation was set at 5% for each day delayed.**

Practical Example

- On 1 August, 20xx the contract had a modification, and the discount rate was increased to 6%, provided the amount for orders per month was more than CU12,000.

Month	Sold Smart Tables	Goods Delivery	Customer Payment
June, 20xx	1st order 60 units; 2nd order 50 units	On time	On time
July, 20xx	3rd order 60 units; 4th order 60 5units	3rd – on time; 4th – delay of 3 days	On time
August, 20xx	5th order 70 units; 6th order 40 units	On time	5th – on time; 6th – delay of 5 days

Practical Example

Contract identification	**Contract to sell smart tables.**
Combination of related contracts	Related contract for goods transportation.
Identification of contract modification	After two months, the discount conditions have changed.

Practical Example

Identification of performance obligations	There are two obligations: • To sell smart tables; • To provide transportation services within 10 days after the order for the goods has been placed.

Practical Example

Identification of performance obligations	There are two obligations: • To sell smart tables; • To provide transportation services within 10 days after the order for the goods has been placed. The transaction price is set for obligations: • Smart tables – price CU120 per unit; discount 5%, if monthly sales per month are more than CU10,000 for June and July, 20xx and discount 6%, if sales per month are more than CU12,000 since August, 20xx; the payment delay fine is 0.2% per day. • Transportation – price CU200 per order; the payment delay fine is 0.02% per day; the delivery delay fine 5% per day.

Practical Example

Fulfilment of the obligations	In June, both obligations were fulfilled – goods were sold and transported. Revenue was recognized in accordance with the identification of obligation and the allocation of price. Revenue amount was CU12,940 calculated as: *Sales revenue 110 units x CU120 = CU13,200* *Discount CU13,200 x 5% = CU660* *Transportation revenue CU200 x 2 order = CU400* *Total revenue: CU13,200 – CU660 + CU400 = CU12,940*

Practical Example

Fulfilment of the obligations	In July, both obligations were fulfilled – goods sold and transported. Revenue was recognized in accordance with the identification of obligation and the allocation of price. Revenue amount was CU14,050 calculated as: *Sales revenue 120 units x CU120 = CU14,400* *Discount CU14,400 x 5% = CU720* *Transportation revenue CU200 x 2 order = CU400* *Fine delivery untimely CU200 x 5% x 3 days = CU30* *Total revenue: CU14,400 – CU720 + CU400 – CU30 = CU14,050*

Practical Example

Fulfilment of the obligations	In August, both obligations were fulfilled – goods sold and transported. Revenue was recognized in accordance with the identification of obligation and the allocation of price. Revenue amount was CU12,856 calculated as: *Sold goods 110 units x CU120 = CU13,200* *Discount CU13,200 x 6% = CU792* *Fine for payment delay 40 units x CU120 x 0.2% x 5 days = CU48* *Transportation CU200 x 2 order = CU400* *Total revenue: CU13,200 – CU792 + CU48 + CU400 = CU12,856*

Practical Example

- **The example introduced shows that several contracts may be related, and the variable price element specified in the contract may affect the revenue recognition, and the amount may be different in different periods.**

Practical Example

- The example introduced shows that several contracts may be related, and the variable price element specified in the contract may affect the revenue recognition, and the amount may be different in different periods.
- **Therefore, it is important to follow the steps recommended by IFRS for identification of the contract, the obligations defined in it, the established price elements and properly assigning the price to the respective obligations.**

Practical Example

- The example introduced shows that several contracts may be related, and the variable price element specified in the contract may affect the revenue recognition, and the amount may be different in different periods.
- Therefore, it is important to follow the steps recommended by IFRS for identification of the contract, the obligations defined in it, the established price elements and properly assigning the price to the respective obligations.
- **Then the revenue recorded in the accounts will show the correct performance of the entity.**

PASSFR.EU

A Digital Learning Platform for Generation Z:
Passport to IFRS®

Co-funded by the
Erasmus+ Programme
of the European Union