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IFRS 15 *Revenue from Contracts with Customers*

Presenter:
Anton van Wyk M. Com CA (SA)

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Anton van Wyk M. Com CA (SA)

Anton van Wyk is a **chartered accountant** and independent consultant in International Financial Reporting Standards (IFRS and IFRS for SMEs). As former subject head of Financial Accounting at various higher education providers (including the University of Johannesburg and Monash University South Africa), he has gained valuable insights into and understanding of the important principles underlying the International Financial Reporting Standards (IFRS). Anton is a well-known and popular presenter who has presented numerous IFRS updates for several accounting bodies across South Africa. He is known for his ability to simplify and highlight the most important principles contained in IFRS, whilst keeping the learning process enjoyable for attendees.

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Welcome to the webinar

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IFRS 15 *Revenue from Contracts With Customers*

<u>Agenda</u>

1. Overview/introduction to IFRS 15
2. Scope and applicability of IFRS 15
3. Important definitions to understand
4. The 5-step revenue model of IFRS 15
5. Presentation of revenue balances
6. Disclosure of revenue

Standards replaced by IFRS 15

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- IFRS 15 issued May 2014, effective for periods beginning on/after 1 January 2017 (earlier application is permitted)
- IFRS 15 supersedes 6 pronouncements:
    - IAS 18 *Revenue*
    - IAS 11 *Construction Contracts*
    - IFRIC 13 *Customer Loyalty Programmes*
    - IFRIC 15 *Agreements for the Construction of Real Estate*
    - IFRIC 18 *Transfers of Assets from Customers*
    - SIC-31 *Revenue – Barter Transactions Involving Advertising Services*

Why a new standard for revenue recognition?

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- Single model for revenue recognition
  - Before: IAS 18 versus IAS 11, plus other interpretations issued

- The standard is principle-based (a focus on liabilities, i.e. SOFP approach)

- A new 5-step model to be applied to all contracts with customers

IFRS 15 Roadmap

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- Objective (.1 to .4)
- Scope (.5 to .8)
- Recognition
  - *Identifying the contract (.9 to .16)* **STEP 1**
  - *Combination of contracts (.17)*
  - *Contract modifications (.18 to .21)*
  - Identifying performance obligations (.22 to .30) **STEP 2**
    - Promises in contracts with customers
    - Distinct goods or services
  - Satisfaction of performance obligations (.31 to .45) **STEP 5**
    - Performance obligations satisfied over time
    - Performance obligations satisfied at a point in time
    - Measuring progress towards complete satisfaction of a performance obligation
      - Methods for measuring progress
      - Reasonable measures of progress

IFRS 15 Roadmap (cont.)

- Measurement
  - Determining the transaction price (.46 to .72) **STEP 3**
    - Variable consideration
      - Refund liabilities
      - Constraining estimates of variable consideration
      - Reassessment of variable consideration
    - Existence of a significant financing component in the contract
    - Non-cash consideration
    - Consideration payable to a customer
  - Allocating the transaction price to performance obligations (.73 to .86)
    - Allocation based on stand-alone selling prices
    - Allocation of a discount **STEP 4**
    - Allocation of variable consideration
  - Changes in the transaction price (.87 to .90)

IFRS 15 Roadmap (cont.)

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- Contract costs
  - Incremental costs of obtaining a contract (.91 to .94)
  - Costs to fulfil a contract (.95 to .98)
  - Amortisation and impairment (.99 to .104)
- Presentation (.105 to .109)
- Disclosure (.100 to .129)
  - Contracts with customers
    - Disaggregation of revenue
    - Contract balances
    - Performance obligations
    - Transaction price allocated to the remaining performance obligations
  - Significant judgements in the application of IFRS 15
    - Determining the timing of the satisfaction of performance obligations
    - Determining the transaction price and the amounts allocated to performance obligations
  - Assets recognised from the costs to obtain or fulfil a contract with a customer
  - Practical expedients
- Appendix A
- Appendix B (Application Guidance)
- Illustrative examples

Scope exclusions from IFRS 15

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IFRS 15 **applies to ALL contracts with customers**, except the following:

- Leases within scope of IFRS 16 *Leases*
- Contracts within the scope of IFRS 17 *Insurance Contracts*
- Financial instruments (and other contractual rights and obligations) within the scope of IFRS 9 *Financial Instruments*
- Investments governed by:
  - IAS 27 *Separate Financial Statements*
  - IFRS 10 *Consolidated Financial Statements*
  - IFRS 11 *Joint Arrangements*
  - IAS 28 *Investments in Associates and Joint Ventures*
- Non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers (e.g. “stock lending”)

IFRS 15 is only applied to contracts where the counterparty is a customer (i.e. no mutual sharing of risks and benefits, e.g. collaboration agreements (in the latter there is no party that is a customer that benefits from the outputs of the entity’s ordinary activities))

Definitions (Appendix A)

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- Contract
  - An agreement between two or more parties that creates enforceable rights and obligations (written, oral etc.)
- Customer
  - A party that has contracted with an entity to obtain goods/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
- Performance obligation
  - A promise in a contract with a customer to transfer to the customer either:
    - A good or service (or a bundle of goods/services) that is distinct; or
    - A series of distinct goods/services that are substantially the same and that have the same pattern of transfer to the customer

Definitions (Appendix A)

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- Revenue
  - Income arising in the course of an entity's ordinary activities
- Transaction price
  - The amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods/services to a customer, excluding amounts collected on behalf of third parties
- Stand-alone selling price
  - The price at which an entity would sell a promised good or service separately to a customer
- 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 (e.g. 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

NB to note…

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"INCOME"

Arising from ordinary course of business with a customer → **Revenue**

Not arising from ordinary course (excl. transactions with owners) → **Other income**

The 5-step model in IFRS 15

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- Step 1: identify the contract(s) with a customer
- Step 2: identify the performance obligations in the contract

Recognition

- Step 3: determine the transaction price
- Step 4: allocate the transaction price to the performance obligations in the contract

Measurement

- Step 5: recognise revenue when (or as) the entity satisfies a performance obligation

R & M

Step 1: identify the contract with a customer

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- A contract with a customer will be within the scope of IFRS 15 when ALL of the below are met:
  - The contract has been approved by the parties to the contract
  - Each party's rights in relation to the goods/services to be transferred, can be identified
  - The payment terms for the goods/services to be transferred, can be identified
  - The contract has commercial substance (risk, timing or amount of future cash flows is expected to change because of the contract)
  - It is probable that the consideration to which the entity is entitled to in exchange for the goods/services, will be collected

Step 1: issues relating to “contracts” definition

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- Contracts that don’t meet the previous criteria as yet, are to be re-assessed on an ongoing basis until they do, and then IFRS 15 is applied from that point on
  - *Contracts that meet criteria at inception, are not re-assessed, unless significant changes are identified (e.g. customer can no longer pay)*

- “Wholly unperformed contracts” that can be unilaterally cancelled by each party (i.e. they are not executory), are not regarded as qualifying contracts for IFRS 15
  - *Entity has not transferred goods/serviced; and*
  - *Entity has not received and is not entitled to receive any consideration*

- If criteria not met by contract, and consideration is received from customer, revenue shall only be recognised if:
  - *Contract was terminated and the consideration received, is not refundable; or*
  - *The entity has no remaining obligations to transfer goods/services to the customer and all (or substantially all) of the consideration has been received and is not refundable*
  - *A liability is recognised until one of these two events occurs/ contract criteria are satisfied*

Step 1: issues relating to "contracts" definition

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- Contract <u>modifications</u> can occur – two options exist:
  - A separate contract can arise (refer IFRS 15.20)
    - Scope of the contract increases (addition of distinct promised goods/services), AND
    - The price of the contract increases (based on stand-alone prices of goods/services)
  - The existing contract can be amended (refer IFRS 15.21)
    - Two accounting possibilities can arise for the modification:
      - Modification is a termination of existing contract, and creation of a new contract (if remaining goods/services are distinct from goods/services transferred before the modification)
      - Modification is part of existing contract (remaining goods/services are not distinct from goods/services transferred before modification) and there is a partially-satisfied single performance obligation at date of modification – an adjustment to revenue is therefore made on a cumulative catch-up basis

Step 2: identify the performance obligations (P/O's)

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- At the inception of the contract, the entity assesses the goods/services promised to the customer, and identifies each **promise** to transfer to the customer either:
  - A good/service (or bundle of goods/services) that is **distinct**; or
  - A series of distinct goods/services that are substantially the same and have the "same pattern of transfer" to the customer (i.e. on monthly basis), which is if:
    - Each distinct good/service would be a P/O satisfied over time; **and**
    - The same method would be used to measure progress towards complete satisfaction of the P/O

What is a “promise”?

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- Goods/services to be transferred to the customer are *usually* explicitly stated in a contract (legal obligation)
- May also be IMPLIED by customary business practices, published policies or specific statements if, at the time of entering into the contract, those promises create a valid expectation of the customer, that the entity will transfer a good/service to the customer (constructive obligation) (assess i.t.o. IAS 37)
- Only activities that transfer a good/service to a customer, are included in P/O’s (i.e. admin and set-up activities for contracts and contract fulfilment activities are not P/O’s)

What is a “distinct good/service”?

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- Goods/services are **distinct** if BOTH the following are met:
  - The customer can benefit from the goods/services on its own or in conjunction with other readily available resources (i.e. the good/service is capable of being distinct); **and**
  - The entity’s promise to transfer the good/service is separately identifiable from other promises in the contract (i.e. the good/service is also distinct within the context of the contract), which is, for example when:
    - The entity does **not** provide a significant service of integrating the good/service with other goods/services promised in the contract (stand-alone)
    - The good/service does **not** significantly modify or customise another good/service promised in the contract
    - The good/service is **not** highly interrelated with or highly dependent on other goods/services promised in the contract
  - *Read IFRS 15.28 and .29 in this context for more information*

“Distinct goods/service” – example

Real estate development company ABC Limited enters into a contract with one customer in terms of which a mini-lifestyle estate is to be built by ABC Limited for R100 million. The customer will sell the units to approved buyers after construction. There will be 20 similar units (even size but different interior layouts), a large communal entertainment area including pool, 8-foot perimeter walls, one entrance gate containing a guard house and communal paved roads to access all units. The R100 million is payable three months after completion of the estate, to allow for quality checks to be done by the customer.

Challenge: How do we identify the number of performance obligations relating to distinct goods/services?

Step 3: determining the transaction price (TP)

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- The TP is the amount to which an entity **expects** to be entitled in exchange for the transfer of goods/services
  - Entity will consider past customary business practices too, to determine TP
  - Amounts collected on behalf of 3rd parties, are excluded (e.g. VAT, commissions)
  - Consideration promised in a contract with a customer may include fixed amounts, variable amounts or both

- 4 aspects are very important:
  - Dealing with variable consideration (NB)
    - Constraining the 'estimates of variable consideration' (limitation on inclusion of variable consideration)
  - Existence of a significant financing component in the contract
  - Non-cash consideration
  - Consideration payable to a customer

Variable consideration

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- If consideration promised in a contract includes 'variable consideration', the entity shall **ESTIMATE** the amount of consideration to which it will be entitled in exchange for transferring the promised goods/services to a customer:
  - *Only to extent that it is 'HIGHLY PROBABLE' that a significant reversal in the amount of cumulative revenue recognised, will not occur when the uncertainty is subsequently resolved (read IFRS 15.57)*
  - *Royalty from usage of licence of intellectual property: only when sales/usage occur (stricter!!)*
- Variability can be explicit (legal terms) or implied (constructively) (see next slide)
- Variable consideration (examples):
  - Discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties
  - If entity's entitlement to consideration is contingent on the occurrence or non-occurrence of a future event
  - Products sold with a right of return, or fixed amount is promised as a performance bonus on achievement of a specified milestone etc.
- Measurement of variable consideration – two methods (whichever is most appropriate):
  - **The expected value** (the sum of probability-weighted amounts in a range of possible consideration amounts) (especially for large number of contracts with similar outcomes)
  - **The most likely amount** (the single most likely outcome of the contract) (e.g. the entity either achieves a performance bonus, or not) (not many outcomes to choose from)

Variable consideration (cont.)

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- Important to note (IFRS 15.52)…
- Variability i.r.o. consideration may be **explicitly stated** in contract terms OR if either of the following circumstances exists:

IMPLIED

  - Customer has valid expectation arising from entity's customary business practices, published policies or specific statements that the entity will accept an amount of consideration that is less than the price stated in the contract (i.e. it is expected that the entity will offer a price concession (discount, rebate, refund or credit)) OR
  - Other facts and circumstances indicate that the entity's intention (when entering into the contract with the customer) is to offer a price concession to the customer

“Refund liabilities” (.55)

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- Recognised when the entity receives consideration from a customer and expects to refund some/all of the consideration to the customer

- Measured at the amount of consideration received (or receivable) to which the entity does not expect to be entitled *(i.e. amounts not included in the transaction price)*

- To be updated at the end of each reporting period for changes in circumstances

- Refer IFRS 15 Appendix B20 to B27 in this context

Significant financing components

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- 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/services to the customer:
  - The contract then contains a significant financing component and consideration shall be adjusted (.60)
- Goal is to recognise revenue relating to the transfer of the goods/services at an amount that reflects the price that the customer would have paid if the customer had paid CASH for those goods/services
- Two main issues to be considered to assess existence of significant financing component:
  - The difference, if any, between the amount of promised consideration and the cash selling price of the promised goods/services; **and**
  - The combined effect of:
    - The length of time between when the entity transfers the promised goods/services to the customer and when the customer pays for those goods/services; **and**
    - The prevailing interest rates in the relevant markets
- Practical expedient (relief) (IFRS 15.63): An entity need not adjust the promised amount of consideration for the effects of a significant financing component if the entity expects, at inception of the contract, that the period between when the promised goods/services are transferred by the entity and the customer pays for the goods/services to be **one year or less**

Significant financing components (cont.)

- The following factors CANCEL OUT the existence of a significant financing component (IFRS 15.62) – if any one of these exist:
  - Customer paid for the goods or services in advance and the timing of the transfer of those goods or services is at the discretion of the customer
  - A substantial amount of the consideration promised by the customer is variable and the amount of timing of that consideration varies on the basis of the occurrence or non-occurrence of a future event that is not substantially within the control of the customer or the entity (e.g. sales-based royalty)
  - The difference between the promised consideration and the cash selling price of the good or service arises for reasons other than the provision of finance to either the customer or the entity and the difference between those amounts is proportional to the reason for the difference (e.g. payment terms may provide entity or customer with protection from the other party failing to adequately complete some or all of its obligations under the contract)

Non-cash consideration

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- The non-cash consideration promised by a customer in a contract shall be **measured at fair value** to determine the TP
- If fair value cannot be reliably measured, the TP will be measured by reference to the stand-alone selling prices of the goods/services transferred to the customer in the contract
- Variable non-cash consideration: If the fair value varies for reasons other than the form of the consideration (e.g. share price varies due to market forces at play), the "other" variations will be assessed with reference to "variable consideration", as discussed earlier (e.g. the fair value of the consideration depends on the performance of the entity etc.)
- *Where customer contributes goods/services as consideration, the entity must first assess whether it obtains CONTROL over those goods/services before including them in non-cash consideration…*

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)
- Also includes credit or other items (e.g. 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)
- **Shall be accounted for as a reduction of the transaction price and therefore, of revenue, UNLESS the payment to the customer is in exchange for a distinct good or service that the customer transfers to the entity**
- If consideration payable to a customer includes a variable amount, an entity shall estimate the transaction price (using previous principles relating to variable consideration)

Consideration payable to a customer (cont.)

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- If consideration payable = for distinct goods/services from the customer, entity accounts for purchase of good/service in the same way as other purchases from suppliers
  - If amount paid/payable to customer **exceeds the fair value** of good/service obtained, difference = reduction in transaction price
    - If **fair value cannot be reliably estimated**, entire consideration = reduction in transaction price
- If the consideration payable = reduction in transaction price, the entity recognises the reduction in revenue at the LATER of the following:
  - The entity recognises revenue for the transfer of the related goods/services to the customer; and
  - The entity pays (or promises to pay) the consideration (even if payment is conditional upon future event) (that promise might be implied by entity's customary business practices)

Step 4: Allocate the TP to P/O's

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- To what amount of consideration does the entity **expect to become entitled** when transferring the promised goods/services to the customer (i.e. satisfying the P/O)? *(refer .73 to .80)*

- Allocation will happen on a **relative stand-alone selling price basis**, except for:
  - Allocation of discounts (.81 to .83)
  - Allocation of variable consideration (.84 to .86)
- Not applicable when only one P/O exists…

Stand-alone selling price basis (.73 to .80)

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- The selling price for each distinct good/service underlying each P/O, must be determined at contract inception
- The contract price is then allocated in proportion to those stand-alone selling prices
- **"Stand-alone selling price"** = the price at which an entity would sell a promised good/service SEPARATELY to a customer (best indicator: observable selling price in separate transactions with similar customers under similar circumstances)
  - Not always the listed price, but could be! Rather focus on similar transactions!
- If stand-alone selling price is not available, the entity shall ESTIMATE the stand-alone selling price using maximum observable inputs (read IFRS 15.79 in this regard):
  - Adjusted market assessment approach (assess the market and competitors, and adjust)
  - Expected cost plus margin approach (costs to satisfy P/O, plus appropriate margin)
  - Residual approach (total TP less the sum of observable stand-alone selling prices of other goods/services in the contract = residual approach)

Allocation of a discount (.81 to .83)

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- A customer receives a discount for purchasing a bundle of goods/services if the SUM of the stand-alone selling prices of those promised goods/services in the contract EXCEEDS the promised consideration in a contract
- The entity shall **allocate the discount proportionately** to all the P/O's identified, unless evidence exists that one or more P/O's exclusively led to the discount being allowed
- Proportionate allocation of the discount to each P/O is the result of having allocated the stand-alone prices of goods/services to each P/O

Allocation of variable consideration (.84 to .86)

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- First determine: does the variable consideration relate to ONE P/O (i.e. a part of the contract) or the entire contract?
- If attributable to only certain P/O's (i.e. a part of the contract), then allocate the variable consideration to that P/O
  - Examples:
    - Variable consideration attributable to one or more (but not all) P/O's in the contract (e.g. performance bonus contingent on entity transferring one promised good/service within a specified period of time)
- If **not** attributable to only certain P/O's, the same proportionate approach is followed as for discounts (IFRS 15.73 – .83 to be followed)

Changes in the TP?

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- TP can change after the inception date, for various reasons (including the resolution of uncertainties)
- Subsequent changes in the TP shall be allocated to the P/O's in the contract on the **same proportionate basis as determined at contract inception**
  - *Also: The TP shall NOT be re-allocated to reflect changes in the stand-alone selling price of goods/services after the inception date of the contract*
- Adjustments shall be made as an increase in or decrease to revenue (for satisfied P/O's) in the period of the change of the TP

Step 5: recognise revenue when/as P/O's are satisfied

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- Revenue is recognised as control is passed, either **over time** or **at a point in time**
- Control = ability to direct the use of and obtain substantially all of the FEB from the asset (i.e. the goods/services)
  - This includes the ability to prevent others from directing use/obtaining the FEB from the asset! Contractual protection, legal protection etc.
- FEB from an asset are obtained directly, or indirectly:
  - Using the asset to produce goods/services
  - Using the asset to enhance the value of other assets
  - Using the asset to settle liabilities or reduce expenses
  - Selling or exchanging the asset
  - Pledging the asset to secure a loan
  - Holding the asset (e.g. for capital growth)

Satisfaction of P/O's (.31)

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- An entity shall recognise revenue when/as the entity satisfies a P/O by transferring a promised good/service to a customer
  - Goods/services are assets, even if momentarily (e.g. services)
  - An asset is transferred when/as the customer obtains control of that asset
    - Control is the ability to direct the use of and obtain substantially all of the FEB
- For each P/O identified, the entity shall determine at contract inception whether it will satisfy the P/O:
  - Over time (this is the first assumption and must be disproven); or
  - At a point in time (if not over time, then automatically at a point in time)

Satisfaction of P/O's "over time" (.35)

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- This is identified if ONE of the following criteria is met:
  - The customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs

    OR

  - The entity's performance creates or enhances an asset (e.g. WIP) that the customer controls, as the asset is created or enhanced

    OR

  - The entity's performance does NOT create an asset with an alternative use and the entity has an enforceable right to payment for performance completed to date (read IFRS 15.36 and .37 in this regard)

Satisfaction of P/O's "at a point in time" (.38)

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- Automatically identified if the entity does not satisfy P/O's over time (use criteria to determine, as per previous slide)
- Transfer of "control" = important = determines point in time at which P/O's are satisfied
- Indicators of 'transfer of control' (NB: read IFRS 15.38):
    - The entity has a present right to payment for the asset
    - Customer has a legal title to the asset
    - The entity has transferred physical possession of the asset
    - The customer has the significant risks and rewards of ownership of the asset
    - The customer has accepted the asset

Measuring progress (.39)

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- Progress towards complete satisfaction of a P/O (which is satisfied over time) is used as a measure for revenue recognition
  - The entity’s performance in transferring control of a good/service is measured
  - A single method for measuring progress towards complete satisfaction shall be applied to each P/O
- Methods for measuring progress (.41 to .45) **= NB**
  - IFRS 15 does not prescribe, but measure must be reasonable to result in revenue recognition (e.g. must not lack reliable information)
  - Input or output methods may be used, which ever is most appropriate
  - Changes to the entity’s measure of progress over time, is a change in accounting estimate (i.e. due to changes in circumstances)
  - In the early stages of a contract, the entity may not be able to reasonably measure the progress/outcome of the P/O – if costs are recoverable, revenue recognised shall be limited to recoverable costs incurred (until reasonable measurement can occur)

Contract costs (new section in IFRS 15)

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- Two types of costs to consider:
  - Incremental costs to **obtain** a contract
  - Costs to **fulfil** a contract **(refer IFRS 15.97 and .98 for examples of relevant and irrelevant costs)**

- Incremental costs to **obtain** a contract with a customer, are to be recognised as an asset if those costs are expected to be recovered
  - Such costs are LIMITED to the costs the entity would NOT have incurred if the contract had not been successfully obtained (e.g. sales commission)
  - Practical expedient (.94): expense the costs if the asset would have been amortised over one year or less anyway

- If not within a standard such as IAS 2, IAS 16 or IAS 38, the costs to **fulfil** a contract are recognised as an asset if, and only if, **ALL** of the following criteria are met:
  - The costs relate directly to a contract or a specific anticipated contract;
  - The costs generate or enhance resources of the entity that will be used in satisfying (or continuing to satisfy) P/O's in the future; and
  - The costs are expected to be recovered

- The asset recognised i.r.o. the costs to obtain/fulfil a contract, is amortised on a systematic basis that is consistent with the pattern of transfer of goods/services to which the asset relates

Impairment (.101 to .104)

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- Recognise impairment loss in P/L, to the extent that contract cost's carrying amount exceeds:
  - The remaining consideration the entity expects to receive in exchange for the goods/services to which the asset relates *(use principles for determining transaction price, but ignore constraining estimates of variable consideration, and adjust the amount to reflect customer's credit risk)*, **less**
  - The costs that directly relate to providing those goods/services and that have not yet been recognised as expenses

- First assess specific impairment loss i.r.o. assets related to the contract but recognised per their own applicable standards (e.g. IAS 2, IAS 16, IAS 38)

- Contract cost asset's carrying amount = **included in CGU** for assessment of impairment

- When impairment conditions no longer exist or have improved, recognise in P/L the reversal of all (or part) of the previously recognised impairment loss
  - Reversal ceiling also in place (ltd to CA that would have existed in absence of impairment)

Presentation (face of AFS)

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- When either party has performed: contract to be presented in the SOFP as a contract liability or contract asset (depending on which party outperformed the other party)

- Entity presents any unconditional rights to consideration **separately** as a receivable

- Contract liability: where a customer has paid an amount of consideration prior to the entity performing by transferring the related good/service to the customer (income received in advance)

- Contract asset versus receivable: where the entity has performed by transferring a good/service and the customer has not yet paid the promised consideration, a contract asset or receivable is presented in the SOFP, depending on the entity's right to consideration:
  - Conditional on something other than passage of time (e.g. future performance of entity or future discount) = **contract asset**
  - Unconditional (except that the passage of time may be applicable) (e.g. entity performed, and is waiting for payment from customer, but the customer has 90 days to pay) = (trade) **receivable**

Disclosure (notes to AFS) (IFRS 15.110 - .129)

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- Contracts with customers
  - Disaggregation of revenue
  - Contract balances
  - Performance obligations
  - Transaction price allocated to the remaining performance obligations
- Significant judgements in the application of IFRS 15
  - Determining the timing of satisfaction of performance obligations
  - Determining the transaction price (e.g. variable consideration) and the amounts allocated to performance obligations
- Contract assets recognised from the costs to obtain or fulfil a contract with a customer
- Practical expedients (if used)

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Thank you for your participation

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