

IFRS 15 Revenue from Contracts with Customers

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Overview



IFRS 15 specifies how and when an IFRS reporter will recognize revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures.

It provides a single, **principles based** **five-step model** to be applied to all contracts with customers.

Effective Date



IFRS 15 was issued in May 2014 and applies to an annual reporting period beginning on or after 1 January 2018.

Superseded Standards



IFRS 15 replaces the following standards and interpretations:

- [IAS 11](#) *Construction contracts*
- [IAS 18](#) *Revenue*
- [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*

Objective



To establish the principles that an entity shall apply to report useful information to users of financial statements about the **nature, amount, timing, and uncertainty** of **revenue** and **cash flows** arising from a **contract** with a **customer**.

Scope



IFRS 15 applies to all contracts with customers except for:

- Leases within the scope of [IFRS 16](#) *Leases*;
- Financial instruments and other contractual rights or obligations within the scope of [IFRS 9](#) *Financial Instruments*,
- [IFRS 10](#) *Consolidated Financial Statements*,
- [IFRS 11](#) *Joint Arrangements*,

- [IAS 27](#) *Separate Financial Statements* and
- [IAS 28](#) *Investments in Associates and Joint Ventures*
- Insurance contracts within the scope of [IFRS 4](#) *Insurance Contracts*;
- Non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers.

Contracts Partially within The Scope



In that scenario:

- if other standards specify how to separate and/or initially measure one or more parts of the contract, then those are applied first
- if no other standard provides guidance on how to separate and/or initially measure one or more parts of the contract, then IFRS 15 will be applied.

Contract



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

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.**

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 or services) that is distinct; or
- 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.

Transaction price



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.

Accounting for revenue

core principle of IFRS 15

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

This core principle is delivered in a five-step model framework

The five-step model framework



1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation.

Step 1: Identify the contract with the customer



A contract with a customer will be within the scope of IFRS 15 if all the following conditions are met

- the contract has been approved by the parties to the contract;
- each party's rights in relation to the goods or services to be transferred can be identified;

- the payment terms for the goods or services to be transferred can be identified;
- the contract has commercial substance; and
- it is probable that the consideration to which the entity is entitled to in exchange for the goods or services will be collected.

Step 2: Identify the performance obligations in the contract



At the inception of the contract, the entity should assess and identify as a performance obligation:

- a good or service (or bundle of goods or services) that is distinct; or
- a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

A good or service is distinct if both of the following criteria are met:

- the customer can benefit from the good or services on its own or in conjunction with other readily available resources; and
- the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract.

A series of distinct goods or services is transferred to the customer in the same pattern if :

- each distinct good or service in the series that the entity promises to transfer consecutively to the customer would be a performance obligation that is satisfied over time and
- a single method of measuring progress 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.

Step II – Identify performance obligation(s)

Do several goods and services promised in the contract meet the new **'distinct' test** to be accounted for separately?

A good or service is distinct if it is...

Capable of being distinct

+

Distinct in the context
of the contract

Do your **contracts for multiple units** meet the 'series' requirements?

A series of distinct goods are accounted as a single performance obligation if each good...

Is substantively
the same

+

Meets the over-
time recognition
criteria

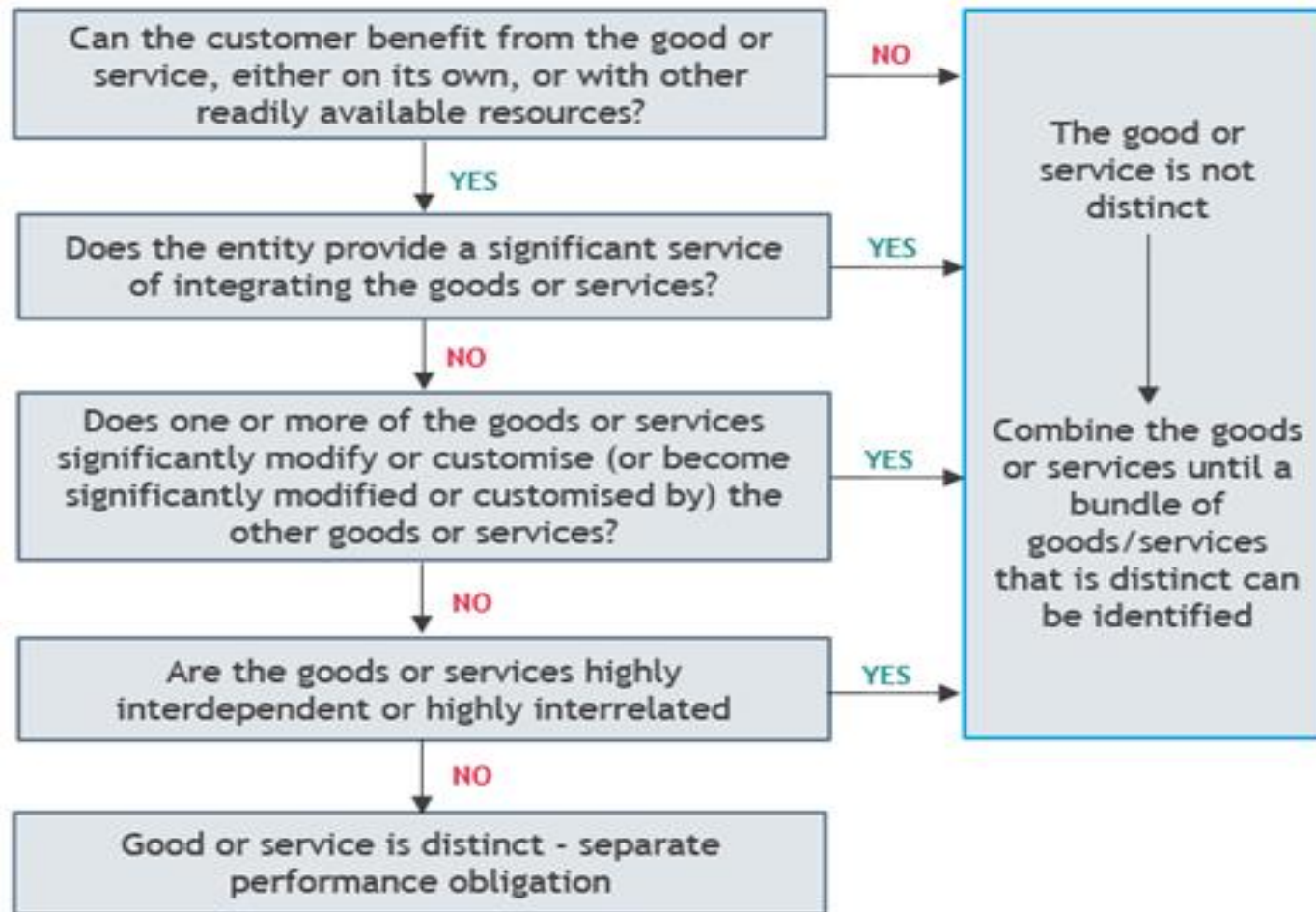
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Uses the same
method to
measure progress



Step II – Identify performance obligation(s)

Decision Tree



Step 3: Determine the transaction price



The transaction price is the amount to which an entity expects to be entitled in exchange for the transfer of goods and services.

When making this determination, an entity will consider past customary business practices.

variable consideration

Where a contract contains elements of variable consideration, the entity will estimate the amount of variable consideration to which it will be entitled under the contract.

for example, as a result of discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties or other similar items.

Royalty And License Revenue

A more restrictive approach is applied in respect of sales or usage-based royalty revenue arising from licenses of intellectual property.

Such revenue is recognized only when the underlying sales or usage occur.



Step 4: Allocate the transaction price to the performance obligations in the contracts

Where a contract has multiple performance obligations, an entity will allocate the transaction price to the performance obligations in the contract by reference to their relative standalone selling prices.

If a standalone selling price is not directly observable, the entity will need to estimate it.

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

Revenue is recognized as control is passed, either over time or at a point in time.

Revenue Over Time

An entity recognizes revenue over time if one of the following criteria is met:

the customer simultaneously receives and consumes all of the benefits provided by the entity as the entity performs;

the entity's performance creates or enhances an asset that the customer controls as the asset is created; or

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.



Revenue at a point in time

If an entity does not satisfy its performance obligation over time, it satisfies it at a point in time.

Revenue will therefore be recognized when control is passed at a certain point in time.

Factors that may indicate the point in time at which control passes include:

the entity has a present right to payment for the asset;

the customer has legal title to the asset;

the entity has transferred physical possession of the asset;

the customer has the significant risks and rewards related to the ownership of the asset; and

the customer has accepted the asset.



Contract costs



The incremental costs of obtaining a contract must be recognized as an asset if the entity expects to recover those costs.

Incremental costs are limited to the costs that the entity would not have incurred if the contract had not been successfully obtained

Costs incurred to fulfil a contract are recognized 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 performance obligations in the future; and
- the costs are expected to be recovered.

The asset recognized in respect of the costs to obtain or fulfil a contract is amortized on a systematic basis that is consistent with the pattern of transfer of the goods or services to which the asset relates.

Presentation in financial statements



Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment.

Contract Asset / Receivable



Where the entity has performed by transferring a good or service to the customer and the customer has not yet paid the related consideration, a contract asset or a receivable is presented in the statement of financial position, depending on the nature of the entity's right to consideration.

A contract asset is recognized when the entity's right to consideration is conditional on something other than the passage of time, for example future performance of the entity.

A receivable is recognized when the entity's right to consideration is unconditional except for the passage of time.

Any impairment relating to contracts with customers should be measured, presented and disclosed in accordance with IFRS 9.



Disclosures



qualitative and quantitative information about all of the following:

its contracts with customers;

the significant judgments, and changes in the judgments, made in applying the guidance to those contracts;

and any assets recognized from the costs to obtain or fulfil a contract with a customer.

Transition



When first applying IFRS 15, entities should apply the standard in full for the current period, including retrospective application to all contracts that were not yet complete at the beginning of that period.

In respect of prior periods, the transition guidance allows entities an option to either retain previous recognition







“If a man is called to be a street sweeper, he should sweep streets even as a Michaelangelo painted, or Beethoven composed music or Shakespeare wrote poetry. He should sweep streets so well that all the hosts of heaven and earth will pause to say, 'Here lived a great street sweeper who did his job well.'”

God Bless You



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