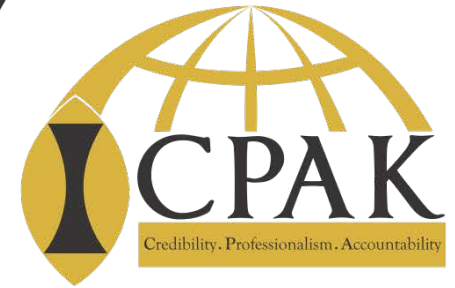




IFRS 15 Revenue from Contracts with Customers

Agenda



- ❖ Overview of IFRS 15
- ❖ Impact of uncertainty arising from COVID-19

Overview of IFRS 15



1 Identify the contract with a customer

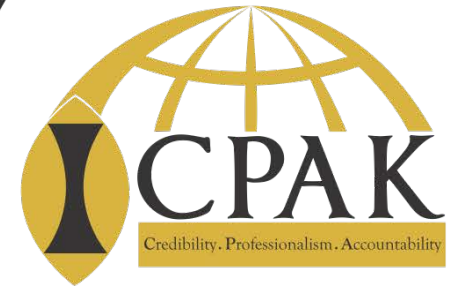
2 Identify the performance obligations

3 Determine the transaction price

4 Allocate the transaction price to performance obligations

5 Recognise revenue

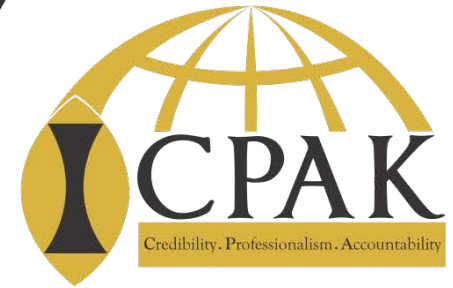
Possible Covid-19 impact



Step 1 and 3 most affected due to:

- a) Contract modifications
- b) Other considerations

Step 1-Identify the contract with a customer



... it is approved and the parties are committed to their obligations.

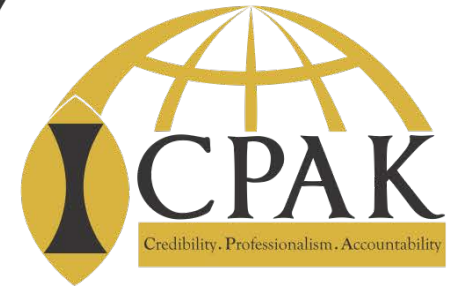
... *rights to goods or services* and *payment terms* can be identified.

A contract exists if...

... it has commercial substance.

... collection of consideration is considered probable.

Step 3-Determine transaction price



Variable consideration and the constraint

Consideration payable to a customer : Reduction to the transaction price unless it's a payment for a distinct good or service.

**Transaction Price
(excludes credit risk)**

Significant financing component

Non-cash consideration

Measured at fair value unless it cannot be reliably measured.

Variable consideration (Step-3)



Variable consideration can be

Discounts

Returns

Incentives

**Performance
bonuses**

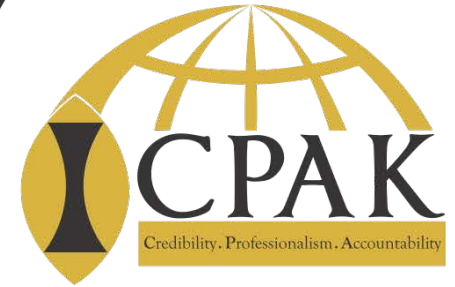
**Many
more...**

Variable consideration is estimated using most appropriate method of either:

Expected Value

Most Likely Amount

Contract costs



Costs of obtaining a contract

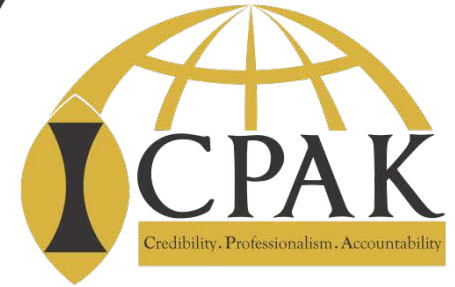
- Sales commissions
- Proposal cost

Costs of fulfilling a contract

- Set-up costs
- Training costs

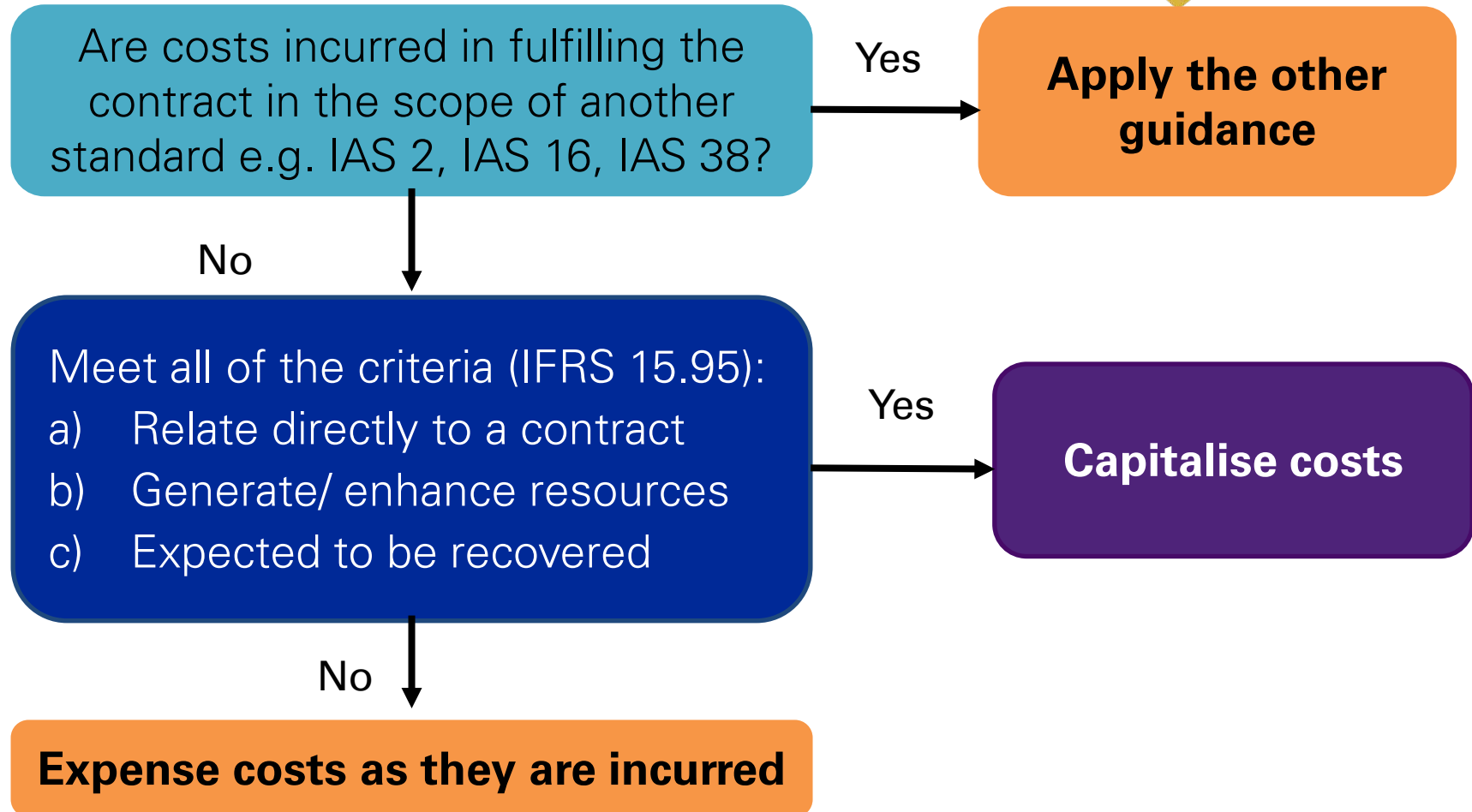
To capitalise or expense?

Costs to obtain a Contract

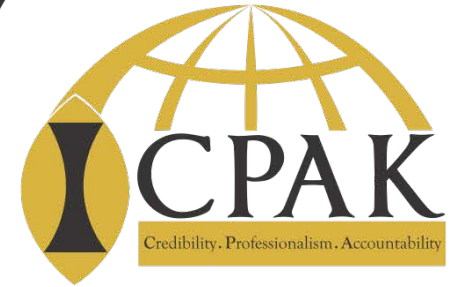


- Are recognized as an asset if the entity expects to recover those costs.
- If they would have been incurred regardless of whether the contract was obtained, then recognized as an expense, **unless those costs are explicitly chargeable** to the customer regardless of whether the contract is obtained.
- Costs to obtain a contract are capitalized & amortized over the life of the contract, unless the contract period is less than 12 months.

Costs to fulfil a contract

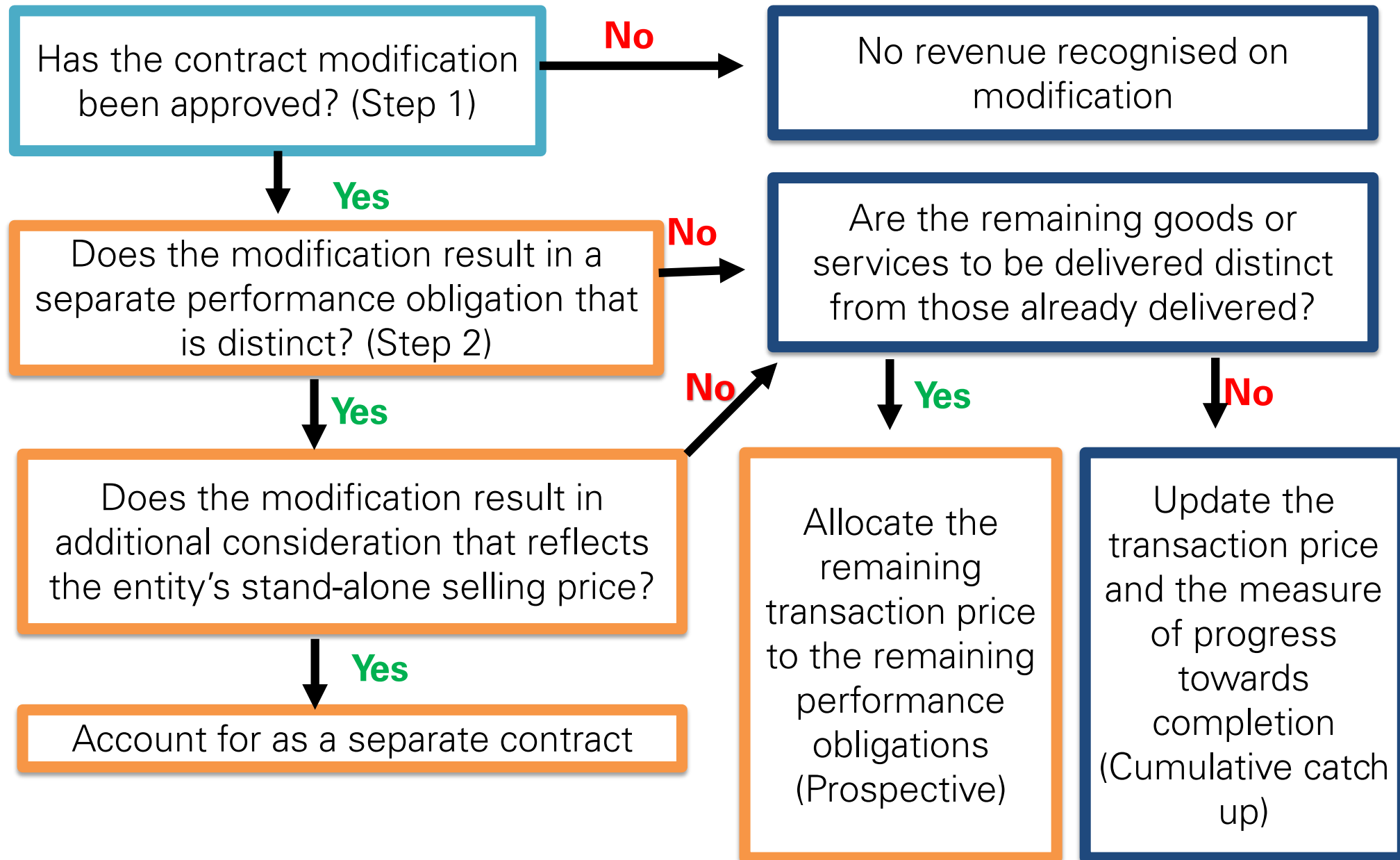


Inefficiencies

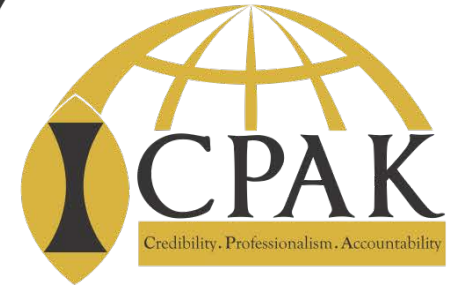


- As a result of the pandemic some entities may be incurring additional costs, for example because of interruptions to the supply chain.
- When assessing the appropriate impact of such costs, it is important to assess whether they should be regarded as attributable to significant inefficiencies in the entity's performance. It should not simply be assumed that any costs not initially envisaged will represent inefficiencies.
- Increased in costs in order to comply with safety requirements, such as social distancing are typically not inefficiencies – they simply mean that a contract may be less profitable than was originally expected.
- Costs attributable to significant inefficiencies in the entity's performance should be expensed to profit or loss when they are incurred and be excluded from the measurement of progress when recognizing revenue over time.

Contract modifications



Other factors that may need to be considered



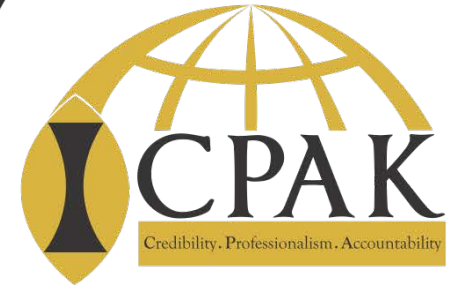
Price concessions

- If a price concession is granted, it will be important to establish whether this represents variable consideration that was part of the original contract or, conversely, represents (part of) a modification to which the modification guidance described above should be applied.

Additional goods/ services for free

- If the customer is provided with additional goods and/or services for free, it seems likely that this will be seen as a modification. Consequently, part of the transaction price will be allocated to these 'free' goods and/or services, and typically recognized as revenue when they are supplied.

Other factors that may need to be considered



Additional goods/ services for free

- If the seller unilaterally provides additional goods or services, without any negotiation with the customer, these free goods or services may not form part of the contract from an IFRS 15 perspective.

Extension of payment terms

- IFRS 15 has a collectability threshold before the standard can be applied.
- If there is an extension to payment terms because there are doubts about the recoverability of consideration due, this may have implications for the amount of revenue recognized.
- If extension to payment terms is significant, the contract will now include a significant financing component and some of the consideration should be recognized as interest receivable instead of revenue.



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