



# **IFRS 15 Revenue from Contracts with Customers**

# Agenda



- ❖ Overview of IFRS 15
- ❖ Critical steps and aspects of IFRS 15
- ❖ Key disclosure requirements

# 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

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# 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

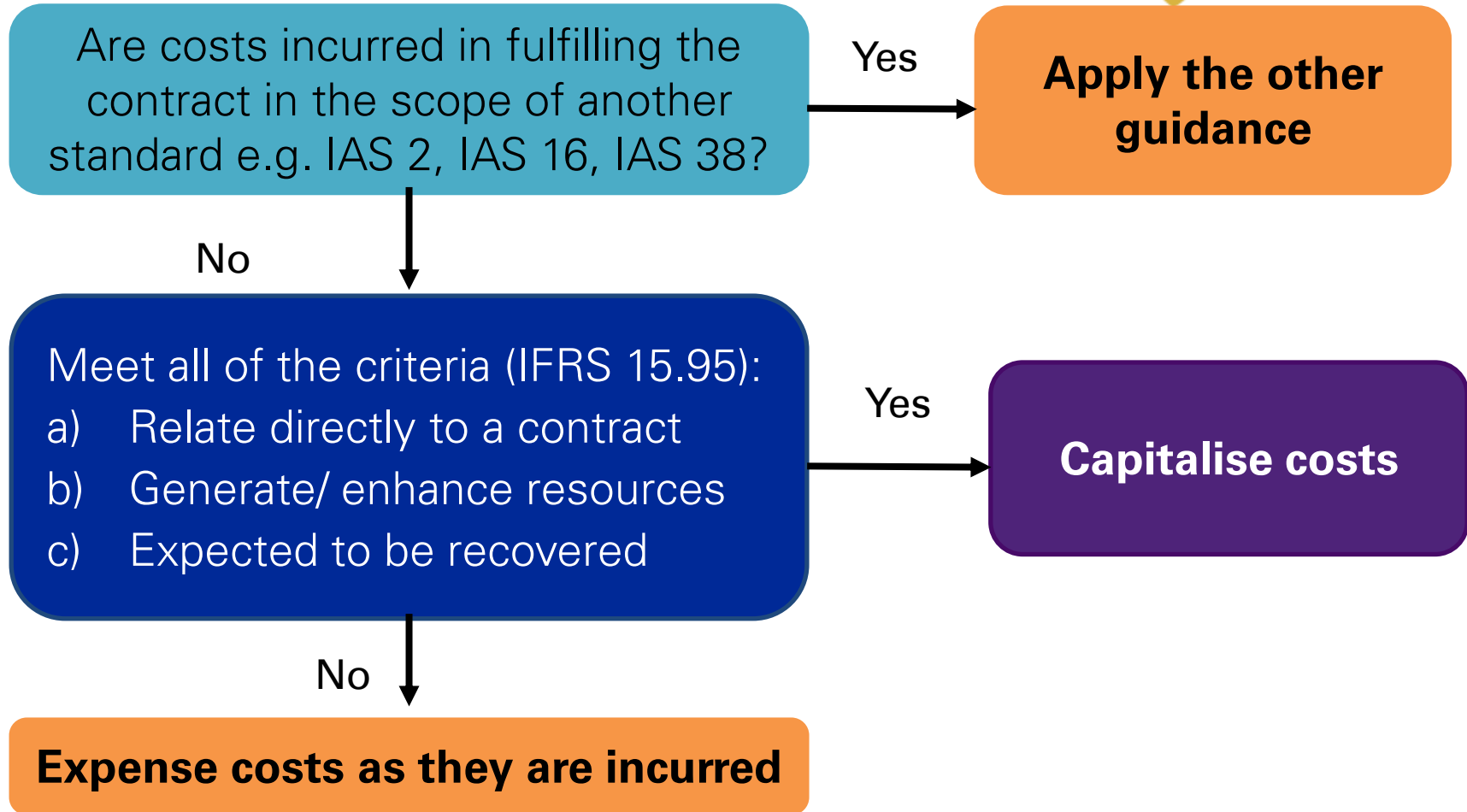
**To capitalise or expense?**

# 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



# 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



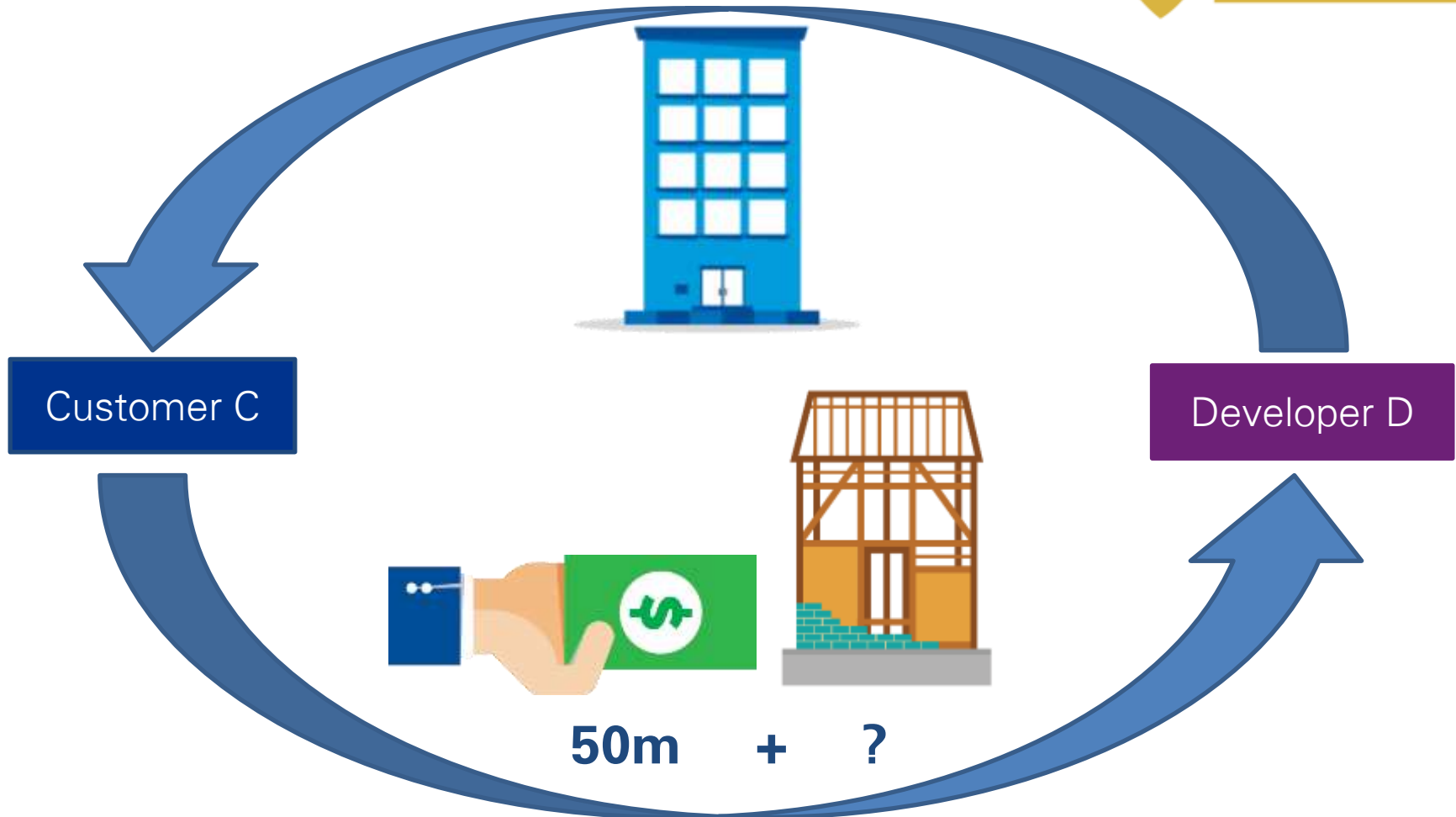
## **Additional goods/ services for free**

- 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.

# Non-cash consideration



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# Non-cash consideration



Non-cash consideration is measured at fair value. If an entity cannot make a reasonable estimate of the fair value, then it refers to the estimated selling prices of the promised goods or services

On what date should D measure the old building's Fair Value for Step 3?

1. Contract start date
2. Title deed transfer date
3. When the performance obligation for the new building is satisfied



Apply judgement depending on contract terms for e.g.

- 1. Title transfers at the date that the new building is complete.** The fair value at date of satisfaction of the performance obligation is used.
- 2. Title transfers at the start of the contract,** the fair value at inception is used to measure the transaction price for revenue recognition. Subsequent changes in fair value are accounted for in terms of IAS 16/ IAS 40 if relevant.

# Revenue recognition over time



An entity satisfies a performance obligation over time and recognises revenue over time, if one of the following criteria is met:

- a) The customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs
- b) The entity's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or
- c) 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

**Cleaning service**

**Building improvement**

**Audit Report?**

# Agenda



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# Disclosure requirements



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# Illustrative disclosures

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# Accounting policy



Revenue from sale of goods and provision of services is recognized in the profit or loss when the control over goods or services has been transferred to the buyer, the customer has accepted the product and recoverability of the related receivables is reasonably assured. The core principle of IFRS 15 is that an entity will recognise 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:

- a) Identify the contract(s) with a customer
- b) Identify the performance obligations in the contract
- c) Determine the transaction price
- d) Allocate the transaction price to the performance obligations in the contract
- e) Recognise revenue when (or as) the entity satisfies a performance obligation.

# Disaggregation of revenue



In the following table, revenue from contracts with customers (including revenue related to a discontinued operation) is disaggregated by primary geographical market, major products and service lines and timing of revenue recognition. The table also includes a reconciliation of the disaggregated revenue with the Group's reportable segments (see Note 6).<sup>a, b, c</sup>

For the year ended 31 December <i>In thousands of euro</i>	Reportable segments					
	Non-recycled Papers		Recycled Papers		Packaging (discontinued) <sup>d</sup>	
	2019	2018	2019	2018	2019	2018
<b>Primary geographical markets</b>						
Europe	<b>51,276</b>	54,335	<b>24,290</b>	17,872	<b>6,034</b>	18,786
US	<b>12,832</b>	12,752	<b>6,075</b>	4,190	<b>1,509</b>	4,407
	<b>64,108</b>	67,087	<b>30,365</b>	22,062	<b>7,543</b>	23,193
<b>Major products/service lines</b>						
Standard paper products	<b>48,081</b>	50,315	<b>22,774</b>	16,547	-	-
Made-to-order paper products	<b>16,027</b>	16,772	<b>7,591</b>	5,516	-	-
Forestry services	-	-	-	-	-	-
Timber products	-	-	-	-	-	-
Packaging and other	-	-	-	-	<b>7,543</b>	23,193
	<b>64,108</b>	67,087	<b>30,365</b>	22,062	<b>7,543</b>	23,193

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# Contract balances



The following table provides information about receivables, contract assets and contract liabilities from contracts with customers.

<i>In thousands of euro</i>	<i>Note</i>	<b>31 December 2019</b>	31 December 2018
Receivables, which are included in 'trade and other receivables'	18	<b>32,405</b>	22,247
Receivables, which are included in 'assets held for sale'	20	<b>3,496</b>	-
Contract assets		<b>1,271</b>	782
Contract liabilities		<b>(160)</b>	(166)

The contract assets primarily relate to the Group's rights to consideration for work completed but not billed at the reporting date on made-to-order paper products. The contract assets were impacted by an impairment charge of €4 thousand (2018: €2 thousand). There was no impact on contract assets as a result of an acquisition of the subsidiary (see Note 34). The contract assets are transferred to receivables when the rights become unconditional. This usually occurs when the Group issues an invoice to the customer.

The contract liabilities primarily relate to the advance consideration received from customers for construction of storage units and warehouses, for which revenue is recognised over time, and to the unredeemed customer loyalty points. The amount of unredeemed customer loyalty points is €50 thousand (2018: €2 thousand). This will be recognised as revenue when the points are redeemed by customers, which is expected to occur over the next two years.

# Performance Obligations



Type of product/service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition policies
<b>Timber products</b>	Customers obtain control of timber products when the goods are dispatched from the Group's warehouse. Invoices are generated and revenue is recognised at that point in time. Invoices are usually payable within 30 days. No discounts, loyalty points or returns are offered for timber products.	Revenue is recognised when the goods are dispatched from the Group's warehouse.
<b>Loyalty programme</b>	Customers who purchase paper products may enter the Group's customer loyalty programme and earn points that are redeemable against any future purchases of the Group's products. The points accumulate and do not expire.	<p>The Group allocates a portion of the consideration received to loyalty points. This allocation is based on the relative stand-alone selling prices. The amount allocated to the loyalty programme is deferred, and is recognised as revenue when loyalty points are redeemed or the likelihood of the customer redeeming the loyalty points becomes remote.</p> <p>The deferred revenue is included in contract liabilities.</p>



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