IFRS 15-Revenue from Contracts with Customers

1-Overview

In April 2001 the International Accounting Standards Board (Board) adopted IAS 11 Construction Contracts and IAS 18 Revenue, both of which had originally been issued by the International Accounting Standards Committee (IASC) in December 1993.
In May 2014 the Board issued IFRS 15 Revenue from Contracts with Customers, together with the introduction of Topic 606 into the Financial Accounting Standards Board's Accounting Standards Codification®. IFRS 15 replaces IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31. IFRS 15 provides a comprehensive framework for recognising revenue from contracts with customers.
In September 2015 the Board issued Effective Date of IFRS 15 which deferred the mandatory effective date of IFRS 15 to 1 January 2018.
In April 2016 the Board issued Clarifications to IFRS 15 Revenue from Contracts with Customers clarifying the Board's intentions when developing some of the requirements in IFRS 15. These amendments do not change the underlying principles of IFRS 15 but clarify how those principles should be applied and provide additional transitional relief.
In May 2017, the Board issued IFRS 17 Insurance Contracts which permits an entity to choose whether to apply IFRS 17 or IFRS 15 to specified fixed-fee service contracts that meet the definition of an insurance contract.
Other Standards have made minor consequential amendments to IFRS 15, including IFRS 16 Leases (issued January 2016) and Amendments to References to the Conceptual Framework in IFRS Standards (issued March 2018).

2-Objective

The objective of this Standard is 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.

3-Key definitions

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 liabilitiesthat 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 cus-tomer, excluding amounts collected on behalf of third parties.

4-Scope
An entity shall apply this Standard to all contracts with customers, except the Following :

(a) lease contracts within the scope of IFRS 16 Leases;
(b) contracts within the scope of IFRS 17 Insurance Contracts. However, an entity may choose to apply this Standard to insurance contracts that have as their primary purpose the provision of services for a fixed fee in accordance with paragraph 8 of IFRS 17;
(**c**) 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; and
(**d**) non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers. For example,this Standard would not apply to a contract between two oil companies that agree to an exchange of oil to fulfil demand from their customers in different specified locations on a timely basis.

5-Recognition

5.1-Identifying the contract
An entity shall account for a contract with a customer that is within the scope of this Standard only when all of the following criteria are met:

(a) the parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations

(**b**) the entity can identify each party's rights regarding the goods or services to be transferred;
(**c**) the entity can identify the payment terms for the goods or services to be transferred;
(**d**) the contract has commercial substance (ie the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract); and
(**e**) it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.
In evaluating whether collectability of an amount of consideration is probable, an entity shall consider only the customer's ability and intention to pay that amount of consideration when it is due. The amount of consideration to which the entity will be entitled may be less than the price stated in the contract if the consideration is variable because the entity may offer the customer a price concession .

A contract is wholly unperformed if both of the following criteria are met:
(**a**) the entity has not yet transferred any promised goods or services to the customer; and
(b) the entity has not yet received, and is not yet entitled to receive, any consideration in exchange for promised goods or services.

When a contract with a customer does not meet the criteria (see above) and an entity receives consideration from the customer, the entity shall recognise the consideration received as revenue only when either of the following events has occurred:
(**a**) the entity has no remaining obligations to transfer goods or services to the customer and all, or substantially all, of the consideration promised by the customer has been received by the entity and is non-refundable;or
(**b**) the contract has been terminated and the consideration received from the customer is non-refundable.

5.2-Combination of contracts
An entity shall combine two or more contracts entered into at or near the

same time with the same customer (or related parties of the customer) and account for the contracts as a single contract if one or more of the following criteria are met:
(**a**) the contracts are negotiated as a package with a single commercial objective;
(b) the amount of consideration to be paid in one contract depends on the price or performance of the other contract; or
(**c**) the goods or services promised in the contracts (or some goods or services promised in each of the contracts) are a single performance obligation .
6-Accounting requirements for revenue(The five-step model framework)
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 :
-Identify the contract(s) with a customer
-Identify the performance obligations in the contract
-Determine the transaction price
-Allocate the transaction price to the performance obligations in the contract
-Recognise revenue when (or as) the entity satisfies a performance obligation.

Application of this guidance will depend on the facts and circumstances present in a contract with a customer and will require the exer-cise of judgment.
Step 1: Identify the contract with the customer :
1.1-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.

If a contract with a customer does not yet meet all of the above criteria, the entity will continue to re-assess the contract going forward todetermine whether it subsequently meets the above criteria. From that point, the entity will apply IFRS 15 to the contract.

EX1-On 1 april, 2022 A contract was signed to sell (transfer) one of Company's X products to customer Y, to be delivered on 25 june, 2022. According to the contract, the customer Y pays the full value of the contract on 25 july,2022 in an amount of 85000 Dinars, The cost of the goods 65000 Dinars. Company X shipped the goods to the customer 25 June ,2022

Required:

Prepare the necessary daily entries during the year 2022 at Company X.

Solution :

-On 1 April, 2022 , no journal entry are prepared because neither party to the contract has performed what is required under the contract**.**

We first must determine whether a valid contract exists between Company X and Customer Y.. Here are the components of a valid contract and how it affects

Company X and Customer Y :

1- **The contract has commercial substance**
2- **The parties have approved the contract**
3- **Identification of the rights of the parties is established**
4- **Payment terms are identified**
5- **It is probable that the consideration will be collected**

-On 25 june,2022, When the company transfers the goods to the customer, the following entry is prepared

Date	Explanation	Debit	Credit
25 june,2022	Accounts Receivable Sales Revenue	85000	 85000

Date	Explanation	Debit	Credit
25 june,2022	Cost of Goods Sold Inventory	65000	 65000

-On 25 July, 2022 , When the customer pays the contract value, the following entry is prepared :

Date	Explanation	Debit	Credit
		85000	 85000

1.2-Combination of Contracts

An entity shall combine two or more contracts entered into at or near the same time with the same customer (or related parties of the customer) and account for the contracts as a single contract if one or more of the following criteria are met :

(a) the contracts are negotiated as a package with a single commercial objective;
(b) the amount of consideration to be paid in one contract depends on the price or performance of the other contract; or
(c) the goods or services promised in the contracts (or some goods or services promised in each of the contracts) are a single performance obligation .

1.3- Contract Modifications

A contract modification is a change in the scope or price (or both) of a contract that is approved by the parties to the contract. In some industries and jurisdictions, a contract modification may be described as a change order, a variation or an amendment. A contract modification exists when the parties to a contract approve a modification that either creates new or changes existing enforceable rights and obligations of the parties to the contract. A contract modification could be approved in writing, by oral agreement or implied by customary business practices. If the parties to the contract have not approved a contract modification, an entity shall continue to apply this Standard to the existing contract until the contract modification is approved.

An entity shall account for a contract modification as a separate contract if both of the following conditions are present :

(a) the scope of the contract increases because of the addition of promised goods or services that are distinct ; and
(b) the price of the contract increases by an amount of consideration that reflects the entity’s stand-alone selling prices of the additional promised goods or services and any appropriate adjustments to that price to reflect the circumstances of the particular contract.

If a contract modification is not accounted for as a separate contract in accordance with paragraph 20, an entity shall account for the promised goods or services not yet transferred at the date of the contract modification (ie the remaining promised goods or services) in whichever of the following ways is applicable:

(a) An entity shall account for the contract modification as if it were a termination of the existing contract and the creation of a new contract, if the remaining goods or services are distinct from the goods or services transferred on or before the date of the contract modification.

An entity shall account for the contract modification as if it were a part of the existing contract if the remaining goods or services are not distinct and, therefore, form part of a single performance obligation that is partially satisfied at the date of the contract modification. The effect that the contract modification has onthe transaction price, and on the entity's measure of progress towards complete satisfaction of the performance obligation, is recognised as an adjustment to revenue (either as an increase in or a reduction of revenue) at the date of the contract modification (ie the adjustment to revenue is made on a cumulative catch-up basis.

EX2.1-On 1 November,2022 Company A agreed with Z Stores that the Company will sell gas-powered greenhouses as follows:
Quantity : 300 Greenhouses**.**
Price :90 Dinars per Greenhouse**.**
Supply period: 6 months from the date of the contract, and the quantity will be delivered gradually over several months**.**
- On 1 december, 2022. Company A had delivered 130 stoves out of the agreed-upon quantity to Z stores, and on this date it was agreed between the two parties to increase the agreed-upon quantity by an additional 100 stoves. At a price of 100 dinars per unit, the quantity will range from 300 to 400 units, while maintaining the previously agreed upon supply period.
Note that the increase in the price of the additional quantity reflects the increase in the selling prices of greenhouses in the market.On 15 december 2022, Z stores were delivered 85 units.
Required: A statement of the accounting treatment for the above in the books of company A.
Solution : It is noted that the amendment to the contract fulfilled the two conditions referred to above, for it to be considered a separate contract, as the amendment added specific and new goods other than those contracted for in the original contract.
The contract price for the additional quantity is specified and reflects the normal selling price for the additional quantity that was agreed upon.
The accounting treatment will be as follows:
- Revenue recognized for units delivered up to December 1, 2022 will **be 11700 dinars** (130 × 90).
- As for the quantity supplied on December 15, 2022 which amount to 85 units, its revenues will be recognized on the basis of 70 units from the first contract at a price of 90 and the remaining 15 units(85-70) at the new price of 100 dinars per unit.
-Sales of units delivered on December 15, 2022= (70 × 90)+ ((15 × 100)
=6300+ 1500
=7800 Dinars

Step 2: Identify the performance obligations in the contract

-At the inception of the contract, the entity should assess the goods or services that have been promised to the customer, and identify as a performance obligation:

1-a good or service (or bundle of goods or services) that is distinct; or

2-a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

-A series of distinct goods or services is transferred to the customer in the same pattern if both of the following criteria are met :

1-each distinct good or service in the series that the entity promises to transfer consecutively to the customer would be a perfor-mance obligation that is satisfied over time (see below); and

2-a single method of measuring progress would be used to measure the entity's progress towards complete satisfaction of the per-formance obligation to transfer each distinct good or service in the series to the customer.

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

1-the customer can benefit from the good or services on its own or in conjunction with other readily available resources; and

2-the entity's promise to transfer the good or service to the customer is separately idenitifable from other promises in the contract

- Factors for consideration as to whether a promise to transfer goods or services to the customer is not separately identifiable include, but are not limited to :

1- the entity does provide a significant service of integrating the goods or services with other goods or services promised in the contract.

2- the goods or services significantly modify or customise other goods or services promised in the contract

3- the goods or services are highly interrelated or highly interdependent

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EX2.2- Technology Company Y entered into a contract to transfer a license and install information systems software for Annaba University. In addition, the contract includes a promise from Y Technology Company to provide consulting services to adapt the program to the work environment of Annaba University for a total amount of 6000,000 dinars. That is, the program and consulting services are provided as one package**.**

Required: Determine the performance obligation in contract

Solution : The information systems software license is a distinct performance obligation but is linked to the consulting services, so it is billed as a single performance obligation.

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.

-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. Variable consideration can arise, for example, as a result of discounts, rebates, refunds,credits, price concessions, incentives, performance bonuses, penalties or other similar items. Variable consideration is also present if anentity's right to consideration is contingent on the occurrence of a future event.

-The standard deals with the uncertainty relating to variable consideration by limiting the amount of variable consideration that can be recognised. Specifically, variable consideration is only included in the transaction price if, and to the extent that, it is highly probable that its inclusion will not result in a significant revenue reversal in the future when the uncertainty has been subsequently resolved.

The transaction price might include variable or contingent consideration.

Variable consideration should be estimated as either the expected value or the most likely amount. The expected value approach represents the sum of probability-weighted amounts for various possible outcomes. The most likely amount represents the most likely amount in a range of possible amounts.

Determining the Transaction Price—Step 3

The **transaction price** is the amount of consideration that a company expects to receive from a customer in exchange for transferring goods and services. The transaction price in a contract is often easily determined because the customer agrees to pay a fixed amount to the company over a short period of time. In other contracts, companies must consider the following factors.

*Variable consideration.

* Time value of money.
* Non-cash consideration.
*Consideration paid or payable to the customer.

3.1-Variable Consideration

In some cases, the price of a good or service is dependent on future events. These future events might include price increases, volume discounts, rebates, credits, performance bonuses, or royalties. In these cases, the company estimates the amount of variable consideration it will receive from the contract to determine the amount of revenue to recognize. Companies use either the **expected value**, which is a probability-weighted amount, or the **most likely amount** in a range of possible amounts to estimate variable consideration . Companies select among these two methods based on which approach better predicts the amount of consideration to which a company is entitled.

Expected value : Probability weighted : amount in a range of possible consideration amounts	**Most Likely Amount :** The single most likely amount in a range of possible consideration outcomes.
• May be appropriate if a company has a large number of contracts with similar characteristics • Can be based on a limited number of discrete outcomes and Probabilities	. • May be appropriate if the contract has only two possible outcomes

EX 3- provides an application of the two estimation methods
Estimating Variable Consideration
Facts: Peabody Construction Company enters into a contract with a customer to build a warehouse for $100,000, with a performance bonus of $50,000 that will be paid based on the timing of completion. The amount of the performance bonus decreases by 10% per week for every week beyond the agreed-upon completion date. The contract requirements are similar to contracts that

Peabody has performed previously, and management believes that such experience is predictive for this contract. Management estimates that there is a 60% probability that the contract will be completed by the agreed-upon completion date, a 30% probability that it will be completed 1 week late, and only a 10% probability that it will be completed 2 weeks late.

***Question:* How should Peabody account for this revenue arrangement?**

Solution: The transaction price should include management's estimate of the amount of consideration to which Peabody will be entitled. Management has concluded that the **probability-weighted method** is the most predictive approach for estimating the variable consideration in this situation

On time: 60% chance of $150,000 [$100,000 + ($50,000 × 1.0)]=	**$ 90,000**
1 week late: 30% chance of $145,000 [$100,000 + ($50,000 × .90)]=	**43,500**
2 weeks late: 10% chance of $140,000 [$100,000 + ($50,000 ×.80)] =	**14,000**
	147 ;500

Thus, the total transaction price is $147,500 based on the probability-weighted estimate. Management should update its estimate at each reporting date. Using a most likely outcome approach may be more predictive if a performance bonus is binary (Peabody either will or will not earn the performance bonus), such that Peabody earns either $50,000 for completion on the agreed-upon date or nothing for completion after the agreed-upon date. In this scenario, if management believes that Peabody will meet the deadline and estimates the consideration using the **most likely outcome**, the total transaction price would be $150,000 (the outcome with 60% probability).

3.2- Time value of money

Timing of payment to the company sometimes does not match the transfer of the goods or services to the customer. In most situations, companies receive consideration after the product is provided or the service performed. In essence, the company provides financing for the customer.

Companies account for the time value of money if the contract **involves a**

significant financing component. When a sales transaction involves a significant financing component (i.e., interest is accrued on consideration to be paid over time), the fair value is determined either by measuring theconsideration received or by discounting the payment using an imputed interest rate[1]. The company will report the effects of the financing as interest revenue.

. **EX3.2- provides an example of a financing transaction**.

Facts: On July 1, 2022, SEK Industries sold goods to Grant Company for R$900,000 in exchange for a 4-year, zero-interest-bearing note with a face amount of R$1,416,163. The goods have an inventory cost on SEK's books of R$590,000.

Question:

(a) How much revenue should SEK record on July 1, 2022?

(b) How much revenue should it report related to this transaction on December 31, 2022?

Solution

a. SEK should record revenue of R$900,000 on July 1, 2022, which is the fair value of the inventory in this case.

b. SEK is also financing this purchase and records interest revenue on the note over the 4-year period. In this case, the interest rate is imputed and is determined to be 12%. SEK records interest revenue of R$54,000 (.12 × ½ × R$900,000) at December 31, 2022.

The entry to record SEK's sale to Grant Company is as follows

Date	Explanation	Debit	Credit
July 1, 2022	Notes receivable Sales revenue R$1,416,163 – R$516,163	900,000	 900,000

The related entry to record the cost of goods sold is as follows

Date	Explanation	Debit	Credit
July 1, 2022	Cost of goods sold Inventory	590,000	 590,000

SEK makes the following entry to record (accrue) interest revenue at the end of the year.

Date	Explanation	Debit	Credit

[1]) The imputed interest rate is the more clearly determinable of either (1) the prevailing rate for a similar instrument of an issuer with a similar credit rating, or (2) a rate of interest that discounts the nominal amount of the instrument to thecurrent sales price of the goods or services

December31,2022	**Notes Receivable** **Interest Revenue** **(.12 × ½ × R$900,000)**	**54,000**	**54,000**

3.3-Non-Cash Consideration

Companies sometimes receive consideration in the form of goods, services, or other non-cash consideration. When these situations occur, **companies generally recognize revenue on the basis of the fair value of what is received.**

For example, assume that Raylin Company receives ordinary shares of Monroe Company in payment for consulting services. In that case, Raylin Company recognizes revenue in the amount of the fair value of the ordinary shares received. If Raylin cannot determine this amount, then it should estimate the selling price of the services performed and recognize this amount as revenue.

In addition, companies sometimes receive contributions (e.g., donations and gifts). A contribution is often some type of asset (e.g., securities, land, buildings, or use of facilities), but it could be the forgiveness of debt. In these cases, companies recognize revenue for the fair value of the consideration received.

3.4-Consideration Paid or Payable to Customers

Companies often make payments to their customers as part of a revenue arrangement. Consideration paid or payable may include discounts, volume rebates, coupons, free products, or services. In general, these elements reduce the consideration received and the revenue to be recognized.

EX4-provides an example of this type of transaction

Volume Discount

Facts: Sansung Group offers its customers a 3% volume discount if they purchase at least ¥2 million of its product during the calendar year. On March 31, 2022, Sansung has made sales of ¥700,000 to Artic Co. In the previous 2 years, Sansung sold over ¥3,000,000 to Artic in the period April 1 to December 31. Assume that Sansung prepares financial statements quarterly.

Question: **How much revenue should Sansung recognize for the first 3 months of 2022?**

Solution: In this case, Sansung should reduce its revenue by ¥21,000 (¥700,000 × .03) because it is probable that it will provide this rebate.
Given these facts, Sansung makes the following entry on March 31, 2022, to recognize revenue

Date	Explanation	Debit	Credit
March 31, 2022	Accounts receivable	679,000	
	Sales revenue		679,000

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. IFRS 15 suggests various methods that might be used, including :

-Adjusted market assessment approach

-Expected cost plus a margin approach

-Residual approach (only permissible in limited circumstances)

Allocation Approach	Implementation
Adjusted market assessment approach	**Evaluate the market in which a company sells goods or services and estimate the price that customers in that market are willing to pay for those goods or services. That approach also might include referring to prices from the company's competitors for similar goods or services and adjusting those prices as necessary to reflect the company's costs and margins**
Expected cost plus a margin approach	**Forecast expected costs of satisfying a performance obligation and then add an appropriate margin for that good or service.**
Residual approach	**If the standalone selling price of a good or service is highly variable or uncertain, then a company may estimate the standalone selling price by reference to the total transaction price less the sum of the observable standalone selling prices of other goods or services promised in the contract**

Where consideration is paid in advance or in arrears, the entity will need to consider whether the contract includes a significant financing arrangement and, if so, adjust for the time value of money

A practical expedient is available where the interval between transfer of the promised goods or services and payment by the customer is expected to be less than 12 months.

Step four requires the allocation of the transaction price to the separate performance obligations. The allocation is based on the relative standalone selling prices of the goods or services promised and is made at inception of the contract. It is not adjusted to reflect subsequent changes in the standalone selling prices of those goods or services.

The best evidence of standalone selling price is the observable price of a good or service when the entity sells that good or service separately. If that is not available, an estimate is made by using an approach that maximises the use of observable inputs - for example, expected cost plus an appropriate margin or the assessment of market prices for similar goods or services adjusted for entity-specific costs and margins or in limited circumstances a residual approach. The residual approach is different from the residual method that is used currently by some entities, such as software companies.

When a contract contains more than one distinct performance obligation, an entity allocates the transaction price to each distinct performance obligation on the basis of the standalone selling price.

Where the transaction price includes a variable amount and discounts, consideration needs to be given as to whether these amounts relate to all or only some of the performance obligations in the contract. Discounts and variable consideration will typically be allocated proportionately to all of the performance obligations in the contract. However, if certain conditions are met, they can be allocated to one or more separate performance obligations.

This will be a major practical issue as it may require a separate calculation and allocation exercise to be performed for each contract. A mobile telephone contract typically bundles together the handset and network connection. IFRS 15 will require their separation.

EX4- Transaction Price—Allocation
Travis Merchants enters into a contract with a customer to sell Products A, B, and C in exchange for £100,000. Travis regularly sells Product A separately, and therefore the standalone selling price is directly observable at £50,000. The standalone selling price of Product B is estimated using the adjusted market assessment approach and is determined to be £30,000. Travis decides to use the residual approach to value Product C, as it has confidence that Products A and B are valued correctly. The selling price for the products is

allocated as shown in

Solution

Product	Price	Rationale
A	**£50 ,000**	**Directly observable using standalone selling price**
B	**30,000**	**Directly observable using adjusted market assessment approach**
C	**20,000**	**[£100,000 − (£50,000 + £30,000)]; using the residual approach given reliability of the two above measurements**
Total transaction price	**100000**	

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

Revenue is recognised as control is passed, either over time or at a point in time. Control of an asset is defined as the ability to direct the use of and obtain substantially all of the remaining benefits from the asset. This includes the ability to prevent others from directing the use of and obtaining the benefits from the asset. The benefits related to the assetare the potential cash flows that may be obtained directly or indirectly. These include, but are not limited to:
-using the asset to produce goods or provide services;
-using the asset to enhance the value of other assets;
-using the asset to settle liabilities or to reduce expenses.
-selling or exchanging the asset;
-pledging the asset to secure a loan; and
-holding the asset.

An entity recognises 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.

If an entity does not satisfy its performance obligation over time, it satisfies it at a point in time. Revenue will therefore be recognisedwhen control is passed at a certain point in time. Factors that may indicate the point in time at which control passes include, but are notlimited to :

-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.

EX1-Assume that Tyler Angler orders a large cup of black coffee costing $3 from BEAN. Tyler gives $3 to a BEAN barista, who pours the coffee into a large cup and gives it to Tyler.

Required- How much revenue should BEAN recognize on this transaction?

Solution

Step 1 We first must determine whether a valid contract exists between BEAN and Tyler. Here are the components of a valid contract and how it affects BEAN and Tyler.

1. The contract has commercial substance: Tyler gives cash for the coffee.

Step2-The next step is to identify BEAN's performance obligation(s), if any. The answer is straightforward—BEAN has a performance obligation to provide a large cup of coffee to Tyler. BEAN has no other performance obligation for any other good or service

2. The parties have approved the contract: Tyler agrees to purchase the coffee and BEAN agrees to sell it.

Step3-BEAN must determine the transaction price related to the sale of the coffee. The price of the coffee is $3, and no discounts or other adjustments are available. Therefore, the transaction price is $3.

3. Identification of the rights of the parties is established: Tyler has the right to the coffee and BEAN has the right to receive $3.

Step4-BEAN must allocate the transaction price to all performance obligations. Given that BEAN has only one performance obligation, no allocation is necessary

4. Payment terms are identified: Tyler agrees to pay $3 for the coffee.

Step5-Revenue is recognized when the performance obligation is satisfied. BEAN satisfies its performance obligation when Tyler obtains control of the coffee. The following conditions are indicators that control of the coffee has passed to Tyler:

a. BEAN has the right to payment for the coffee.
b. BEAN has transferred legal title to the coffee.
c. BEAN has transferred physical possession of the coffee.
d. Tyler has significant risks (e.g., he might spill the coffee) and rewards of ownership (he gets to drink the coffee).
e. Tyler has accepted the asset.

5. It is probable that the consideration will be collected: BEAN receives $3 before it delivers the coffee.

6- Contract Costs

6.1-Incremental costs of obtaining a contract :

The incremental costs of obtaining a contract must be recognised as an asset if the entity expects to recover those costs. However, those incremental costs are limited to the costs that the entity would not have incurred if the contract had not been successfully obtained (e.g.'success fees' paid to agents). A practical expedient is available, allowing the incremental costs of obtaining a contract to be expensed ifthe associated amortisation period would be 12 months or less.

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

These include costs such as direct labour, direct materials, and the allocation of overheads that relate directly to the contract.

6.3-Amortisation and impairment : The asset recognised in respect of the costs to obtain or fulfil a contract is amortised on a systematic basis that is consistent with the pattern of transfer of the goods or services to which the asset relates.

7- Presentation

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.

A contract liability is presented in the statement of financial position where a customer has paid an amount of consideration prior to the entity performing by transferring the related good or service to the customer.

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 toconsideration.
A contract asset is recognised 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 recognised when the entity's right to consideration is unconditionalexcept for the passage of time.

Contract assets and receivables shall be accounted for in accordance with IFRS 9. Any impairment relating to contracts with customers should be measured, presented and disclosed in accordance with IFRS 9. Any difference between the initial recognition of a receivable and the corresponding amount of revenue recognised should also be presented as an **expense**, for example, an **impairment loss** .

8-Disclosure

The disclosure objective stated in IFRS 15 is for an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Therefore, anentity should disclose 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 recognised from the costs to obtain or fulfil a contract with a customer.

Entities will need to consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the requirements. An entity should aggregate or disaggregate disclosures to ensure that useful information is not obscured.

In order to achieve the disclosure objective stated above, the Standard introduces a number of new disclosure requirements. Furtherdetail about these specific requirements can be found at IFRS 15:113-129.