IFRS 15
Revenue from contracts with customers

1. Objective

IFRS 15 represents an important achievement as the first "universal" Standard resulting from the convergence of IAS/IFRS (IFRS 15) and US GAAP (ASC 605).

This Standard establishes the principles that an entity must apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

Entities must apply this Standard only if the other party to the contract is a customer and if the contract does not specifically fall under the scope of another Standard.

2. Scope

2.1 The major changes IFRS 15 will require

a) The basic principle behind this Standard requires entities to recognize only the consideration to which they will be entitled in exchange for the goods or services that will be transferred to the customer.

Previously, IAS 18 was based on a different concept: revenue had to be recognized at fair value, defined as the amount for which an asset may be sold and a liability extinguished between knowledgeable, willing parties in an arm's length transaction.

From now on, IFRS 15 requires recognizing the consideration it is probable that the entity will collect in exchange for the goods or services that will be transferred or rendered to the customer. Thus, evaluating the amount of this consideration is based solely on the customer's ability and intention to pay the amount of consideration when it is due.

Example 1: An entity sells 1,000 units of a product to a customer who has agreed contractually to pay 1,000 in consideration.

This is the first sale by the entity to this customer located in a geographic area that has experienced significant economic hardship. The seller believes that the conditions of the economy in this region are going to improve in the future and that establishing a long-term relationship with this customer will make it possible to increase its sales turnover.

However, in connection with this initial contract, the seller does not expect to collect the full amount provided for by contract, and is contemplating granting a 10% discount.

Therefore, after taking into consideration the customer's ability and intention to pay (based on the customer's economic environment), the seller recognizes revenue of 900.

b) According to IFRS 15, an entity must recognise revenue when the entity satisfies a performance obligation by transferring a promised good or service to a customer. An asset (or a service) is deemed to have been transferred when the customer obtains control of that asset (or benefits from that service).

Previously, IAS 18 required an entity to recognize revenue once the significant risks and rewards of ownership of the goods (or the benefit of services) had been transferred to the customer.

c) IFRS 15 application process
Entities must apply a five-stage process: identification of the contract, identification of the performance obligations, determination of the transaction price, allocation of the transaction price to performance obligations, recognition of revenue.

Example 2: A chartered accountancy firm entered into a contract to provide accounting services to a new customer for a flat-rate budget of 12,000 for the first financial year running from 1st April Year N to 31st March Year N+1. This amount is to be invoiced via monthly instalments of 1,000. The amount of the budget allocated to time spent ended up being 700 per month, plus 3,600 to draw up the financial statements.

This chartered accountancy firm closes its own financial year on 30 September N. On this date, taking into account time already spent on this customer, the firm evaluated the consideration for the time still required to close the customer's accounts by 31 March N+1 at 15,000, due to time wasted at the beginning of the assignment.

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Thus, the firm must recognize the revenue under this contract as follows:

•	monthly revenue posted	1,000
•	reduction of excess value compared to	
•	cost allocated for monthly services	- 300
•	i.e., net monthly revenue of	700
•	i.e., an amount of revenue for the period	
•	from 01 04 Year N to 30 09 Year N (700 x 6)	4,200
•	recognition of deferred revenue of	1,800
•	in addition to recognition of a liability for contract performance obligations of	5,000

2.2 Identifying the contract

A contract with a customer falls within the scope of IFRS 15 only when all of the following five criteria are met at the same time:

1. all of the parties to the contract have approved the contract and are committed to performing their respective obligations;
2. the entity can identify each party's rights regarding the goods or services to be transferred;
3. the entity can identify the payment terms for the goods or services to be transferred;
4. the contract has commercial substance (and not financial, for example);
5. 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 is probable, an entity must consider only the customer's ability and intention to pay that amount of consideration when it is due.

A contract may be in writing, oral or agreed to in accordance with the entity's customary business practices.

Two or more contracts entered into at the same time with the same customer must be combined and accounted for as a single contract if at least one of the following criteria is 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;
c. the goods or services promised constitute a single performance obligation.

A contract modification is a change in the scope or price (or both) of a contract that is approved by all the parties to the contract.

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

1. the scope of the contract increases because of the addition of promised goods or services that are distinct;
2. 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.

If these two conditions are not met, the entity must account for the promised goods or services not yet transferred at the date of the contract modification taking into account the following criteria:

a. the modification is accounted for 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;
b. the modification is accounted for 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. This is the case in particular for an adjustment of the transaction price;
c. If the remaining goods or services are a combination of the two criteria above, the modification is accounted for in accordance with paragraph b).

2.3 Identifying performance obligations

2.3.1 Definition of distinct goods or services

At contract inception, entities must assess the goods or services promised in a contract with a customer and distinctly identify as a performance obligation each promise to transfer to the customer either:

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

b. 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 series of distinct goods or services has the same pattern of transfer to the customer if both of the following criteria are met:

1. Each distinct good or service in the series that the entity promises to transfer to the customer meets the following criteria to be a performance obligation satisfied over time, i.e.:

- An entity transfers control of a good or service over time and, therefore, sa-

tisfies a performance obligation and recognises revenue from contracts with customers over time, if at least one of the following criteria is met:

- ✓ For some types of performance obligations, a customer receives the benefits of an entity's performance as the entity performs and simultaneously consumes those benefits as they are received (for example in the case of routine or recurring services, such as cleaning services). In this case, the receipt and simultaneous consumption by the customer of the benefits of the entity's performance can be readily identified.
- ✓ For other types of performance obligations, an entity may not be able to readily identify whether a customer simultaneously receives and consumes the benefits from the entity's performance as the entity performs (such as subscriptions to maintenance services). In this case, a performance obligation is satisfied over time if an entity determines that another entity would not need to substantially re-perform the work that the entity has completed to date.

- the entity's performance creates or enhances an asset (for example, property development services in progress) that the customer controls as the asset is created or enhanced;
- 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 (consulting services, for example).

2. An entity must recognise revenue from contracts with customers over time by measuring the progress towards complete satisfaction of the performance obligation. The objective when measuring progress is to depict an entity's performance in transferring control of goods or services promised to a customer (i.e., the level of satisfaction of an entity's performance obligation). The entity must apply a single method of measuring progress for each performance obligation satisfied over time and apply that method consistently to similar performance obligations and in similar circumstances. At the end of each reporting period, the entity must remeasure its progress towards complete satisfaction of a performance obligation satisfied over time.

A good or service that is promised to a customer is distinct if both of the following criteria are met:

1. the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (i.e., the good or service is capable of being distinct);

2. the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (i.e., the promise to transfer the good or service is distinct within the context of the contract).

If the good or service is not distinct, the entity must combine that good or service with other promised goods or services until it identifies a bundle of goods or services that is distinct. In some cases, this will result in the entity accounting for all the goods or services promised in a contract as a single performance obligation.

Example 3: When a customer purchases a complete good, it is made up of a combination of different components. The customer does not receive the inputs separately, but rather as a whole bundled together. Although these components could be sold separately, each part is not considered to be distinct, but constitutes a bundle, thus does not involve distinct performance obligations. For example, when a lorry is delivered, the engine, the tyres, the chassis, the doors, etc. are not considered to be distinct goods. They correspond to an amount of comprehensive income generated by the sale of the lorry. On the other hand, delivery of spare parts sold separately must be recognised as income from the sale of a distinct good.

2.3.2 Transfer of control of goods and services sold

Control of an asset in the form of a good or service provided for by contract refers to the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset. Control includes the ability to prevent other entities from directing the use of, and obtaining all or part of the benefits from the asset (i.e., expected cash flows).

Cash flows may be obtained directly or indirectly from use of the asset, by:
- 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 reduce expenses,
- selling or exchanging the asset,
- pledging the asset to secure a loan.

2.3.3 Measuring progress towards satisfaction of a performance obligation

An entity must apply one of the two following methods of measuring progress for each performance obligation satisfied over time and apply that method consistently to similar performance obligations and in similar circumstances.

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a) Methods based on goods or services transferred

When using methods based on outputs, revenue from contracts with customers is recognised on the basis of direct measurements of the value to the customer of the goods or services transferred to date relative to the remaining goods or services promised under the contract. As a practical expedient, if the entity can invoice performance obligations on the basis of the contract (time-and-materials contracts for example, etc.), it can recognise the revenue from contracts with customers for the amount it has the right to invoice.

Example 4: A company enters into a maintenance agreement to clean a customer's premises and invoices its services at the end of each month for the services rendered over the last period and goes on to recognise the revenue from this contract with the customer.

Example 5: Company E signed a supply contract with Customer C for a total volume (over the calendar year) of 10,000 similar units, all sold at the same price, for a total amount of 100,000 (i.e., 10 per unit). Deliveries are made based on Customer C's demand, on the condition delivery is requested 15 days in advance. On 31 March Year N, the Company had delivered 2,000 units at the request of Customer C.
The amount of revenue recognised on 31 March Year N would amount to 20,000, regardless of the invoicing terms and conditions.

b) Methods based on an entity's efforts or inputs to satisfaction

When using methods based on inputs, revenue is recognised on the basis of the entity's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation. If the entity's efforts or inputs are expended evenly throughout the performance period, it is preferable for the entity to recognise revenue on a straight-line basis.

If losses occur that were not expected when the price was determined, they are not taken into account with input methods.

Example 6: On 31 July Year N, a consulting firm signed a contract to appraise the share value of one of its corporate customers. The total amount of fees was set at 40,000. To appraise the value of the company's fleet of vehicles, the firm has to call on an outside expert who will charge 3,000 (services completed on 15 September Year N). The deadline to provide the appraisal report was set for 31 October Year N. The cost price of time spent in-house to perform this contract was estimated to be 28,000.

The consulting firm's financial year ends on 30 September Year N. On this date, in-house costs had amounted to 18,000 for the months of August and September.

Performance of the contract is progressing in accordance with the schedule initially planned.
The amount of revenue the firm can recognise in its financial statements for the year ending 30 September Year N according to this input method is as follows:

- Total amount of the contract: 40,000
- Amount of costs incurred at year end: 21,000 (18,000 + 3,000)
- Total amount of costs budgeted: 31,000 (28,000 + 3,000)
- Amount of revenue recognised on 30 September Year N: 27,096.78 (i.e., 40,000 x 21,000 / 31,000).

2.3.4 Performance obligations satisfied at a point in time

If a performance obligation is satisfied at a specific point in time and not progressively over time, an entity satisfies the performance obligation when the customer obtains control of a promised asset. The entity must consider the indicators for transfer of control, which include, but are not limited to, the following:

a. The entity has a present right to payment for the asset. In exchange, the customer has obtained the ability to direct the use of, and obtain substantially all of the remaining benefits from the asset.
b. The customer has legal title to the asset. However, it is possible for an entity to retain legal title solely as protection against the customer's failure to pay, which would not preclude the customer from obtaining control of the asset (such as a seller's lien, for example).
c. The entity has transferred physical possession of the asset. However, physical possession may not always coincide with control of an asset. For example, in some repurchase agreements and in some consignment arrangements, a customer or consignee may have physical possession of an asset that the entity controls. Conversely, in some bill-and-hold arrangements, the entity may have physical possession of an asset that the customer controls.
d. The customer has the significant risks and rewards of ownership of the asset. This may indicate that the customer has obtained the ability to direct

the use of, and obtain substantially all of the remaining benefits from, the asset. However, when evaluating the risks and rewards of ownership of a promised asset, an entity must exclude any risks that give rise to a separate performance obligation in addition to the performance obligation to transfer the asset (maintenance contract, for example).

e. The customer has accepted the asset - via a contractual customer acceptance clause for example. If an entity can objectively determine that the agreed-upon specifications in the contract have been met, it must automatically assume that control has been transferred to the customer.

Example 7: A company enters into a contract with a customer to deliver motor homes that will be shipped by lorry in three months' time. In this scenario, the company is liable to the customer for any loss or damage to the vehicles during shipment. Pursuant to IFRS 15, it is up to the company to determine whether the customer has the significant risks and rewards of ownership of the asset, even if the company subsequently compensates the customer for any losses. Recognising revenue is unrelated to delivery in our example here, as the company may decide that even if the motor homes are located in storage, it has fulfilled its performance obligation.

2.3.5 Promises in contracts with customers

A contract with a customer generally explicitly states the goods or services that an entity promises to transfer to a customer. However, the performance obligations identified in a contract with a customer may not be limited to the goods or services that are explicitly stated in that contract. This is because a contract with a customer may also include promises that are implied by an entity's customary business practices, published policies or specific statements at the time the contract is entered into.

Performance obligations do not include activities that an entity must undertake to fulfil a contract unless those activities transfer a good or service to a customer.

2.3.6 Sale with repurchase agreement (right to take back control of a product sold)

A repurchase agreement may cover the asset that was originally sold to the customer, part of the asset or an asset that is substantially the same. This is the case with forward, call or put options.

In this case, the customer has not obtained control of the goods in spite of having physical possession (repurchase agreement).

If the repurchase price is lower than the selling price, the transaction must be reported in accordance with IFRS 16.

If the repurchase price is higher than the original selling price, the contract is in effect a financing arrangement and, therefore, a financial liability. The entity must recognise the difference between the original selling price and the repurchase price as interest. The entity must continue to recognise the asset and also recognise a financial liability for any consideration received from the customer.

If the repurchase agreement (or equivalent option) is not implemented or lapses unexercised, the entity must derecognise the liability and recognise revenue.

2.3.7 Put options granted to the customer

If an entity has an obligation to repurchase the asset at a price that is lower than the original selling price of the asset, the entity must determine whether the customer has a significant economic incentive to exercise that right. In this case, the entity must account for the agreement as a lease in accordance with IFRS 16, since the difference between the original selling price received for the asset and the repurchase price constitutes consideration paid to the entity for the right to use a specified asset for a period of time.

In order to determine whether a customer has a significant economic incentive to exercise its put option, an entity must consider all necessary factors, such as the expected future market value of the asset on the date the put option would be exercised, as well as the amount of time until the put option expires.

If the repurchase price of the asset is equal to or greater than the original selling price and is more than the expected market value of the asset, the contract is in effect a financing arrangement.

2.3.8 Warranties covering products sold

It is common for an entity to provide a warranty (in accordance with the contract, the law or the entity's customary business practices) in connection with the sale of a product (whether a good or service). The nature of a warranty can vary significantly across industries and contracts.

If a customer has the option to purchase a warranty in addition to the basic warranty given (priced or negotiated separately), this warranty is a distinct service and a portion of the transaction price must be allocated to it and the entity must recognise a distinct performance obligation.

If the customer does not have the option to purchase a warranty separately, the entity must account for the warranty in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", unless the warranty (or part of this

warranty) provides the customer with a service in addition to the assurance that the product complies with agreed-upon specifications.

Example 8: A dealership sold a vehicle to a customer for 50,000. The vehicle is covered by a basic 3-year warranty covering parts and workmanship. The warranty specifies that the vehicle was sold in accordance with the contract and agreed specifications. The customer asks for an extended warranty for an additional 4 years at the price of 4,000.

The contract thus provides two warranties:

- a first warranty covering the three years following the date of purchase (not a distinct performance obligation),
- a second warranty, providing a distinct service.

Treatment of the first warranty
Pursuant to the provisions in this Standard on identifying performance obligations and disaggregation of revenue, the revenue generated from the sale of the vehicle must be recognised separately from the price of the warranty granted. Since the price of the warranty is directly observable, i.e., 1,000 per year, the revenue from the contract must be disaggregated between the sale of a good for 47,000 and the sale of a service for 3,000. The selling price of the vehicle was paid immediately upon transfer to the customer whereas the revenue invoiced for the warranty is spread out over a 3-year duration. In accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", a provision for a liability must be recognised at the end of each financial year the warranty remains valid.

Treatment of the second warranty
This obligation will only start running in the beginning of the fourth year after the vehicle is sold. During this period, the amount of 4,000 must be booked as a liability on this contract. From the fourth until the end of the seventh year, the 4,000 will be spread with a provision recognised in accordance with IAS 37.

2.3.9 An entity may act as principal or agent

When another party is involved in providing goods or services to an entity's customer, the entity must determine whether it is acting as a principal (performance obligation to provide the specified goods or services itself) or if it is acting as an agent.

The entity is acting as a principal if it controls the specified good or service before that good or service is transferred to the customer. An entity may satisfy its performance obligation to provide the specified good or service itself or it may engage a third party to satisfy some or all of the performance obligations on its

behalf. However, an entity does not necessarily control a specified good if the entity obtains legal title to that good only momentarily before legal title is transferred to a customer. When an entity that is a principal satisfies a performance obligation, the entity recognises revenue in the gross amount of consideration to which it expects to be entitled in exchange for the specified good or service transferred.

An entity is acting as an agent if the entity's performance obligation is to arrange for the provision of the specified good or service by a third party. In this case, the entity recognises revenue from contracts with customers in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the third party. An entity's fee or commission might be the net amount of consideration that the entity retains after paying the other party the consideration received in exchange for the goods or services to be provided by that party.

The following are indicators that an entity is acting as an agent:

a. a third party is primarily responsible for fulfilling the promise to provide the specified good or service;
b. the entity has no inventory risk before or after the order for the good or service by the customer, during shipment or in the event of return;
c. the entity has no discretion in establishing the price for the specified good or service of the third party, resulting in a limited margin possible for the entity on such good or service;
d. the entity receives consideration in the form of a commission;
e. the entity is not exposed to any credit risk related to the amount to be received from the end customer for the good or service provided to the end customer.

If a third party assumes the entity's performance obligation and obtains related contractual rights, then the entity is no longer responsible for satisfying the performance obligation to transfer the good or service promised to the customer. In this case, the entity must not recognise revenue from contracts with customers for this obligation, but rather, determine if revenue from contracts with customers should be recognised for having fulfilled a performance obligation to obtain a contract for a third party (in other words, determine if the entity is acting as an agent).

2.4 Determining the transaction price

2.4.1 Defining the price

The transaction price is the amount of consideration to which an entity expects

to be entitled in exchange for transferring promised goods or services to a customer.

The transaction price does not include any amounts collected on behalf of third parties (advance on expenses or taxes, for example).

This consideration may include fixed amounts, variable amounts, or both.

The transaction price is determined in accordance with the existing contract, on the assumption that it will not be cancelled, renewed or modified.

2.4.2 Variable price components

Variable price components may lead to:

- a price increase: performance bonuses, incentives to meet deadlines or quality standards;
- a price decrease: discounts, rebates, refunds, penalties.

These price variations may also be contingent on the occurrence or non-occurrence of a future event (right to cancel an order before a certain time limit, for example).

Variable prices may be:

- provided for explicitly in the contract,
- based on the customer's expectation to obtain a price concession,
- the result of an entity's customary business practices, published policies or specific statements,
- based on other facts and circumstances indicating that the entity's intention, when entering into the contract, was to offer a price concession.

The entity must estimate the amount of variable consideration in the contract price by using either of the following methods:

a. The expected value method: this uses the sum of probability-weighted amounts in a range of possible consideration amounts (this method is used when the entity has a large number of contracts with similar characteristics);

b. The most likely amount method: this retains the single most likely amount in a range of possible consideration amounts (this method is used, in particular, for bonuses or price supplements).

Example 9: An entity was awarded an annual supply contract by one of its customers for delivery of 10,000 products at a price of 50 per unit over 12 months. The contract provides that if the number of products delivered exceeds this threshold of 10,000, a blanket discount of 2% on the price of all sales of the products over the period will be granted.
At the end of the entity's financial year, it estimated that the sales volume would most likely be roughly 12,500 units, considering that 9,000 products had already been delivered.
The entity would thus recognise revenue as follows:

- revenue from sales of 9,000 units 450,000
- expected reduction of contract revenue after threshold exceeded - 9,000
- i.e., net revenue of 441,000

2.4.3 Refund liabilities

When the transaction price collected by the entity invoicing the transfer of the goods or services is higher than the amount that was expected to be received for the transaction, the difference must be recognised as a refund liability.

2.4.4 Sale with a right of return for the customer

General sales conditions may provide that the customer has the right for a certain period to return the product and receive a full or partial refund of any consideration paid, a credit that can be applied against any amounts owed to the entity or another product in exchange.

The entity invoicing recognises the revenue for the products transferred, less products expected to be returned.

The entity recognises a refund liability for those products to be returned by customers and an asset for its right to recover products from customers less any expected costs to recover those products (carriage, repackaging, for example), which decrease the amount of revenue expected.

The liability will be resolved by a cash outflow (reimbursement) or by a decrease of the existing or future liability (credit) or by transfer of another asset.

No set off takes place between the said liability and asset which are recognised for products returned.

Example 10: A merchant sells fashion goods on its web site. According to its sales conditions, customers may return items in good condition for reimbursement within 8 days of sale.
In addition, the merchant offers customers 10 points for every 100 worth of purchases they make, which can be used as credit towards future purchases as of 500.
On the basis of marketing statistics, this merchant has determined that 25% of customers return their purchases (with no consistency in terms of the time lapsing prior to return) and that the amount of the credit used represents approximately 2% of sales revenue.
In June, the entity generated revenue of 2,400,000, of which 200,000 during the last week of the month.

Sales revenue for the month of June must thus be recognised as follows:

- actual sales revenue 2,400,000
- reversal of 25% of revenue generated the last week
- (deferred revenue) - 50,000
- liabilities for residual revenue corresponding to discounts
- to be granted - 47,000
- i.e., net revenue of 2,303,000

2.4.5 Constraining the recognition of a variable portion of the transaction price

Entities must include in the transaction price some or all of an amount of variable consideration only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

When the extent or probability of a reversal of revenue due to a reduction of the variable portion of the transaction price appears to be high, the amount of such variable portion is not recognised in revenue.

2.4.6 Financial terms and conditions in the contract

a) Existence of a financing component in the contract

As a principle, if the date of transfer of the product or service to the customer is different from the date the customer pays for the product or service, the time value of money must be taken into consideration to determine the transaction price in order to take into account the benefit received by the entity or the customer for financing the transfer.

For example, a supplier may obtain down payments on customer orders or grant

payment facilities to customers either on a contractual basis or based on customary practice.

The objective consists in recognising revenue as if all customers paid cash.

As an exception, an entity may choose not to adjust the amount of revenue when the customer pays for the goods or services within one year or less, on the grounds that the effects of any price variation would be minimal and that the financing component of the contract is not significant.

Example 11: An entity enters into a contract to supply a power plant to one of its customers for a transaction price of 5,000,000. Contractual terms and conditions provide for a down payment of 30% on the date of signature of the order and the balance upon transfer scheduled for 24 months later.
Medium-term financing rates on the market are 2% per annum and the credit risk determined by the selling entity led it to increase the effective interest rate by 1% as a risk premium.

At the end of the first financial year, the entity must book:

- the reversal of revenue invoiced as a down payment
- the recognition of a financial liability amounting to 45,000
  i.e.: 5,000,000 x 30% x (2+1)%

On the date of its next statement of financial position, as the time limits were complied with, the entity must book:

- revenue corresponding to transfer of the goods 5,000,000
- increased by the amount of financial liability for interest
- in years 1 and 2 on the down payment collected 90,000
- i.e., total revenue of 5,090,000
- financial liability for year 2 resulting from the cost related to cash resources available to the entity 45,000

The total impact on aggregate revenue will thus be equal to: - 45,000 (Year 1) + 5,090,000 (Year 2) – 45,000 (Year 2) = 5,000,000, i.e., the specified amount in the contract.

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Example 12: On 31 December Year N, a company sold goods for the amount of 2,000,000 to be delivered at the end of Year N+1. Due to good business relations and the entity's cash position, it grants free credit to the customer for a period of 24 months.

The amount of revenue the entity must recognise would be as follows:

• For Year N	0
• For Year N+1:	
• revenue from the sale of the goods delivered	2,000,000
• less interest on the credit extended,	
• i.e., 2,000,000 x 3% x (1+1) years	- 120,000
• i.e., a total amount of	1,880,000
• not including interest income of	60,000
• For Year N+1, the interest income of credit extended	60,000

b) Discount rate to be applied

An entity must use the discount rate that would be reflected in a separate financing transaction between the entity and its customer.

This way, the rate will reflect the credit characteristics of the customer (or the supplier) receiving financing in the contract, as well as the nature and value of any collateral or security provided (including assets transferred in the contract).

c) Impact on Statement of comprehensive income

Revenue from contracts with customers must be reduced by the amount of the price of the financing component in the sales contract.

The entity must present separately the interest revenue on credit extended to the customer.

Likewise, the entity must present separately the interest expense on credit granted to suppliers through down payment(s) or instalments made.

2.4.7 Non-cash consideration

When the transaction price for goods or services is not in the form of cash or a cash equivalent, but instead paid by way of the transfer of goods or services, this non-cash consideration must be measured by reference to the fair value of the goods or services transferred (as defined in IFRS 13).

If the fair value of the non-cash consideration cannot be determined reliably,

the entity may use indirect substitution methods (reference to the stand-alone selling price of the goods or services for example).

If a customer contributes materials or labour to facilitate fulfilment of the contract (on the worksite, for example), the entity must account for the contributed goods or services as non-cash consideration received from the customer if it obtains control of those contributed goods or services.

2.4.8 Consideration payable to a customer

An entity may pay cash amounts to a customer or issue credit notes to customers or third parties who have purchased its products from the customer (such as loyalty coupons, quantity discounts, promotional campaigns).

In this case, the consideration paid is accounted for as a reduction of revenue. If the consideration payable to a customer includes a variable amount, the provisions applicable to constraining estimates shall apply.

Example 13: A large-scale retailer established a loyalty points programme that commits its distributor to offering a non-cash gift to select customers using a published loyalty rate scale.

The distributor determined that the gifts offered, taking into consideration expiration of the points earned, amounted to 1.50% of its revenue.
Revenue generated for the month of May Year N was 30,000,000.

Revenue to be recognised would be determined as follows:

• actual revenue invoiced and collected	30,000,000
• reversal (deferred revenue) at the conversion rate of loyalty points into gifts (1.50%)	- 450,000
• i.e., net revenue of	29,550,000

2.5 Allocating the transaction price to performance obligations

2.5.1 Conditions applicable to allocating the transaction price among the various performance obligations in the contract

When a contract between a supplier (or service provider) and its customer includes several obligations, the total transaction price must be allocated to each performance obligation in an amount that depicts the amount of consideration to which that entity expects to be entitled in exchange for transferring the promised goods or services to the customer.

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a) When the stand-alone price is directly observable

If the stand-alone selling price of each good or service is directly observable (for example, based on a list price), the total transaction price must be allocated to each good or service sold as if each one had been sold separately under the conditions existing at contract inception.

The best method to determine the stand-alone selling price is to refer to the observable price of a good or service when the entity sells that good or service separately in similar circumstances and to similar customers.

If it is impossible to use this method as a basis to determine the stand-alone price, it appears possible (although not explicitly stated in the Standard) to refer to prices used by competing entities for similar goods and services.

b) When the stand-alone price is not directly observable

In this case, the entity must consider all information that is reasonably available, such as market data, together with entity-specific and customer-specific data.

The following methods for estimating the stand-alone price include the following:

- **Adjusted market assessment approach**: referring to prices of the entity's competitors for similar goods or services and adjusting those prices as necessary to reflect the entity's specific cost price policies and margins;

- **Expected cost plus a margin approach**: referring to the entity's costs it is expected to be familiar with and then adding an appropriate margin based on customary practice;

- **Residual approach**: referring to the total transaction price, less the sum of the observable stand-alone selling prices of other goods or services promised in the contract. However, this method may only be used if one of the following criteria is met:
  - ✓ the same good or service is sold at or near the same time to different customers for a highly variable and very broad range of amounts;
  - ✓ the entity has not yet established a price for that good or service and the good or service has not previously been sold on a stand-alone basis, making the selling price uncertain.

When two or more of the goods or services have highly variable stand-alone prices, the entity may combine the above methods.

Example 14: An office supply company entered into a contract with one of its customers for the sale of a photocopier at a price of 45,500. Exceptionally, the company agreed to deliver the photocopier free of charge to the customer. The observable price that would be charged by local transport companies for the delivery of this type of equipment to the customer is 500.

Contract revenue must be recognised as follows:

• sale of good	45,000
• transport services	500

2.5.2 Allocating the difference between the sum of the stand-alone selling prices and the total transaction price by contract

A "discount" is defined in the Standard as the difference between the total transaction price in the contract and the sum of the stand-alone selling prices of those promised goods or services in the contract.

a) Allocating the discount proportionately to all performance obligations

Aside a few rare exceptions, entities must allocate a discount proportionately to all performance obligations in the contract.

b) Allocating the discount to one or more specific performance obligations

In this case, the entity allocates a discount only to the price of certain goods or services, and not to all of the performance obligations in the contract.

This method is only authorised if all of the following criteria are met:

- the entity regularly sells each distinct good or service in the contract on a stand-alone basis;
- the entity regularly sells bundles of these distinct goods or services at a discount to the stand-alone selling prices of the goods or services in each bundle;
- the discount attributable to the entire contract is substantially the same as the policy used for the sale of goods or services described in the line above.

If the discount is allocated specifically to one or more performance obligations in the contract, the entity must allocate the discount before using, if applicable, the residual approach to estimate the stand-alone selling prices of the other goods or services in the contract.

Example 15: In the previous example, an office supply company entered into a contract with one of its customers for the sale of a photocopier at a price of 45,500. Exceptionally, the company agreed to deliver the photocopier free of charge to the customer. In addition, because the buyer is a loyal customer and the entity was planning to launch a promotion that happens to coincide with the date of transfer of the photocopier to the customer, the company will also be announcing an immediate 10% discount to all customers.
The observable price that would be charged by local transport companies for the delivery of this type of equipment to the customer is 500.

Contract revenue must be recognised as follows in this case:

- transport services 500
- sale of good 40,450

i.e., the total price allocated between the sale of the good (45,000) and transport services (500) with allocation of the discount to the sale of good only (4,550), due to the fact that the company never offers discounts on transport services.

2.5.3 Allocation of variable consideration

Variable consideration promised in a contract may only be allocated to one or more specific goods or services constituting performance obligations under the contract on the condition that:

- the terms of a variable payment relate specifically to the entity's efforts to satisfy the performance obligation or transfer the distinct good or service;
- allocating the variable amount of consideration entirely to the performance obligation or the distinct good or service is consistent with the more general objective to allocate the transaction price.

The obligation to allocate variable consideration specifically to one good or service may occur in the following cases:

- a bonus applies for transferring a promised good or service in a specified place or within a specified period of time;
- an indexation clause applies to services (cleaning, for example) after a specified duration of contract performance.

In most cases, variable consideration will be allocated to all goods and services constituting performance obligations under the contract.

2.5.4 Changes in the transaction price originally provided for by contract

Any subsequent changes in the transaction price after contract inception are subject to the same rules as those applicable to variable consideration.

Amounts allocated to an already satisfied performance obligation must be recognised as revenue, or as a reduction of revenue, in the period in which the transaction price changes.

However, for a change in the transaction price that occurs after a contract modification:

- the entity must allocate the change in the transaction price to the performance obligations identified in the contract before the modification: this means termination of the existing contract and creation of a new contract;
- failing which, the entity will allocate the change in the transaction price to the unsatisfied or partially satisfied performance obligations at the date of the contract modification.

2.5.5 Customer options for additional goods or services

This aspect relates to the issue of customer loyalty programmes where customers have the future option to acquire additional goods or services for free or at a discount.

This option granted to the customer upon initial purchase gives rise to the creation of an obligation for the seller to provide a good or service at a discount or free of charge at the time of the customer's next purchase. Therefore, at the time of the initial sale, the customer pays not only the purchase price for the initial good sold, but also all or part of the price of the next sale. The entity must thus only recognise revenue up to the amount of the net price not including the future discount granted and recognise deferred revenue.

Allocation of deferred revenue is made pro rata to the transaction prices charged for the initial sale. The future discount (when the customer exercises the option to buy) is thus given on the basis of directly observable prices. Failing which, the entity must estimate the discount to be granted based on:

- any discount that the customer could receive without exercising the option, just like any other customer of the entity,
- the likelihood that the customer will exercise the option

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2.6 Accounting treatment and presentation of financial statements

2.6.1 General provisions applicable to goods and services

When a party to a contract has performed its contractual obligations, that entity must present the contract in the statement of financial position as a contract asset (if not yet paid) and the other party must present a contract liability (unless it has paid). An entity must present any unconditional rights to consideration separately as a receivable.

If an entity has received consideration (in full or part) or has a right to unconditional consideration before it transfers a good or service to the customer, the entity must present the contract as a contract liability. This contract liability represents the entity's obligation to transfer goods or services to a customer for which the entity has already received consideration (down payment from customer, for example).

If an entity transfers goods or services to a customer before the customer pays consideration or before payment is due, the entity must present the contract as a contract asset, excluding any amounts presented as a receivable. A contract asset represents an entity's right to consideration in exchange for goods or services that the entity has transferred to a customer. In accordance with IFRS 9 (formerly IAS 39), the entity must test the asset for impairment, which must be measured and presented on the same basis as a financial asset and for which the required information must be disclosed.

A receivable must be recognised as an asset in accordance with IFRS 9 only if it represents an entity's right to consideration that is unconditional, even if a passage of time is required before payment or the amount may be subject to refund in the future. Subsequently, any difference between the initial value of the receivable measured (fair value pursuant to IFRS 9) and the actual corresponding amount of revenue from contracts with customers recognised must be presented as an expense in the form of an impairment loss.

IFRS 15 introduces two new terms - "contract asset" and "contract liability", but an entity may use alternative descriptions in its statement of financial position for these items. If so, the entity must provide sufficient information to distinguish between receivables and contract assets.

2.6.2 Licensing

A licence establishes a customer's rights to the intellectual property of an entity.

Licences may cover for example:

- ✓ software;
- ✓ audiovisual rights (films, music, games);
- ✓ brand franchises;
- ✓ patents, trademarks, copyrights.

In addition to a licence, the contract may also include a promise to transfer other goods or services to the customer. In this case, the different performance obligations must be identified. If they cannot be separated, the contract is considered a single performance obligation and the entity must determine whether the obligation is satisfied over time or satisfied at a point in time.

If the licence is distinct from the other promised goods or services in the contract and thus constitutes a separate performance obligation, the entity must determine whether the licence transfers to a customer either at a point in time or over time.

To do so, the entity must analyse the nature of its performance obligation, which may be either:

- a right to access the entity's intellectual property as it exists throughout the licence period; or
- a right to use the entity's intellectual property as it exists at the point in time at which the licence is granted.

In order for a contract to grant a right to access the entity's intellectual property, the three following criteria must be met:

- the entity will undertake activities that significantly affect this intellectual property as an intangible asset it is creating or developing;
- the rights granted by the licence directly expose the customer to any positive or negative effects of these activities;
- those activities do not result in the transfer of a good or a service to the customer as those activities occur.

If all of these conditions are met, the revenue generated from the licence is accounted for as a performance obligation satisfied over time to reflect the entity's progress in performing the obligation. This is the case in particular, for franchises.

If this is not the case, the entity must account for the licence as a performance obligation satisfied at a point in time. However, revenue cannot be recognised for a licence until the customer is able to use and benefit from the licence. For example, revenue will only be recognised once an entity has provided a code to the customer to access the software.

Example 16: Company A entered into a contract with Customer B for a total price of 300 as consideration for the granting of a design software package to design and produce various goods. The contract is for a term of 3 years and specifies that Customer B will receive regular software updates to allow for optimal development of products considering technological developments in the sector. Company A does not sell software updates separately and Customer B has no option of purchasing the licence without the updates. In this case, since Customer B will simultaneously receive and consume the benefit from Company A's performance, the performance obligation is satisfied over time and related revenue is recognised throughout the entire duration of the contract, i.e., at the amount of 100 per year, unless Company A is able to allocate a specific price to each update planned over the course of the next three years.

Example 17: As a counter example, take the software publisher Company C which sells accounting software. At the time of an initial purchase, the customer receives an activation code and pays a set price for the software. When the customer purchases a new version of the software, it must pay an additional amount but which is lower than the initial price. In this specific case, Company C would recognise sales revenue each time a customer makes a purchase and receives an activation key (initial purchase and then for new versions).

3. Accounting impact

IFRS 15 lays down the rules applicable to accounting treatment of costs related to obtaining and to fulfilling a contract.

3.1 Incremental costs of obtaining a contract

An entity must recognise as an **asset** the incremental costs of obtaining a contract with a customer if the entity expects to recover those costs (costs that an entity incurs to obtain a contract **that it would not have incurred** if the contract had not been obtained - for example, a sales commission).

Costs to obtain a contract that **would have been incurred** regardless of whether the contract was obtained must be recognised as an **expense** when incurred, unless those costs are explicitly chargeable to the customer regardless of whether the contract is obtained.

As a practical expedient, entities may recognise the incremental costs of obtaining a contract as an expense when incurred.

Example 18: An entity incurs 100,000 in costs related to the development of a mould that would allow it to obtain a contract to manufacture 100,000 units of resin furniture pieces for a price of 4,000,000. The company obtains the contract and plans to pass on these costs to the customer as it progressively performs the contract over time.

At the time of signature of the contract, the entity can thus recognise as an asset the costs of obtaining the contract in the amount of 100,000.

At the end of each subsequent period, this amount of 100,000 will be adjusted to take into account the portion of the costs passed on to the customer progressively.

Example 19: An entity incurs 30,000 in travel expenses for several staff members to negotiate and in the end, to obtain, a service contract in the Middle East. There is no way for these costs to be passed on to the customer, even if the negotiations had been unsuccessful. In this case, the entity cannot recognise as an asset the costs of obtaining the contract, but only as expenses when incurred.

3.2 Costs to fulfil a contract

If the costs incurred in fulfilling a contract with a customer are not within the scope of another Standard (for example, IAS 2 “Inventories”, IAS 16 “Property, Plant and Equipment” or IAS 38 “Intangible Assets”), an entity must recognise them according to IFRS 15.

Entities must recognise an **asset** from the costs incurred to fulfil a contract (cost of direct labour, cost of direct materials, allocations of costs that relate directly to the contract or to contract activities, costs that are explicitly chargeable to the customer under the contract, other costs that are incurred only because an entity entered into the contract) only if those costs meet all of the following criteria:

a. they relate directly to a contract that the entity can specifically identify (for example, costs relating to services to be provided under renewal of an existing contract or costs of designing an asset to be transferred under a specific contract that has not yet been approved);
b. the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future;
c. the entity expects to recover these costs.

Entities must recognise the following costs as **expenses** when incurred:

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a. general and administrative costs (unless those costs are explicitly chargeable to the customer under the contract);
b. costs of wasted materials, labour or other resources to fulfil the contract that were not reflected in the price of the contract;
c. costs that relate to fully or partially satisfied performance obligations in the contract (i.e., costs that relate to past performance);
d. costs for which an entity cannot distinguish whether the costs relate to unsatisfied performance obligations or to satisfied performance obligations (or partially satisfied performance obligations).

3.3 Amortisation and impairment

An asset recognised as an expense in accordance with IFRS 15 as described above must be amortised on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates.

Entities must update the amortisation of this asset to reflect a significant change in the entity's expected timing of transfer to the customer of the goods or services to which the asset relates. Such a change must be accounted for as a change in accounting estimate in accordance with IAS 8.

Entities must recognise an impairment loss in profit or loss to the extent that the carrying amount of an asset recognised exceeds the result of the following formula ⓐ - ⓑ

ⓐ the remaining amount of consideration that the entity expects to receive in exchange for the goods or services to which the asset relates;

less

ⓑ the costs that relate directly to providing those goods or services and that have not been recognised as expenses.

For the purposes of determining the amount of consideration that an entity expects to receive, the entity must use the principles for determining the transaction price (except for the requirements on constraining estimates of variable consideration) and adjust that amount to reflect the effects of the customer's credit risk.

Before an entity recognises an impairment loss for an asset, the entity must recognise any impairment loss for assets related to the contract that are recognised in accordance with another Standard (for example, IAS 2, IAS 16 or IAS 38). After applying an impairment test, the entity must include the resulting carrying amount of the asset in the carrying amount of the cash-generating unit

to which it belongs pursuant to IAS 36 "Impairment of Assets".

Entities must recognise in profit or loss a reversal of some or all of an impairment loss previously recognised when the original impairment conditions no longer exist or have improved. The increased carrying amount of the asset must not exceed the amount that would have been determined (net of amortisation) if no impairment loss had been recognised previously.

Example 20: Company A signed a contract with Customer C for the transfer of a machine under the following conditions:

- manufacturing lead time: 4 months
- sales price: 18,000
- down payment at signature: 40%
- balance: 30 days after delivery
- cost of obtaining the contract: 800
- manufacturing costs: 13,200.

At the end of the reporting period, the machine had been manufactured, but not yet transferred.
In this case, the contract would be presented in the financial statements as follows:

- Contract assets
(costs of obtaining and fulfilling the contract): 14,000 (13,200 + 800)
- Contract liabilities (down payment at time of order): 7,200 (40% de 18,000)
- Impact on profit and loss: none

At the time of transfer, the entity will recognise revenue of 18,000.
It will reverse the costs of obtaining and fulfilling the contract recognised as assets and the down payment received recognised as a liability, so that only the remaining balance of the transaction price due, i.e., 10,800 (60% of 18,000) is recognised in assets. The impact on profit and loss would be 4,000. The amount will be cleared upon collection.

4. Disclosure

Pursuant to IFRS 15, entities must disclose in the notes to the financial statement three categories of information:

a. Information on contracts with customers, including in particular: aggregate revenue so it is disclosed separately from the entity's other sources of revenue, and the amount of impairment losses recognised on any "contract assets",

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b. Balances of contract receivables: opening and closing balances of customer receivables, contract assets and contract liabilities from contracts with customers, explanations of how the timing of satisfaction of its performance obligations relates to the typical timing of payment,

c. Performance obligations: when the entity typically satisfies its performance obligations (upon delivery, as services are rendered or upon completion of service, etc.), the typical payment terms for customers, including whether contracts have a financing component with specific payment schedules granted or obtained.

Entities must also disclose:

- whether or not the consideration amount is variable and if the estimate of variable consideration is constrained,
- information on contracts when the entity acts as an agent only,
- information on obligations to customers for potential returns and warranties granted,
- the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period (in this case, with an explanation of when the entity expects to recognise as revenue the performance obligations remaining).

In addition, entities must disclose all information about the methods, inputs and assumptions they have used to implement IFRS 15, in particular in the following cases:

- situations where services are rendered over time,
- criteria used for variable consideration that is constrained,
- allocating discounts granted to customers,
- obligations for potential returns or refunds to customers.

As regards the costs for obtaining and fulfilling contracts, entities must disclose:

- the judgements made in determining the amount of the costs incurred to obtain or fulfil contracts with customers,
- the methods they use to determine the amortisation of assets for each reporting period.

Finally, entities must inform readers of:

- the closing balances of assets recognised from the costs incurred to obtain or fulfil contracts with customers by category of asset,
- the amount of amortisation and any impairment losses of these assets recognised in the reporting period.