SLFRS 15 - Revenue from contracts with Customers.

SLFRS 15 establishes a comprehensive framework for determining *when* to recognise revenue and *how much* revenue to recognise.

The core principle in that framework is that a company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services.

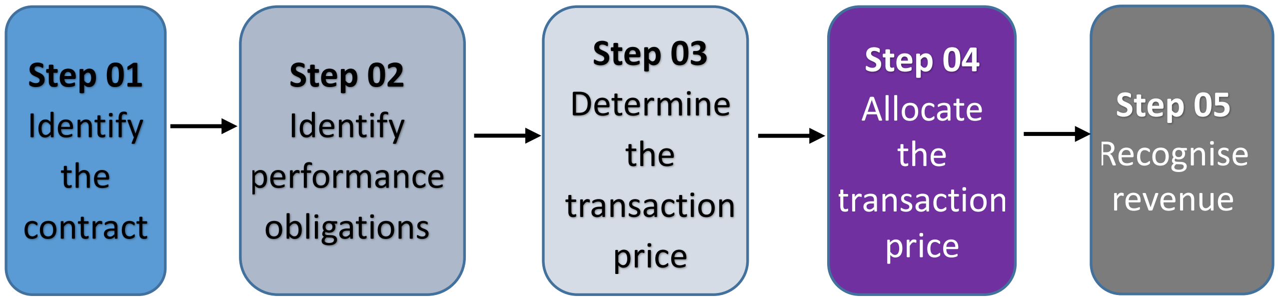
SLFRS 15 *Revenue from Contracts with Customers* applies to all contracts with customers, except for:

- Lease contracts within the scope of LKAS 17/SLFRS 16 *Leases*;
- Insurance contracts within the scope of SLFRS 4 *Insurance Contracts*;
- Financial instruments and other contractual rights and obligations within the scope of SLFRS 9 *Financial Instruments*.
- Non-monetary exchanges between entities.

SLFRS 15 replaces the following standards and interpretations.

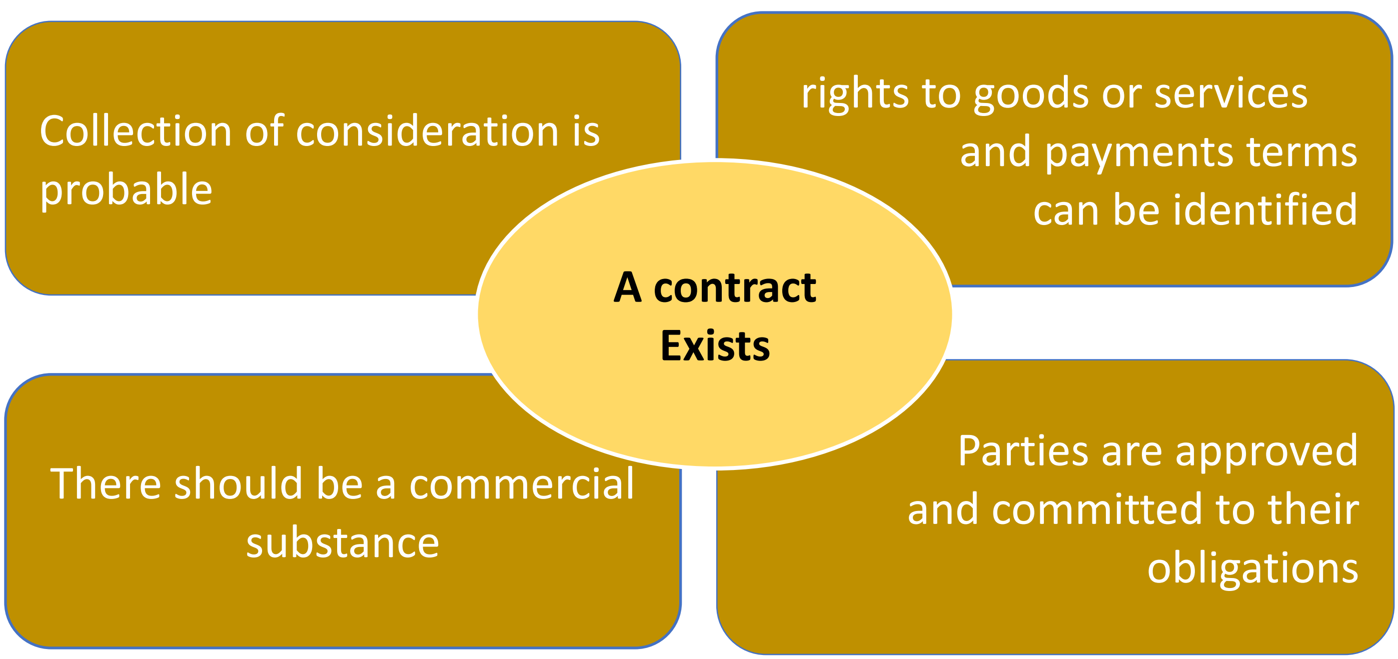
- LKAS 11 *Construction contracts*
- LKAS 18 *Revenue*
- IFRIC 13 *Customer Loyalty Programmes*
- IFRIC 15 *Agreements for the Construction of Real Estate*
- IFRIC 18 *Transfers of Assets from Customers*
- SIC-31 *Revenue - Barter Transactions Involving Advertising Services*

5 step model in recognizing Revenue.



Step 01 - Identify the contract(s) with the customer

A contract is an agreement between two or more parties that creates enforceable rights and obligations.



Step 02 - Identify the performance obligations in the contract.

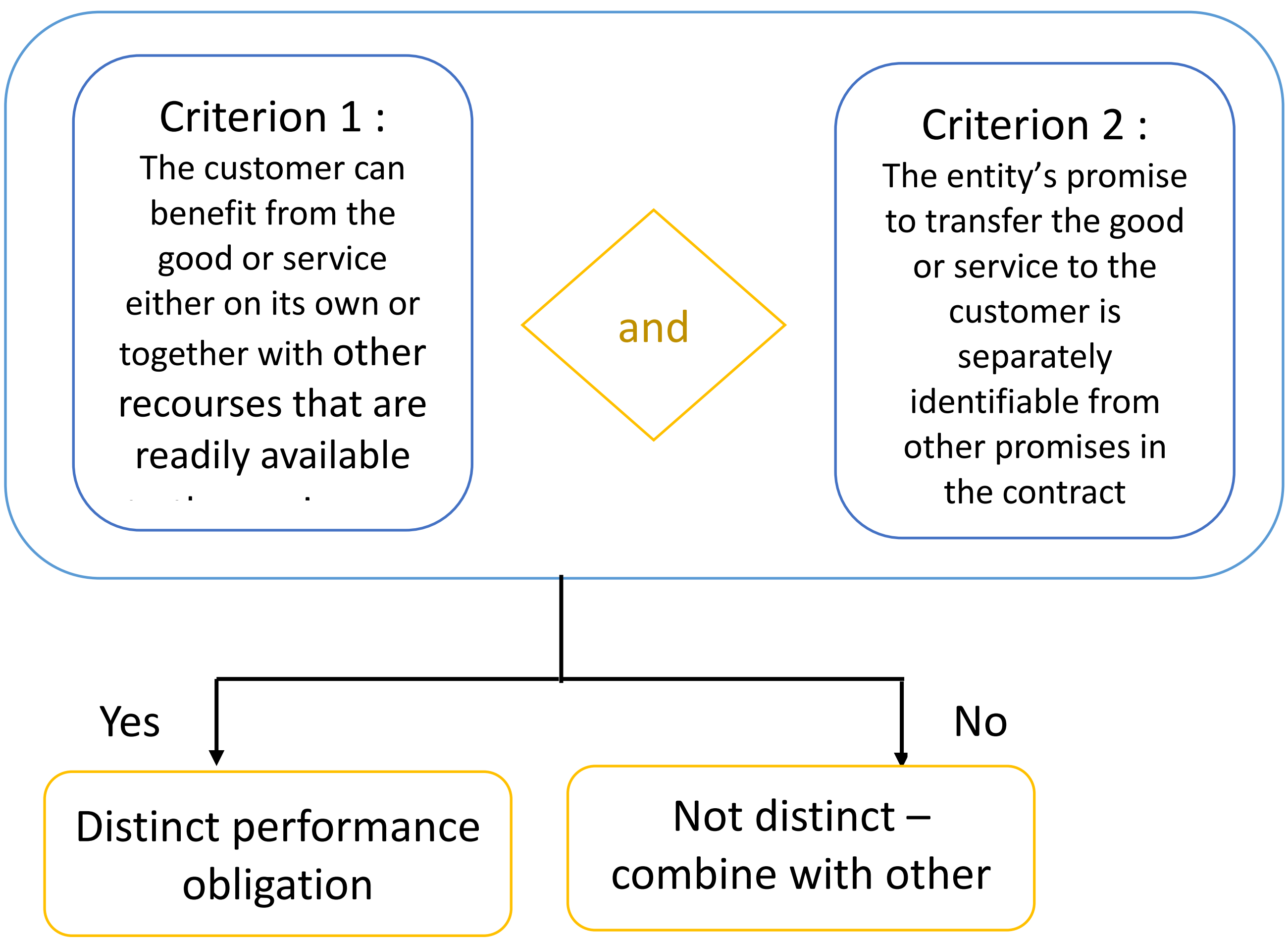
- Performance obligations are promises in a contract to transfer to a customer goods or services that are distinct.

- In determining whether a good or service is distinct, a company considers if the customer can benefit from the good or service on its own or together with other resources that are readily available to the customer.

Eg :- A company also considers whether the company's promise to transfer the good or service is separately identifiable from other promises in the contract. For example, a customer could benefit separately from the supply of bricks and the supply of construction labour.

However, those items would not be distinct if the company is providing the bricks and construction labour to the customer as part of its promise in the contract to construct a brick wall for the customer. In that case, the company has a single performance obligation to construct a brick wall.

The bricks and construction labour would not be distinct goods or services because those items are used as inputs to produce the output for which the customer has contracted



Step 03 - Determine the transaction price

- The transaction price is the amount of consideration to which a company expects to be entitled in exchange for transferring promised goods or services to a customer.

- Usually, the transaction price is a fixed amount of customer consideration. Sometimes, the transaction price includes estimates of consideration that is variable or consideration in a form other than cash.

- Some or all of the estimated amount of variable consideration is included in the transaction price 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.

- Adjustments to the transaction price are also made for the effects of financing (if significant to the contract) and for any consideration payable to the customer

Variable consideration (and the constraint)

Entities consider the risk of revenue reversal when determining how much variable consideration to include in the transaction price

Non cash consideration

Non cash consideration is measured at fair value it that can be reasonably estimated. If not, an entity uses the stand-alone selling price of the good or service that was promised in exchange for non-cash consideration.

Consideration payable to a customer

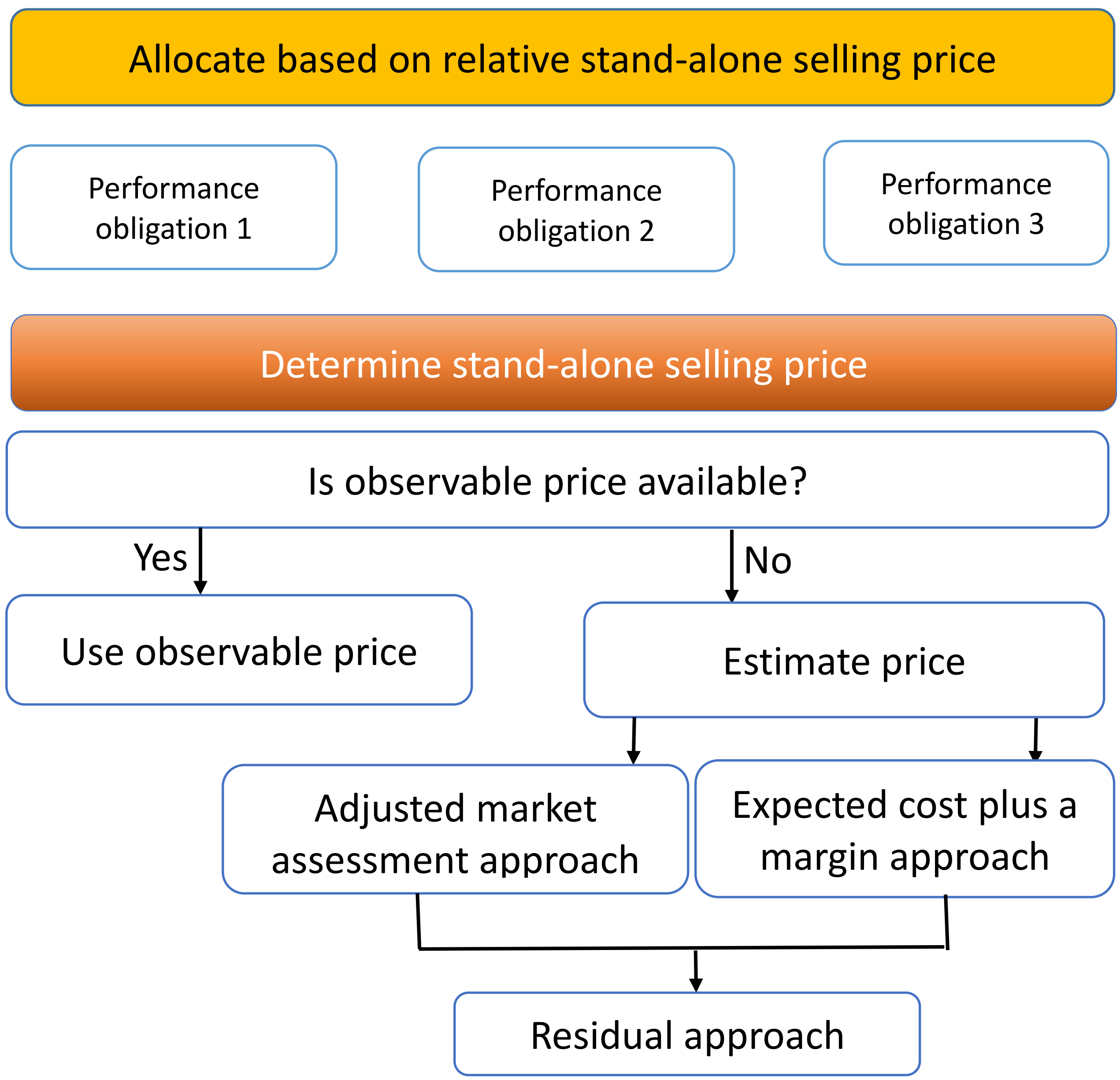
Entities need to determine whether consideration payable to a customer represent a reduction of the transaction price, a payment for distinct good or service, or a combination of the two.

Significant financing component

For contract with a significant financing component, entities adjust the promised amount of consideration to reflect the time value of the money.

Step 04 - Allocate the transaction price

- A company would typically allocate the transaction price to each performance obligation on the basis of the relative stand-alone selling prices of each distinct good or service.
- If a stand-alone selling price is not observable, the company would estimate it. Sometimes, the transaction price may include a discount or a variable amount of consideration that relates entirely to a specific part of the contract.
- The requirements specify when a company should allocate the discount or variable consideration to a specific part of the contract rather than to all performance obligations in the contract



Significant financing component.

To estimate the transaction price in a contract, an entity adjusts the promised amount of consideration if the contract contains a significant financing component.

The objective is to recognize revenue at an amount that reflects what the cash selling price of the promised good or service would have been if the customer had paid on obtaining control of that good or service.

The discount rate used is the rate that would be used in a separate financing transaction between the entity and the customer. The guidance applies to payments received both in advance and in arrears.

Step 05 - Recognise revenue when a performance obligation is satisfied

A company would recognise revenue when (or as) it satisfies a performance obligation by transferring a promised good or service to a customer (which is when the customer obtains control of that good or service).

A performance obligation may be satisfied at a point in time (typically for promises to transfer goods to a customer) or over time (typically for promises to transfer services to a customer).

For a performance obligation satisfied over time, a company would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied.

<u>Example No 01 – Transaction without significant financing component.</u>

Teletra Inc is a Telecommunication company providing mobile network services. Company contracted with a customer to deliver handset and provided network service for 12 months period for a monthly rent of Rs 1000.

The Market price for a handset would be Rs 800. Network fees for a month would be Rs 600.

Identify the relevant ledger entries for the recognition of Revenue according to SLFRS 15.

Answer.

Step 01 - Identify the contract(s) with the customer
There is a valid contract between the Telestra Inc and the customer in order to provide telecommunication services and the handset.

Step 02 - Identify the performance obligations in the contract.
In the contract there are two performance obligations.
01. Deliver the handset.
02. Provide network service for 12 Months.

Step 03 - Determine the transaction price
The traction price is Rs 12,000 which should be paid in 12 Monthly payments. There is no significant financing component in it.

Step 04 - Allocate the transaction price
The transaction price should be allocated based on the standalone transaction price.

Performance Obligation	**Standalone transaction price (Rs)**	**Allocation of the Transaction price (Rs)**
Deliver handset	800	(12000/8000)*800 **= 1200**
Provide network service	7200 (600 * 12)	(12000/8000)*7200 **=10800**
	8,000	**12,000**

Step 05 - Recognize revenue when a performance obligation is satisfied

Telestra can recognize Revenue of Rs 1200 on the delivery of the handset.
Rs 900 (10800/12) can be recognized monthly.

Receivable from Customer

Jan 1	Revenue	1 200	Cash	1 000
Jan 30	Revenue	900	C/d	1 100
		2 100		2 100
	B/f	1 100	Cash	1 000
Feb 28	Revenue	900	C/d	1 000
		2 000		2 000
	B/f	1 000	Cash	1 000
Mar 31	Revenue	900	C/d	900
		1 900		1 900
	B/f	900	Cash	1 000
Apr 30	Revenue	900	C/d	800
		1 800		1 800
	B/f	800	Cash	1 000
May 31	Revenue	900	C/d	700
		1 700		1 700
	B/f	700	Cash	1 000
Jun 30	Revenue	900	C/d	600
		1 600		1 600
	B/f	600	Cash	1 000
Jul 31	Revenue	900	C/d	500
		1 500		1 500
	B/f	500	Cash	1 000
Aug 31	Revenue	900	C/d	400
		1 400		1 400
	B/f	400	Cash	1 000
Sep 30	Revenue	900	C/d	30
		1 300		1 300
	B/f	300	Cash	1 000
Oct 31	Revenue	900	C/d	200
		1 200		1 200
	B/f	200	Cash	1 000
Nov 30	Revenue	900	C/d	100
		1 100		1 100
	B/f	100	Cash	1 000
Dec 31	Revenue	900		
		1 000		1 000

Revenue (Sales of Goods)

P/L	1 200	Receivable from customer	1 200
	1 200		1 200

Revenue – Service Fee

P/L	900	Receivable from customer	900
	900		900
P/L	900	Receivable from customers	900
	900		900
P/L	900	Receivable from customers	900
	900		900
P/L	900	Receivable from customers	900
	900		900
P/L	900	Receivable from customer	900
	900		900
P/L	900	Receivable from customers	900
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P/L	900	Receivable from customers	900
	900		900
P/L	900	Receivable from customer	900
	900		900
P/L	900	Receivable from customers	900
	900		900
P/L	900	Receivable from customers	900
	900		900
P/L	900	Receivable from customers	900
	900		900

Example No 02 – Transaction with significant financing component.

ABC Motor Car Inc entered in to a contract with a customer to deliver following bundle of services to a customer for a total price of Rs 4 .84 million.

According to the agreement customer requires to pay the transaction price only after 2 years from the date of contact. The discount rate applicable is 10%.

Item	Time frame for the supply	Standalone Transaction Price
Motor Car	Immediately	3,800,000
Three Services	One Service per year	100,000
Insurance for 1st Year (Rs 80,000 Payable to the Insurance company)	Immediately	80,000
Foreign tour to Japan	In the 2nd Year	420,000

Step 01 - Identify the contract(s) with the customer

There is a valid contract between the customer and ABC Motor Car Inc for a consideration of Rs 4.84 Million payable in 2 years.

Step 02 - Identify the performance obligations in the contract.

There are 3 performance obligations identified as follows

01) Deliver the car
02) Three services
03) Foreign tour to Japan

In this case insurance is not a performance obligation for ABC Motor car because ABC Motor is only the facilitator for the insurance and assumed there margin is insignificant. Therefore Rs 80,000 is a payable to insurance company.

Step 03 - Determine the transaction price.

The Transaction price is Rs 4.84 Million with significant financing component. As a result there is a requirement to recognize interest income at the rate of 10%. The receivable account is a financial asset under SLFRS 09.

Step 04 - Allocate the transaction price

Performance Obligation	**Standalone transaction price (Rs)**	**Allocation of the Transaction price (Rs)**
Motor Car	3,800,000	=(3920000/4320000)*3800000 **3,448,148**
Three Services	100,000	=(3920000/4320000)*100000 **90,741**
Insurance for 1st Year (Rs 80,000 Payable to the Insurance company)	80,000	**80,000**
Foreign tour to Japan	420,000	=(3920000/4320000)*420000 **381,111**
		4,000,000

Step 05 - Recognize revenue when a performance obligation is satisfied

Advanced Received from Customer

Revenue (Sales Of goods)	3 448 148	Receivable from Customer	3 920 000
Service Revenue	30 247		
C/d	441 605		
	3 920 000		3 920 000
		B/F	441 605
Service Revenue	30 247		
Other Revenue	381 111		
C/d	30 247		
	441 605		441 605
Service Revenue	30 247	B/f	30 247
	30 247		30 247

Payable to insurance company

Cash	80 000	Receivable from customers	80 000
	80 000		80 000

Receivable from customer

Advance Received from customers / Payable to the insurance	4 000 000		
Interest	400 000	C/d	4 400 000
	4 400 000		4 400 000
B/F	4 400 000		
Interest	440 000	Cash	4 840 000
	4 840 000		4 840 000

Revenue A/C (Sales of Goods)

P/L	3 448 148	Advanced Received from customers	3 448 148
	3 448 148		3 448 148

Revenue A/C (Service Revenue)

P/L	30 247	Advanced Received from customers	30 247
	30 247		30 247
P/L	30 247	Advanced Received from customers	30 247
	30 247		30 247
P/L	30 247	Advanced Received from customers	30 247
	30 247		30 247

Revenue A/C – (From foreign tour)

P/L	381 111	Advanced Received from customers	381 111
	381 111		381 111