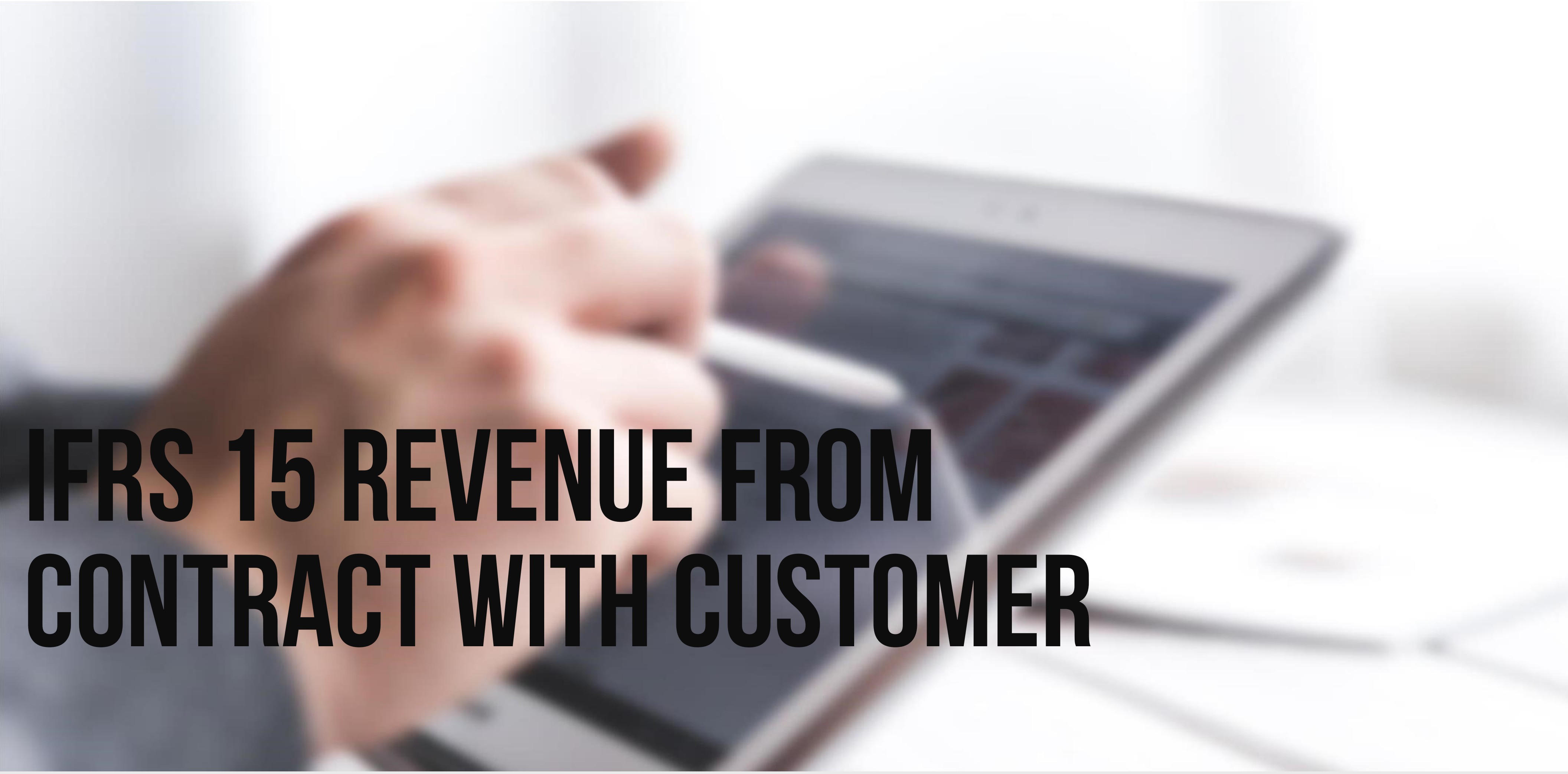

IFRS 15 REVENUE FROM CONTRACT WITH CUSTOMER

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IFRS 15 Revenue From Contract With Customers

Effective Date Periods beginning on or after 1 January 2018

SCOPE

Applies to all types of contracts with customers, except:

Insurance contracts (refer to IFRS 4)	Lease contracts (refer to IAS 17)
Financial instruments and other contractual rights or obligations	Certain non-monetary exchanges.

DEFINITIONS

Contract :
An agreement between two or more parties that creates enforceable rights and obligation.

Transaction Price:
It is the amount of consideration which an entity expects to be entitled in exchange for transferring promised goods/services.

Performance obligation:
Refers to a promise in a contract with the customer to carry out what contract says.

Five Step Process

1. Identify the Contract
2. Identify the performance obligation
3. Determine the Transaction price
4. Allocating of Transaction price
5. Recognition of Revenue when Performance Obligation is satisfied

Step 1: - Identify the Contract.

Four attributes the contract must meet are:-
Contracts, and approval of contracts, can be written, oral or implied.
IFRS 15 requires contracts to have all of the following attributes: -

- The contract has been approved.
- The rights and payment terms regarding goods and services to be transferred can be identified .
- The contract has commercial substance .
- It is probable that the consideration will be received (considering only the customer's ability and intention to pay).

Contract modifications:
A change in enforceable rights and obligations is only accounted for as a contract modification if it has been approved, and creates new or changes existing enforceable rights and obligations.
Contract modifications are accounted for as a separate contract if:-

- The contract scope changes due to the addition of distinct goods or services,
- The change in contract price reflects the standalone selling price of the distinct good or service.

Contract modifications that are not accounted for as a separate contract if:-
(i) Replacement of the original contract with a new contract.
(ii) Continuation of the original contract.

Combining multiple contracts :
Contracts are combined if they are entered into at (or near) the same time, with the same customer, if either:

- The contracts are negotiated as a package with a single commercial objective
- The consideration for each contract is interdependent on the other, or
- The overall goods or services of the contracts represent a single performance obligations.

Step 2: - Identify the Performance Obligations

1

Performance Obligations can be identified as:
Goods/services that are distinct.(For example: Hiring a Photographer for an event)

- Customer must benefit from PO on its own. (Example- Consumables goods)
- PO must be separately identifiable from other promises in the contract.

2

Series of distinct goods or services.(For example: Hiring an accountant for monthly maintenance of accounts.)

- Must be substantially the same.(Separately identifiable)
- Have the same pattern of transfer.

Step 3: - Determination of Transaction Price

Transaction Price excludes the amount that you may have collected on behalf of third party for example reimbursement or disbursement. Transaction price should include:

- Variable consideration. (Discounts, rebates, credits, refunds, incentives, price concession, penalties, performance bonus)
- The existence of a significant financing component.

a) The difference between the amount of promised consideration & the cash selling price of the promised goods/services.

b) The combined effect of:

i)The expected length of time between when the entity transfers the promised goods/services & when the customer pays

ii)The prevailing interest rates.

- Non- cash consideration.

  If the entity cannot measure the fair value of the non- cash consideration the entity shall measure it indirectly by referring the stand-alone selling price of the goods/services promised to the customer in exchange of the consideration.

- The consideration payable to the customer.

  This includes credits coupons or vouchers payable by the entity to the customer.

Step 4: - Allocation of Transaction Price

The objective is to allocate the transaction price to each PO within a contract in an amount of consideration to which the entity expects to be entitled in exchange for transferring goods/services to the customer

The entity shall allocate the transaction price to each performance obligation identified in the contract on a relative ***stand-alone selling price***.

If the stand alone price is not easily identifiable then the price should be .identified using the following method

- Adjusted market assessment approach
- Expected cost plus margin approach
- The residual approach

Allocation of Discount

An entity shall allocate a discount entirely to one or more, but not all, Po's in the contract if the following conditions are met:

- The entity regularly sells each distinct goods/services or bundle of distinct goods or services at a discount on stand- alone basis.
- The discount attributable to each bundle of goods/services is substantially the same as the discount in the contract.

Step 5: -Recognition of Revenue when PO is satisfied.

Revenue can be recognized when the Performance Obligation is satisfied either

Measure the progress towards complete satisfaction of PO

A PO satisfied over time.

Over time	Point Of Time
Simultaneously receives and consumes.	Immediate right to payment
Creates/enhances assets.	Legal title & physical possession.
Right to payment.	Risk rewards & acceptance.

Disclosures

The disclosure objective stated in IFRS 15 is to disclose sufficient information to enable users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. It needs to disclose qualitative and quantitative information about the following:

- Its contract with customers.
- The significant changes, and changes in judgements .
- Any assets recognized from cost to obtain or fulfil a contract with a customer.