

KCO BLOGS 2020

This blog is written by **Mr. Waqar Ul Mulk**. Please read this blog and provide your valued comments

IFRS 15 REVENUE

RECOGNITION

An entity recognize revenue to depict the transfer of promised good or services to customer in amount that reflect consideration to which the entity expect to be entitled in exchange for those good or services. IFRS 15 require an entity to recognize revenue by applying the steps.

1. Identify contract with customer.
2. Identify performance obligation.
3. Determine transaction price.
4. Allocate transaction price to performance obligation.
5. Recognize revenue when performance obligation satisfied.

IDENTIFY CONTRACT WITH CUSTOMER

Contract is agreement between two parties that create enforceable right and obligation. IFRS 15 apply to all contract met the following criteria.

- The parties to contract have approved it and committed to perform.
- Each party right to good or service transferred are identified
- The payment terms are identified
- The contract commercial substance
- It is probable that an entity will collect the consideration.

IDENTIFY PERFORMANCE OBLIGATION

Performance obligation is any good or services that contract promises to transfer to the customer and identify as performance obligation.

- A good or service (or bundle of good or service) that is distinct or
- A series distinct good or service that are substantially the same and that have same pattern of transfer to the customer.
- A series of distinct or services is transfer to the customer in the same pattern if both of the following criteria are met.
- Each distinct good or service in the series that the entity promises to transfer consecutively to the customer would be a performance obligation that is satisfied over time

A single method of measuring progress would be used to measure the entity progress towards complete satisfaction of the performance obligation to transfer each distinct good or service in the series to customer.

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

- The customer can benefit from the good and services on its own or in conjunction with other readily available resources.
- The entity promises to transfer good or services to the customer is separately identifiable from other promises in the contract.

IDENTIFY TRANSACTION PRICE

Transaction price is the amount of consideration that entity expected to be entitled in exchange for transferring promised good or services to customer excluding amount collected on behalf of third parties.

ALLOCATE TRANSACTION PRICE TO PERFORMANCE OBLIGATION

Transaction price allocated to each performance obligation in proportion to stand alone selling price at contract inception of each performance obligation. If standalone selling price is not directly observable the entity will need to estimate it. IFRS 15 suggested various methods that might be used including

- Adjusted market assessment approach
- Expected cost plus a margin approach
- Residual approach (only permissible in limited circumstance)

RECOGNIZE REVENUE WHEN PERFORMANCE OBLIGATION SATISFIED

A performance obligation is satisfied when the entity transfers a promised good or service to a customer. Revenue is recognized as control is passed, either over time or at point of time.

Control of asset is defined as the ability to direct the use of and obtain substantially all of the remaining benefit of the asset. This include ability to prevent other from directing the use of and obtaining the benefit from the asset.

An entity recognized revenue over time if one of the following criteria met

- The customer simultaneously received and consumes all of the benefit provided by the entity as entity performs.
- The entity performance creates or enhances an asset that the customer control as the asset is created or
- The entity performance does not create an asset with an alternative use to the entity has an enforceable right to payment from performance completed date.

Khilji & Co. Chartered Accountants

Islamabad | Islamabad II | Peshawar

ISB : Plot no 2 Mezzanine Floor Khumrial Plaza I & T Centre Street no 22, G-8/4, Islamabad

ISB: (DHA): Plot No 16, Second Floor, Sector A, Iqbal, Boulevard,

Defence Housing Authority, Phase II, Islamabad.

PES: Flat No. 203, Second Floor, Creative House, Phase 3 Chowk Main Jamrud Road, Peshawar

If an entity does not satisfy its performance obligation over time, it satisfies it at a point of time Revenue will therefore be recognised when control is passed at certain point in time. factor they may indicate the point in time at which control passed include but are not limited 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 significant risk and reward related to ownership of the asset.
- The customer has accepted the asset

DISCLOSURES

The disclosures objective stated in IFRS 15 is for entity to disclose sufficient information to enable users of financial statement to understand the nature amount timing and uncertainty of revenue. Therefore, an entity should disclose the following information.

- contracts with customers (IFRS 15.113),
- disaggregation of revenue (IFRS 15.114-115),
- contract balances (IFRS 15.116-118),
- performance obligations (IFRS 15.119-122),
- significant judgements made (IFRS 15.123-126),
- contract costs recognised as assets (IFRS 15.127-128),
- practical expedients (IFRS 15.129).

Waqar Ul Mulk
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