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IFRS 15: REVENUE FROM CONTRACTS WITH CUSTOMERS

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IFRS 15: REVENUE FROM CONTRACTS WITH CUSTOMERS

I. Overview

IFRS 15 is effective beginning 01st January 2018.

IFRS 15 establishes the principles that an entity applies when reporting information about the nature, amount, timing and uncertainty of revenue and cash flows from a contract with a customer. Applying IFRS 15, an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

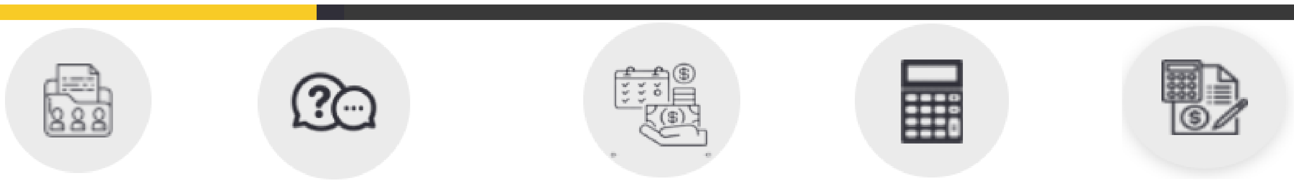
When the parties begin to perform the contract, the entity must present the contract in the Statement of Financial as either an asset arising from the contract or a liability arising from the contract, depending on the relationship between the entity's work performed and customer payments. An entity must present an unconditional claim to a customer's payment as receivable.

II. Scope

IFRS 15 applies to all contracts with customers, except for the following types of contracts:

- Leases of property contracts of IFRS 16;
- Insurance policies contracts of IFRS 4/IFRS17;
- Financial instruments and other contractual rights or obligations of IAS 39 or IFRS 09, IFRS 10, IFRS 11, and IAS 28 (e.g. dividend income);
- Non-monetary exchanges between businesses in the same industry to promote sales to customers.

III. 5-Step Model for Revenue Recognition under IFRS 15



Step 1:

Identify contract(s) with customer

Step 2:

Identify separate performance obligations in the contract(s)

Step 3:

Determine the transaction price

Step 4:

Allocate the transaction price to each performance obligation

Step 5:

Recognise revenue when the performance obligation is satisfied

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III. An entity applies the five (05) steps (continue)

Step 1: Identify the contract(s) with a customer

A contract is an agreement between two or more parties that creates enforceable rights and obligations with specific characteristics:

- The parties have signed the contract and committed to perform the obligations;
- The rights of each party can be determined;
- It is possible to define the payment term;
- Contracts of a commercial nature;
- Payment can be obtained (Just consider the customer's ability and intention to pay).

The entity must combine two or more contracts signed at the same time or at close times with the same commercial purpose with the same customer (or with related parties of that customer), the payment value or performance of the contracts depends on each other, the obligation for goods/ services is a single obligation.

A contract modification is a change in the scope or price of a signed contract order change, variable clause, or contract modification). If any amendment is made, the amendment must be accounted for as a separate contract or as a contract amendment for the client's existing contract

Example 1: Combine contracts

On 01/01/2022, Company A signed a contract to provide a production line to a customer. On 05/02/2022, in another contract, Company A agreed to provide consulting services to calibrate and install this line, to calibrate product features to suit customer requirements. Customers cannot use this line until the consulting service for adjustment and installation of this production line has been completed.

- These 2 contracts were signed at or near the same time with the same customer according to IFRS 15 standards.
- The goods and services of the two contracts constitute a single performance obligation. Because Company A is providing a production line that combines installation, adjustment, and consulting services into a product/service package that the customer has signed a contract/approved. In addition, the way this line is operated and exploited will be significantly changed through the signed installation consulting service.

  Therefore, these two contracts should be combined and interpreted as one contract under the provisions of IFRS 15.

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III. An entity applies the five (05) steps (continue)

Step 2: Identify the performance obligations in the contract

A separate performance obligation (PO) is a good/service that can benefit a customer alone or in combination with other resources available to the customer.

The enterprise needs to combine goods or services that are not separate from other committed goods or services until they become a bundle of separate goods or services. In this case, the enterprise must account for all those unseparated goods or services as a single performance obligation.

Example 2: The contract includes multiple PO

The enterprise signed a contract to produce, install equipment and provide maintenance services for a period of 5 years. Installation requires integrating many parts of the device at the customer's headquarters to ensure the device is functional. The device cannot operate without the installation process; The business simultaneously provides equipment and installation services; Other businesses in the same industry may provide installation and maintenance services for this equipment; Maintenance services are provided within 5 years from the completion of equipment installation.

Device:

This equipment cannot operate without installation; however, installation services are available from other suppliers in the market => separately → In the contract, equipment supply, and installation are carried out simultaneously time => Equipment is not separate from installation because it must be combined with installation

Installation:

Installation services are available from other suppliers in the market => separate → equipment and installation services are not separate in this contract.

Maintenance:

Other suppliers in the market may provide → separately => Maintenance services are provided during the period after completion of equipment installation, reflected separately in the contract => This service is separate special.

=> The contract has 2 PO providing equipment, installation services and providing maintenance services.

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III. An entity applies the five (05) steps (continue)

Step 3: Determine the transaction price

Transaction price is the value of the payment expected by an enterprise in an exchange transaction to deliver committed goods or services to a customer (not including receipts on behalf of third parties). father.

Transaction prices may be fixed or variable or include both a fixed and a variable portion; Adjusted for the time value (present value) of cash flows.

Discounts, rebates, sales returns, credits, chargebacks, and purchase price changes can cause the payment amount to change.

Example 3: Implicit discount

Company A specializing in rice export signs an export order worth 1.5 million USD to be paid within 90 days to a customer in the Angolan region who is experiencing economic difficulties. This is the Company's first order in this area and right from the time of signing the contract, the Company assessed that it would be difficult to collect the full payment signed under the contract. Despite difficulties, the Company determines that this is an important relationship to promote the market and hopes that the region's economy can recover in the next 2-3 years. After review, the Company intends to reduce the price and set the price at $800,000 (the reduced price is still higher than the cost of $100,000). The company assessed the possibility of recovering $800,000.

- This is a variable price transaction. The Company expects to reduce the price at the beginning of the contract and the reduced price is $800,000.
- The transaction price shall include all variable prices subject to some uncertain reason except the possibility of recovery, such as discounts in this case.
- The company intends to reduce the price from the beginning of contract performance and the payment price is $800,000, the transaction price of the contract is a variable price.

  The company assesses its ability to recover the $800,000 as credible. Accordingly, the Company determines that all conditions of step 1 are satisfied according to IFRS15.

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III. An entity applies the five (05) steps (continue)

Step 4: Allocate the transaction price to each performance obligation	Allocate the transaction price for each performance obligation based on the relatively independent selling price of each distinctly committed good or service. If a discount or variable value is included, allocate them pro rata. Methods of allocating transaction prices when individual selling prices cannot be determined directly: - Modified market assessment method; - Method of expected cost-plus profit margin; - Residual value method. **Example 4: Right to purchase additional goods and services** A store runs a promotion program that includes a 30% discount voucher on the next service use. Estimated probability of customers returning and using the voucher is 80% and the value of additional services is $50.
Step 5: Recognise revenue when a performance obligation	Revenue is recognized when a committed good or service is delivered to a customer and the customer acquires control of the asset. The transfer of goods or property can be done over a period or at a point in time. **Example 5:** A transportation enterprise A provides sea transportation services from Vietnam to Singapore. Average shipping time is 25 days. On 22nd December 2022, A's ship left Hai Phong port to carry goods to Singapore according to the order signed with B, the price of the package shipping service is $250,000. How should A record shipping service revenue and how much revenue will be recorded for orders in 2022? The transportation service satisfies the following conditions: The customer receives and uses the benefits from the seller's obligations at the same time. => This is a PO completed within a period, revenue needs to be recognized during the service completion period, revenue is recognized according to the completion rate. The completion rate is determined by output - calculated based on service performance time, because customers receive equal benefits. in that period. Revenue in 2022 that needs to be recorded for 10 days (from 25/12 to 31/12) is: $250,000*10/25 = $10,000

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IV. Compare IFRS 15 and VAS 14

1. Similarities

- Principle of recognition: revenue is determined according to the fair value of the amounts that the enterprise can receive.
- Certain conditions for revenue recognition: revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the entity and can be measured reliably.
- Selling goods with replacement products and goods: allocating revenue to products, goods sold and products, goods and equipment delivered to customers for replacement to prevent damage. Value of replacement products, goods and equipment is recorded in cost of goods sold.
- Revenue from commissions, sales agents, consignments by the method of selling at the right price to enjoy commission: turnover is the part of the sales commission that the enterprise is entitled to.

2. The difference

Content	IFRS 15	VAS 14
2.1. Scope	Contracts with customers covered by IFRS 15 should simultaneously meet the following five (5) conditions: I. The contract must be approved by the parties involved; II. The rights of each party in relation to the goods and services provided shall be identifiable; III. Terms of payment for goods or services provided must be identifiable; IV. Contracts of a commercial nature; V. Possibility of payment to which the supplier of the goods or services is entitled to receive.	Revenue is recognized in the income statement when the following conditions are satisfied: I. The enterprise is certain to obtain economic benefits associated with the revenue; II. The value of this revenue can be measured reliably.

IFRS 15: REVENUE FROM CONTRACTS WITH CUSTOMERS

IV. Compare IFRS 15 and VAS 14 (continue)

2. The difference

Content	IFRS 15	VAS 14
2.2. Principles of revenue recognition	An entity recognizes revenue to reflect the delivery of promised goods or services to a customer in an amount that reflects the payment it is expected to receive in exchange for such goods or services.	Revenue is recognized when the significant risks and rewards of ownership of the goods or services have been transferred to the buyer and the cost can be measured. Revenue is not recognized if there are significant uncertainties regarding collection or the possibility of goods or services being returned.
2.3. An entity applies the five (05) steps	1. Identify the contract(s) with a customer; 2. Identify the performance obligations in the contract; 3. Determine the transaction price; 4. Allocate the transaction price to each performance obligation; 5. Recognise revenue when a performance obligation.	VAS does not provide separate requirements for separate determination of performance obligations and contract value allocation when revenue is recognized.
2.4. Implementation Guide	**a) Economic contract with many transactions**	
	Guidelines for the separation of performance obligations and contract value allocation when revenue is recognized according to the five-step framework: - Guide to separate performance obligations and contract value allocation when revenue is recognized according to the five-step model framework: • Step 2 – Identify the performance obligations in the contract; • Step 3 – Determine transaction price; • Step 4 – Allocate transaction price for each performance obligation in the contract.	- Enterprises must separate revenue from sales and revenue from service provision. - If the contract stipulates that the seller is responsible for the installation of the product, revenue is recognized only after the installation is completed.

IFRS 15: REVENUE FROM CONTRACTS WITH CUSTOMERS

IV. Compare IFRS 15 and VAS 14 (continue)

2. The difference

Content	**IFRS 15**	**VAS 14**
2.4. Implemrntation Guid	**b) Promotional goods, advertising**	
	Enterprises need judgment to determine the goods and services committed in the contract.	VAS does not guide the allocation of value when recognizing revenue.
	c) Sale deferred payment, installment payment	
	Revenue is recognized at the fair value of the deferred or installment payments, which is the immediate payment plus the net present value of future deferred receivables discounted at the effective interest rate.	Revenue is determined at the immediate selling price.
	d) Traditional sales program	
	Provisions under Section f) Right to purchase additional goods and services in the future and item g) Variable payment.	At the time of selling goods or providing services, the seller must separately determine the fair value of the goods or services to be provided free of charge or the amount to be discounted or discounted to the buyer when the buyer meets the conditions prescribed by the program. Revenue is recognized as the total amount receivable. The value of goods and services that must be provided free of charge or that must be discounted to buyers is recognized as unrealized revenue. If at the end of the program period, the buyer does not meet the prescribed conditions and is not entitled to free or discounted goods or services. Discount, unrealized revenue shall be transferred to revenue from sale of goods and provision of services.

IFRS 15: REVENUE FROM CONTRACTS WITH CUSTOMERS

IV. Compare IFRS 15 and VAS 14 (continue)

2. The different

Content	IFRS 15	VAS 14
2.4. Implemrntation Guid	**e) Revenue deductions**	
	IFRS does not prescribe the presentation of gross revenue, revenue deductions and net revenue. The income statement only shows the company's net income. Based on reliable information, it is necessary to estimate the possibility of reducing revenue due to discounts, rebates, and sales returns at the time of preparing the financial statements. These estimates are adjusted to net sales when recognized in the financial statements. Changes in accounting estimates (if any) arising in the following accounting period are recognized in the financial statements of the following period.	Revenue deductions are used to reflect deductions from sales and service provision arising in the period. If the products, goods, and services that have been sold from previous periods, must be reduced in price, have to be discounted to the next period, or are returned but arise before the time of issuance of financial statements, a decrease in revenue shall be recorded in the financial statements of the reporting period.
	f) Right to purchase additional goods and services in the future	
	When a contract with a customer contains a clause that gives the customer the option to continue buying goods and services in the future for a price. If the option confers a substantial right on the customer, it means that the customer has prepaid for future purchases of goods and services and the business recognizes revenue when the goods and services are delivered in the future or when the option expires. An entity must allocate transaction prices to perform obligations based on relative individual selling prices. If the individual sale price of a customer's option to add goods or services is not directly observable, the entity must estimate that sale price.	Not mentioned.

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IV. Compare IFRS 15 and VAS 14 (continue)

2. The different

Content	IFRS 15	VAS 14
2.4. Implemrntation Guid	**f) Right to purchase additional goods and services in the future(continue)**	
	(Estimate the fair value of right to purchase: Estimated purchase price x % exercise right to purchase x % discount)	Not mentioned.
	g) Variable payment	
	If the contract includes variable payment terms, the business needs to estimate the payment value relative to the goods and services provided.	Not mentioned.
	h) Non-refundable prepaid fee	
	If the initial costs are related to the obligation to provide the goods and services committed under the contract, the enterprise should identify it as a separate performance obligation.	Not mentioned.
	i) Change of exchange rate after contract performance	
	Changes in the transaction price will be allocated to the performance obligations in accordance with the original allocation method.	Not mentioned.
	j) Discount allocation	
	When businesses sell bundles of goods and services, the total selling price may be less than the total selling price of individual items. The discount is evenly distributed to the contract performance obligations. However, if the discount does not apply to all performance obligations, then allocate the discount only to the relevant performance obligations.	Not mentioned.