

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS - DIFFERENCES BETWEEN IFRS 15 AND IAS 18



Overview about IFRS 15



IFRS 15 is effective for annual reporting from 1 January 2018.

The new standard replaces the following standards and interpretations:

- **IAS 18** - Revenue
- **IAS 11** - Construction contracts
- **SIC 31** - Revenue Barter transaction involving advertising services
- **IFRIC 13** - Customer loyalty programs
- **IFRIC 15** - Agreements for the construction of real estate
- **IFRIC 18** - Transfers of assets from customers

IFRS 15 introduces a new 5-step model with a focus on when ‘transfer of control’ occurs (rather than when ‘risk and rewards’ are passed to customers).

A model framework under IFRS 15

IFRS 15 determined five-step process in recognizing revenue:

1

Identify the contracts with the customer

2

Identify the performance obligations in the contract

3

Determine the transaction price

4

Allocate the price to the performance obligations in the contracts

5

Recognize revenue when the obligation is satisfied

IFRS 15 – Differences with IAS 18

IFRS 15

IAS 18

One common model

IFRS 15 introduces a five-step recognizing in revenue from contracts with customers (except for lease contracts; insurance contracts)

The recognition criteria depends on each type of revenue

Revenue recognizing

When '**transfer of control**' occurs

When '**risk and rewards**' are passed to customers

Guidance

IFRS 15 introduces more guidance on variable considerations, performance obligations, etc.

Providing less practical guidance on payments to customers

The use of judgement

Apply significant judgement when accounting of revenue recognition:

- Determine the possibility that customers will pay for the services at the time of signing the contract
- Determine the separate transaction price must be made in the contracts (**stand-alone selling price**)

- The liquidity ability is considered when the contract has been completed relatively
- The total value of the contract may be accounted without having to separate the contract revenue into separate transactions

Disclosure

More explicit disclosure requirements than previous standards on revenue recognition, such as: contract balances, performance obligations, significant judgments, disaggregation of revenue, etc.

Less information are required to the notes as IFRS 15

IFRS 15 – Differences with IAS 18



Example:

XYZ is a software company who entered into contract with a client A on 1 July 20X1. The Company's financial year is from 01 January to 31 December. Under the contract, XYZ is obliged to:

- Provide professional services consisting of implementation and testing of software. Client A has bought software license from the third party
- Provide post-delivery support

Total contract price is VND 55,000,000

- Let's say that XYZ' normal charge for the support services is 10% of the package price
- XYZ assessed its total cost for fulfilling the contract as follows:
 - Cost for implementing and testing the existing software: VND 43,000,000
 - Cost of consultants for post-delivery support: VND 2,000,000
 - Total estimated cost of fulfilling the contract: VND 45,000,000

As of 31 December 20X1, XYZ incurred the following costs of fulfilling the contract:

Cost of developers and consultants for implementation and testing of software: VND 13,000,000

How should XYZ recognize revenue from this contract under IAS 18 and IFRS 15?

Revenue under IAS 18

At 31 December 20X1, total incurred cost was VND 13,000,000 which is 29% of total estimated cost (VND 45,000,000)

Therefore, under IAS 18, XYZ' revenue from this particular contract in the year 20X1 is $29\% \times 55,000,000 = \mathbf{15,950,000}$

Revenue under IFRS 15

Allocated transaction price for professional services: $55,000,000 / (10\% + 1) = \text{VND } 50,000,000$

Allocated transaction price for post-delivery support services: $55,000,000 - 50,000,000 = \text{VND } 5,000,000$

Performance obligation	Estimated total cost	Incurred cost to 31 Dec. 20X1	Proportion	Allocated transaction price	Revenue recognized in 20X1
	(1)	(2)	(3)=(2)/(1)	(4)	(4)x(3)
Professional services	43,000,000	13,000,000	30%	50,000,000	15,000,000
Post-delivery support services	2,000,000	0	0%	5,000,000	0
Total	45,000,000	13,000,000	N/A	55,000,000	15,000,000

Total revenue from the same contract under IFRS 15: VND **15,000,000**

Conclusion



IFRS 15 was greater room for judgment when identifying the goods and services within a contract and then allocating the revenue to those goods and services identified.

IFRS 15's impacts vary depending on which business sector or industry. Applying IFRS 15 requires a considerable amount of work by personnel across different functions. Therefore, enterprises need to invest resources effectively so that the application of IFRS 15 is optimal.

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