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# IFRS IFRS 15

MFA

## Scope MCQ!

- ① Revenue → what we get from sales & services, interest/dividend income → extra ordinary revenue → not part of IFRS 15
- ② contract → the resources that the company receives out of ordinary activities
- ③ customer

applies to all — exchanges.

Dividend — standards.

real estate: land/building

## Scope - cont.

~~A contract that falls under other IFRS standards, if it identifies the — → it falls.~~

## Customer definition

a person who receives goods/services from an entity that provides goods & services that are ordinary activity of the entity  
or company  
and will have to pay for the goods/services. (if receive goods/services for free → not customer)  
\* it should be an ordinary activity that the company provides } conditions  
\* the person who receives good/service must pay in exchange } to be a customer

## Revenue Model

### 5-step model !!

## Revenue Model - cont.

inception: start

all 5 steps have to be applied, order is not important/doesn't matter

- step 1: there has to be a contract (no contract → not revenue)
- step 2: performance obligation: what's the entity's obligations towards the customer (must be clear & specific)
- step 3: there has to be a price (before providing the service) the customer must ask for the price first
- step 4: agreeing to a price after negotiation receive money in phases (if it was a long process like building something)  
how will they allocate the transaction price (how many phases to pay?)
- step 5: recognize the revenue when the service or the good is provided (not before)

## Contract

it could be verbal/written/implied

↳ both parties know what to do without even talking  
ex: going to the cashier put the stuff, and the cashier scans the products and the customer pays (without having anything written or said)

enforceable right & obligation: if you don't pay → cannot force them to give me the goods  
if you pay → can force them to give the goods

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## Identifying the contract SACQ

if one of them is missing → not a contract

1. cannot force someone to be in the contract (have to willingly approve to the contract)  
⇒ approval
2. the rights has to be identified
3. ex: whether everything should be paid in advance, or when receiving the goods
4. should be part of a business (not charity)  
ex: selling a furniture that I want to get rid of → not a contract  
if a furniture company is selling furniture → commercial purpose → it's a contract
5. probable both parties have the capability to fulfil the contract requirements  
ex: have the capability to pay → customer  
or to provide the service/good → seller/provider

## Clarification Notes

a. at the start of contract, what has been written cannot be modified → and it has to be written that there cannot be any modification  
otherwise they will have to write a new contract  
(it may be permitted or may not be permitted to modify)  
↳ new contract should be created

b.

1. } conditions for under performed contract  
2. }

## Does not meet — contract

if one of the 5 conditions have not been met

1. if there was no obligation left to deliver → consider as contract
2. the contract is cancelled, the money given by the customer will not be returned, and the money will be considered as a liability instead of revenue

## Example

non-recourse basis: if nobody can do anything ex: the customer cannot pay → no service to provide

1. contract approved
2. the rights are mentioned
3. price is fixed and how
4. how payment will be done is mentioned
5. no capability (has no restaurant experience) → if the business was not successful, the customer will be unable to pay the remaining 95%  
↳ not probable  
⇒ not a valid contract  
→ the 50,000 will be considered as a liability

Example 2

it satisfies all conditions (the 5)

→ it's a valid contract

because it's probable to sell if there's no provision that he cannot sell the goods

& it's invalid for the CU 1m. → therefore they reduced the price by 50% which made it more probable to sell due to the bad economic condition.

Combination of Contracts

if multiple contracts are signed at the same time by the same customer in one of the 3 cases

- 1.
2. the total amount to be paid depends on the performance of other contracts
- 3.

Contract Modifications.

change — price

change in scope: doing something additional

ex: adding a feature that does not exist in a building like adding a pool in a house

but changing the quality of the features included is only a change in price, not scope.

ex: changing the quality of the Toilets in Al Dar building

no modification will be considered unless it's approved

Contract — cont.

To be a separate contract, both the conditions must be met:

1. distinct: ~~different (not the same as before)~~  
→ separate

2.

Performance obligations — cont.

different activities

different people (contractors)

same activities

different contractors

all of them must be identified separately even if they perform the same job

Example of promised — cont.

- 6.
7. the person assigned to find me an apartment that satisfies my specifications (he is experienced)

Distinct promise

if good distinct → performed separately (2 conditions must be met):

- 1.
2. promise is separate from the other promises in the contract.

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Distinct part - cont.

the benefit should be higher than the scrap value

the obligation of the contractor is what will make the performance obligation distinct but not the customer's benefit

A series of

Both must be met:

1.  
2.

Transaction price

the amount is not always paid by cash (could be shares)

Variable consideration

even if the price is fixed, penalty method can be applied for delay in performance or completion of obligation.

non-cash consideration → anything other than cash

if anything other than cash → delivery of goods/services in return for consideration  
not only money or shares

consideration payable

payment will be made in the future } not important

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### Transaction price

if there was no price  $\rightarrow$  not a contract

the price can be fixed or variable

will not change

$\rightarrow$  depending on some circumstances

$\rightarrow$  could be paid in cash or otherwise

if paid with shares  $\rightarrow$  shares will be credited, and the amount recorded will be at fair value (not market value or par value)

### Variable Consideration

-the rate of financing will be flexible (variable)

variable rate: central bank rate + commercial banks rate

$\downarrow$   
usually very low

(prime rate)  $\rightarrow$  it's the cost that commercial banks will have to pay to central banks

### Constraining situation $\rightarrow$ uncertainty

uncertainty is temporary  $\rightarrow$  goes back to normal at a certain point/time

### The existing of a

need not  
payment

therefore  $\sim$  12 months

### Non-cash consideration

could be shares, bonds, etc.

usually done at fair value (not par/market value)

### allocation based

paying after completion of each stage (not pay full amount from the beginning)

### Principle of control

over time  $\sim$  time

not recognize revenue unless obligation is satisfied

over time: ex: buy furniture, and pay for when buying a certain amount, and the full amount to paid when the furniture is installed

things that take time to be completed or fully available for use

1. performance obligation over time

if any one of them is met  $\rightarrow$  recognized

1. if the customer starts to get benefit <sup>as over time</sup> as receiving goods
2. as one stage is done the value keeps increasing until completion
3. even though the customer cannot use the good delivered, but is still under process of building or providing the service/good (receive money when finished)

performance — point in time

if a performance — in time

both must be met:

1. customer has the control
  2. only one time when revenue is recognized
- \* while over time: revenue can be recognized at each phase of completion