

# IFRS Accounting Standards discussion fora: IFRS 15 *Revenue from Contracts with Customers*

2023

Addis Ababa, Ethiopia



The consensus views expressed in this presentation are those of the discussion participants and not necessarily those of any organization with which they are associated.

1



## Disclaimer

- » The sponsors, the authors, the discussants and the publishers do not accept responsibility for loss caused to any person who acts or refrains from acting in reliance on the material in this document, whether such loss is caused by negligence or otherwise.
- » When evaluating accounting treatments all the relevant facts and circumstances need to be fully considered. A discussion forum, because of its format and for reasons of simplification, can only consider a particular, constrained set of facts. The consensus views arrived at in this material are based on the assumption that there are no other relevant facts that, if they had been considered, might have altered that view. Consequently, such consensus views can only be considered likely conclusions, and cannot be considered to be determinative, without full consideration of all the facts and circumstances that would be present in reality.

2

2



## Aims

- » Develop a more cohesive understanding of IFRS accounting and reporting for revenue in Ethiopia
- » Enhance capacity in Ethiopia to apply IFRS 15 *Revenue from Contracts with Customers* more consistently

3

3



## Applicable version of IFRS Accounting Standards

Unless specified otherwise, the accounting requirements that are the subject matter of this discussion forum are IFRS Accounting Standards as issued by the International Accounting Standards Board that are applicable for annual period beginning on or after 1 January 2023 without early applying new and amended IFRS Accounting Standards that have a later mandatory application date.

4

4



## Index of issues

### *IFRS 15 Revenue from Contracts with Customers*

- » Issue 1: Inter-departmental revenue
- » Issue 2: Inter-company revenue
- » Issue 3: Percentage of completion methods
- » Issue 4: Percentage of completion – incomplete projects

5

5



## Issue 1: Inter-departmental revenue

6

## Inter-departmental revenue

### *What do you think?*

The IFRS Conceptual Framework establishes the concept of a reporting entity. A reporting entity, however constituted, incorporates all of the economic activities of its constituent parts as though it were a single entity.

Departments in the reporting entity provides service or goods to the other departments at a profit margin. The goods are on-sold to customers external to the reporting entity adding further profit margin. Departments have their own cost and revenue records and produce P&L reports internally. How do we treat inter-departmental revenue and how should this be accounted to the reporting entity level?

7

7

## Inter-departmental revenue

### *Summary of discussion*

Departments in the reporting entity provides service or goods to the other departments at a profit margin. The goods are on-sold to customers external to the reporting entity adding further profit margin. Departments have their own cost and revenue records and produce P&L reports internally. How do we treat inter-departmental revenue and how should this be accounted to the reporting entity level?

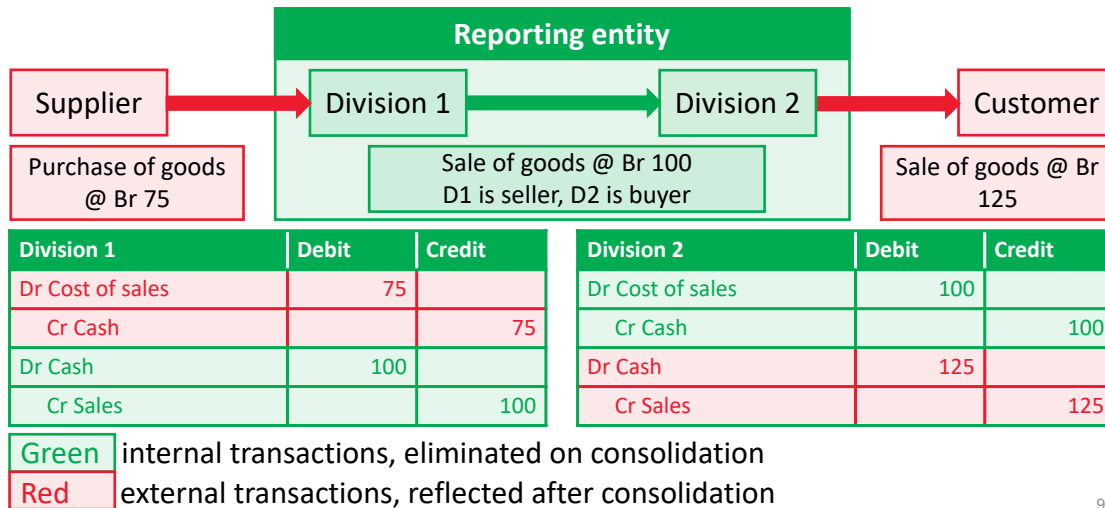
#### **Discussants' consensus view**

- » Reporting entity concept establishes a boundary – transactions between components (like divisions) within the boundary are eliminated
- » Transactions with entities outside of the boundary are recorded as income and expenses (or assets and liabilities)

8

8

## Example Inter-departmental revenue



9

9



## Issue 2: Inter-company revenue

10

## Inter-company services

### *What do you think?*

The IFRS Conceptual Framework establishes the concept of a reporting entity. A reporting entity, however constituted, incorporates all of the economic activities of its constituent parts as though it were a single entity.

How do we account for inter-company services provided? As revenue or transfer pricing?

11

11

## Inter-company services

### *Summary of discussion*

How do we account for inter-company services provided? As revenue or transfer pricing?

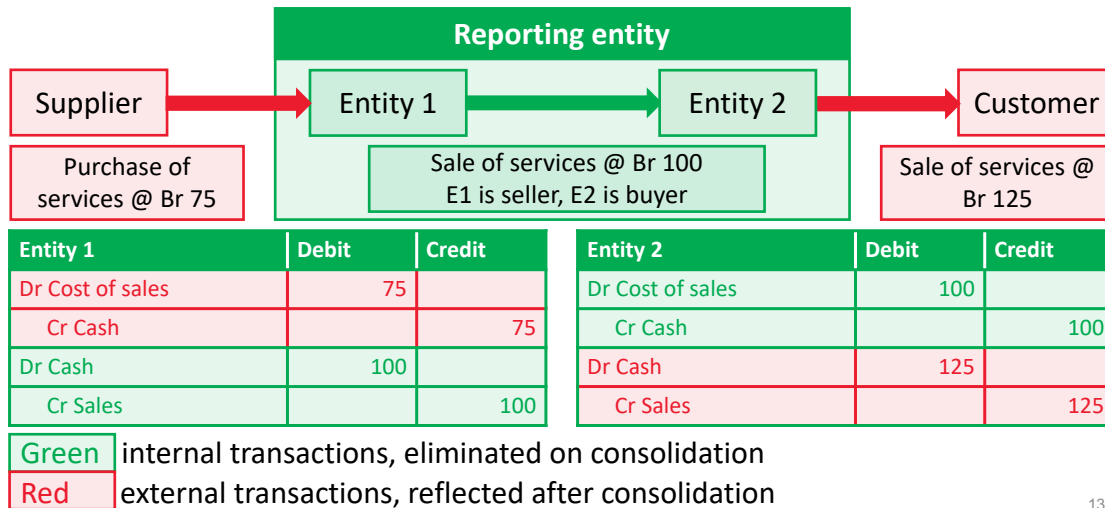
#### Discussants' consensus view

- » Reporting entity concept establishes a boundary – transactions between entities within boundary are eliminated.
- » In the case of multiple entities that are consolidated, the reporting entity is the consolidated group of entities
- » Transactions with entities outside of the boundary are recorded as income and expenses (or assets and liabilities)

12

12

## Example Inter-company revenue



13

13



## Issue 3: Percentage of completion methods

14

## Percentage of completion methods

### *What do you think?*

IFRS 15 applies a percentage of completion methodology to recognise revenue on eligible projects that extend over multiple periods. Applying this methodology, an entity recognizes revenue as it progresses a project. This is particularly relevant for construction projects.

In the percentage of completion method, current period performance percentage is applied on the contract price. Sometimes, engineers estimate the physical completion applying engineering techniques. Are these two approaches comparable?

15

15

## Percentage of completion methods

### *Summary of discussion*

In the percentage of completion method, current period performance percentage is applied on the contract price. Sometimes, engineers estimate the physical completion applying engineering techniques. Are these two approaches comparable?

#### Discussants' consensus view:

- » IFRS 15 permit either:
  - » Output method (engineering survey or physical survey)<sup>1</sup>
  - » Input method (proportion of contract cost incurred to total expected costs)<sup>2</sup>
- » Entity should consider the most appropriate method considering the nature of the good or service

<sup>1</sup> IFRS 15.B15 to B17

<sup>2</sup> IFRS 15.B18 to B19

16

16





## Issue 4: Percentage of completion – incomplete projects

17



### Percentage of completion – incomplete projects *What do you think?*

IFRS 15 applies a percentage of completion methodology to recognise revenue on eligible projects that extend over multiple periods. Applying this methodology, an entity recognizes revenue as it progresses a project. This is particularly relevant for construction projects.

**We use percentage of completion for revenue recognition. If we have not fulfilled our performance obligation in full and the contract is terminated at 75% performance, how do we treat the initial advance payment we received from the customer?**

18

18



## Percentage of completion – incomplete projects

### *Summary of discussion*

We use percentage of completion for revenue recognition. If we have not fulfilled our performance obligation in full and the contract is terminated at 75% performance, how do we treat the initial advance payment we received from the customer?

**Discussants' consensus view: it depends**

- » **If the initial advance payment is non-refundable, then to the extent not previously recognised, it is recognised as revenue in the current period**
  - » **Change in estimate – revenue underrecognised in prior periods, because the entity did not anticipate termination of the contract**
- » **If the initial advancement payment is refundable,**
  - » **then estimate and recognize refundable portion as a liability, and**
  - » **recognize revenue previously over or under recognised**

19

19



20