IFRS 15 Revenue

Revenue from Contracts with Customers

A Comprehensive Guide for CTA, PGDA & ITC Students

Prepared for postgraduate accounting students

South Africa

IFRS STUDY GUIDES

2026

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IFRS 15 Revenue from Contracts with Customers - Part 1: Scope & Core Principle

Why Revenue Matters

Revenue is often the largest line item in the financial statements and a key performance indicator for stakeholders. Yet, historically, revenue recognition was one of the most inconsistent areas in accounting, with:

- Different rules for goods vs. services
- Industry-specific guidance (construction, software, real estate)
- Arbitrage between standards

IFRS 15 creates a single, comprehensive framework for all revenue recognition, regardless of industry.

> *Understanding IFRS 15 is non-negotiable at CTA/ITC level. It appears in virtually every exam in some form-either as a standalone topic or integrated with other standards (consolidations, business combinations, leases).*

The Core Principle

The foundation of IFRS 15 is one sentence that drives everything:

> *IFRS 15.2: An entity shall recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.*

Let's break this down:

Element	Meaning
Transfer	Revenue is about the customer receiving something-
Promised goods or services	What the entity has committed to deliver
Consideration	The transaction price-what the entity expects to r
Entitled	Legal/contractual right to payment

Exchange	There must be a customer receiving value

The Fundamental Shift

Old thinking: When did WE earn the revenue? (Seller-focused)

IFRS 15 thinking: When did the CUSTOMER get what they paid for? (Customer-focused)

This shift to a control-based model is revolutionary. It moves away from "risks and rewards" as the primary criterion to control of the asset.

Scope of IFRS 15

What's In Scope?

IFRS 15 applies to all contracts with customers, except specific exclusions.

Key scope determination questions:

1. Is there a contract?
2. Is the counterparty a customer?
3. Does the contract fall within an exclusion?

What is a Customer?

> *IFRS 15.6: A customer is a party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration.*

Important distinctions:

Counterparty	Customer?	Example
Buyer of finished goods	[OK] Yes	Retailer selling inventory
Buyer of services	[OK] Yes	Audit firm providing assurance
Joint arrangement partner sharing risks/rewa	[X] No	Partners in a property development JV
Collaborator sharing output equally	[X] No	Pharma companies co-developing a drug

> *If the counterparty is sharing in the risks and rewards of the activity (rather than purchasing an output), they're likely a collaborator, not a customer. Apply different standards (e.g., IFRS 11).*

Scope Exclusions

Contracts Outside IFRS 15

The following are excluded from IFRS 15 (other standards apply):

Exclusion	Applicable Standard	Why Excluded
Lease contracts	IFRS 16	Specific recognition model for leases
Insurance contracts	IFRS 17	Unique risk transfer and claims patterns
Financial instruments	IFRS 9	Interest, dividends, and fair value changes have s
Non-monetary exchanges between entities i	Various	Facilitates sales, not revenue transactions
Certain rights/obligations covered by other s	As applicable	E.g., income taxes (IAS 12)

The "Hybrid Contract" Challenge

What if a contract has multiple elements, some in scope and some excluded?

> *IFRS 15.7: If other standards specify how to separate and/or initially measure parts of the contract, apply those standards first. Apply IFRS 15 to the remainder.*

Practical Example: Property Sale with Leaseback

A company sells a building and leases it back:

1. First: Apply IFRS 16 to determine if a sale occurred
2. Then: If sale occurred, apply IFRS 15 principles for the revenue/gain recognition
3. Note: IFRS 16 modifies the IFRS 15 outcome for sale-leaseback transactions

Practical Example: Equipment Sale with Financing

A company sells equipment with extended payment terms:

1. First: Identify the revenue component (IFRS 15)
2. Then: Account for the financing component (IFRS 9, but see IFRS 15's guidance on significant financing components)

The 5-Step Model: Overview

IFRS 15 prescribes a 5-step model for revenue recognition:

```
??????????????????????????????????????????????????????????????????????
?                    THE 5-STEP MODEL                                  ?
??????????????????????????????????????????????????????????????????????
?  Step 1: Identify the CONTRACT with the customer                     ?
?              ?                                                       ?
?  Step 2: Identify the PERFORMANCE OBLIGATIONS in the contract        ?
?              ?                                                       ?
?  Step 3: Determine the TRANSACTION PRICE                             ?
?              ?                                                       ?
?  Step 4: ALLOCATE the transaction price to performance               ?
?          obligations                                                 ?
?              ?                                                       ?
?  Step 5: RECOGNISE revenue when (or as) performance                  ?
?          obligations are satisfied                                   ?
??????????????????????????????????????????????????????????????????????
```

Why This Structure Matters

Each step builds on the previous:

Step	Question Answered	Depends On
1	Do we have a valid contract?	N/A
2	What have we promised?	Step 1
3	How much will we receive?	Steps 1-2
4	How do we split the price?	Steps 1-3
5	When do we recognize?	Steps 1-4

> *Steps 2-4 are about MEASUREMENT. Step 5 is about TIMING. Getting measurement right doesn't help if the timing is wrong (and vice versa).*

Step 1: Identifying the Contract (Introduction)

A contract is an agreement between two or more parties that creates enforceable rights and obligations.

The Five Contract Criteria

All five must be met for a contract to exist under IFRS 15:

#	Criterion	Tested How?
1	Approval and commitment	Parties have approved and are committed to perfor
2	Rights identified	Each party's rights regarding goods/services are i
3	Payment terms identified	Terms can be identified
4	Commercial substance	The contract has commercial substance (future cas
5	Collectability probable	It is probable the entity will collect the conside

> *Deep dive on each criterion continues in Part 2.*

Contract Combination

Sometimes, multiple contracts should be combined and treated as one:

- Contracts negotiated together with a single commercial objective
- Consideration in one depends on the other
- Goods/services are a single performance obligation

Contract Modifications

Changes to scope or price (or both) after contract inception require careful analysis:

- Separate contract if new distinct goods/services at stand-alone prices
- Modification of existing contract otherwise (various approaches depending on nature)

> *Detailed coverage in Part 2.*

Key Concepts: Control

What is Control?

Control of an asset refers to the ability to:

1. Direct the use of the asset, AND

2. Obtain substantially all the remaining benefits from the asset

Indicators of Control Transfer

IFRS 15.38 provides indicators that control has transferred:

Indicator	What It Means
Entity has present right to payment	Customer now owes for the asset
Customer has legal title	Ownership documents transferred
Entity has transferred physical possession	Customer has the goods
Customer has significant risks and rewards	Bears loss, gets upside
Customer has accepted the asset	Formal or implied acceptance

> *These are indicators, not requirements. No single indicator is determinative. Use judgment based on all facts and circumstances.*

Control Over Time vs. Point in Time

One of the most critical judgments in IFRS 15:

Control Transfer	When Recognised	Example
Over time	Progressively as performance occurs	Construction contracts, long-term services
At a point in time	Single point when control passes	Sale of finished goods

Testing for "Over Time":

Revenue is recognized over time if ANY ONE of these criteria is met:

1. Simultaneous receipt and consumption: Customer receives and consumes benefits as entity performs (e.g., cleaning services)
2. Entity's performance creates/enhances customer asset: The customer controls the asset as it's created (e.g., building on customer's land)
3. No alternative use + right to payment: Asset has no alternative use to the entity AND entity has enforceable right to payment for performance completed to date

If NONE of the three criteria are met ? Recognise at a point in time.

Performance Obligations

What is a Performance Obligation?

> *IFRS 15.22: A promise in a contract with a customer to transfer to the customer either:*
> *(a) a good or service (or bundle) that is distinct; or*
> *(b) a series of distinct goods/services that are substantially the same with the same pattern of transfer.*

Why it matters:

- Each performance obligation is a unit of account
- Revenue is recognized as each performance obligation is satisfied
- The transaction price is allocated to each performance obligation

The "Distinct" Test

A good or service is distinct if both conditions are met:

Condition	Test
Capable of being distinct	Customer can benefit from the good/service on its
Distinct within the contract	The promise is separately identifiable from other

> *Detailed analysis in Part 3.*

Common Student Pitfalls

Pitfall	Correct Approach
Applying IFRS 15 to lease income	Leases are IFRS 16 - excluded from IFRS 15 scope
Ignoring collectability	No contract exists if collectability is not probab
Treating all multi-element arrangements as single	Must assess if goods/services are distinct
Conflating "risks and rewards" with "control"	IFRS 15 is control-based, not risks/rewards
Recognizing revenue when invoice is raised	Revenue is when control transfers, not when invoic
Applying "percentage complete" without meeting cri	Must meet at least ONE "over time" criterion first

South African Context

Industries with Complex Revenue Recognition

Industry	Key IFRS 15 Issues
Mining	Sale of commodities, provisional pricing, off-take
Retail	Customer loyalty programs, returns, rebates, gift
Telecommunications	Bundled services (handset + contract), upfront fee
Construction	Long-term contracts, variable consideration, claim
Property	Pre-sales, transfer timing, developer incentives
Technology	Software licensing, SaaS, implementation services

JSE Considerations

- Revenue recognition policies are under heightened scrutiny
- Disaggregation of revenue by segment/product is expected
- Contract assets/liabilities require clear disclosure

Exam Technique: IFRS 15 Questions

Approach Every IFRS 15 Question with the 5-Step Framework

Even if the question asks about a specific aspect, reference the framework:

> *"In terms of IFRS 15's five-step model, Step 2 requires identification of performance obligations..."*

Structure for Discussion Questions

1. State the relevant principle (quote/paraphrase IFRS 15)
2. Apply to facts (use specific information from the scenario)
3. Conclude (what's the accounting treatment?)

Calculation Questions

- Always label your calculations
- Show the transaction price allocation clearly
- State the timing of revenue recognition

Summary: The IFRS 15 Foundation

Concept	Key Point
Core principle	Revenue = transfer of promised goods/services for
Scope	All contracts with customers (except specific excl
Customer	Party obtaining output of ordinary activities for
Control	Ability to direct use and obtain benefits
5-Step Model	Systematic framework for all revenue recognition
Over time vs. Point in time	Critical judgment based on three criteria

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What's Next?

In Part 2, we dive deep into Step 1: Identifying the Contract, including:
- The five contract criteria in detail
- Contract combinations
- Contract modifications
- What happens when contracts fail the criteria

? Next: Part 2 - Identifying the Contract

IFRS 15 Revenue from Contracts with Customers - Part 2: Identifying the Contract (Step 1)

Why Step 1 Matters

Before applying any revenue recognition principles, you must establish that a contract exists. Without a valid contract under IFRS 15, there is no basis for recognizing revenue.

> *Many students jump straight to calculations without confirming that the contract criteria are met. This is a fundamental error that can cost significant marks.*

What is a Contract?

> *IFRS 15.10: A contract is an agreement between two or more parties that creates enforceable rights and obligations.*

Forms of Contracts

Form	Validity
Written document	[OK] Valid
Oral agreement	[OK] Valid (if enforceable)
Implied by customary business practices	[OK] Valid

The form doesn't matter-enforceability is the key question.

Legal Enforceability

Enforceability is a matter of law. Consider:
- Jurisdiction-specific contract law
- Industry regulations
- Custom and practice in the market

> *In South Africa, contracts may be enforceable even if not in writing (with exceptions like contracts for sale of land). Consider the Consumer Protection Act implications where applicable.*

The Five Contract Criteria

All FIVE criteria must be met simultaneously for a contract to exist:

Criterion 1: Approval and Commitment

> *IFRS 15.9(a): The parties to the contract have approved the contract and are committed to perform their respective obligations.*

What this means:
- Approval can be written, oral, or implied
- Each party has agreed to the terms
- Both parties intend to fulfil their obligations

Red flags indicating no approval:

Scenario	Issue
Customer hasn't signed, but entity started work	Unilateral commitment isn't a contract
"Subject to Board approval" clause	Approval condition not yet met
Customer routinely cancels without penalty	Suggests lack of commitment

Criterion 2: Rights Identified

> *IFRS 15.9(b): The entity can identify each party's rights regarding the goods or services to be transferred.*

In practice:
- What is the customer entitled to receive?
- What is the entity entitled to receive?
- Are these rights clear from the contract terms?

Criterion 3: Payment Terms Identified

> *IFRS 15.9(c): The entity can identify the payment terms for the goods or services to be transferred.*

This includes:
- Amount of consideration
- Timing of payment
- Form of consideration (cash, kind, services)

Note: This doesn't require a fixed price-variable consideration can be identified even if not yet determinable.

Criterion 4: Commercial Substance

> *IFRS 15.9(d): The contract has commercial substance (i.e., the risk, timing, or amount of the entity's future cash flows is expected to change as a result of the contract).*

Purpose: Prevents recognition of revenue from arrangements that don't affect the entity's economics.

Example of NO commercial substance:
- Entity A sells goods to Entity B for R100
- Entity B simultaneously sells identical goods back to A for R100
- No net cash flows or risk changes = No commercial substance

Criterion 5: Collectability is Probable

> *IFRS 15.9(e): It is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services.*

"Probable" means: More likely than not (>50%)

Assessment factors:

Factor	Consider
Customer's ability to pay	Credit history, financial position
Customer's intention to pay	Past payment patterns
Amount at risk	Full amount or partial?

> *The collectability assessment is about the customer's ability and intention to pay, NOT about measurement of expected receipts. If collectability isn't probable, there's NO CONTRACT (yet).*

When Contract Criteria Are NOT Met

Accounting Treatment

If the five criteria are not met, the entity:

1. Does NOT recognise revenue
2. Continues to assess whether criteria are subsequently met
3. May recognise cash received as a liability (until criteria met or specific conditions occur)

When Can Cash Received Be Recognised as Revenue?

Only when ALL of the following occur:

Condition	Explanation
Entity has no remaining obligations	Nothing more to transfer
All or substantially all consideration received	Cash collected
Consideration is non-refundable	No return obligation

OR:

Condition	Explanation
Contract has been terminated	No further performance expected
Entity has no obligation to return consideration	Cash is the entity's to keep

Working Example: Failed Collectability

Facts:
- Entity sells equipment for R500,000 on credit to a new customer
- Customer has poor credit history and uncertain cash flows
- Entity delivers the equipment

Analysis:
- Criterion 5 (collectability) is NOT met
- This is NOT a contract under IFRS 15
- No revenue is recognised on delivery

Journal entry at delivery:

```
Dr  Contract asset / Receivable (at amount recoverable)     ???
    Cr  ???
```

Actually-no entry for revenue. The equipment may still be recognized as inventory until a contract exists, or if already transferred, the entity monitors for when criteria are met.

If R200,000 is received as a deposit:

```
Dr  Cash                                                  200,000
    Cr  Contract liability (deposit received)                     200,000
```

Contract Combination

When to Combine Contracts

Sometimes multiple legal contracts should be combined and accounted for as a single contract.

Combine contracts if they are entered into at or near the same time with the same customer (or related parties) AND at least one of these applies:

Criterion	Example
Negotiated as a package with single commercial obj	Equipment purchase + 3-year maintenance contract n
Consideration in one contract depends on the price	Discount on Product A if customer also buys Servic
Goods/services are a single performance obligation	Building construction + architect services that ar

Why It Matters

Combining contracts affects:
- Identification of performance obligations
- Allocation of transaction price
- Timing of revenue recognition

Example:

Entity enters into two contracts with Customer:
- Contract 1: Sale of equipment for R1,000,000
- Contract 2: 2-year maintenance for R100,000

If negotiated as a package with interdependent pricing:
- Combined transaction price: R1,100,000

- Performance obligations: Equipment + Maintenance (if distinct)
- Allocate R1,100,000 between the two obligations based on stand-alone selling prices

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Contract Modifications

What is a Modification?

> *IFRS 15.18: A contract modification is a change in the scope or price (or both) of a contract that is approved by the parties to the contract.*

Examples:
- Adding products/services to an existing contract
- Reducing scope (terminating part of the contract)
- Changing the price
- Extending the contract period

Accounting for Modifications

The accounting depends on two tests:

Test 1: Are the additional goods/services distinct?

Test 2: Does the price for the additional goods/services reflect their stand-alone selling price?

Modification Scenarios

Scenario A: Separate Contract

A modification is accounted for as a separate contract if BOTH:
1. The scope increases due to addition of distinct goods/services, AND
2. The price increases by an amount reflecting the stand-alone selling price

Effect: The original contract continues unchanged. The modification is a new contract.

Example:

Original Contract	Modification
100 units @ R100 each = R10,000	Add 20 units @ R100 each = R2,000

If R100 per unit is the stand-alone price:
- Modification = Separate contract
- Account for original 100 units unchanged
- Account for new 20 units as a separate transaction

Scenario B: Termination and New Contract

If the modification is NOT a separate contract AND the remaining goods/services are distinct from those transferred before modification:

- Terminate the original contract
- Account for a new contract that includes:
- The remaining unsatisfied performance obligations
- The modified terms

Calculation approach:
- Transaction price = Unrecognised revenue from original + Modification consideration
- Allocate to remaining performance obligations

Scenario C: Cumulative Catch-Up

If the modification is NOT a separate contract AND the remaining goods/services are NOT distinct (part of a single performance obligation being satisfied over time):

- Account for as part of the original contract
- Update transaction price and measure of progress
- Recognise cumulative catch-up adjustment to revenue

Working Example: Contract Modification

Original Contract:
- Construct a building for R10,000,000
- Estimated cost: R8,000,000
- Progress: 40% complete (R3,200,000 costs incurred)
- Revenue recognised to date: R4,000,000

Modification (at 40% complete):
- Add additional floor
- Modification price: R2,500,000
- Additional costs: R2,000,000
- Additional work is NOT distinct (part of single building)

Analysis:

Scenario C applies-cumulative catch-up.

Revised contract:

	Original	Modification	Revised
Transaction price	10,000,000	2,500,000	12,500,000
Total costs	8,000,000	2,000,000	10,000,000
Margin	2,000,000	500,000	2,500,000

Revised progress:
- Costs to date: R3,200,000
- Total revised costs: R10,000,000
- Progress: 32% (3,200,000 / 10,000,000)

Cumulative revenue to date:
- 32% x R12,500,000 = R4,000,000

Revenue previously recognised: R4,000,000

Catch-up adjustment: R4,000,000 - R4,000,000 = R0

In this example, the modification happens to result in no immediate catch-up-but the rate of future recognition changes.

Portfolio Approach

When to Use

IFRS 15 permits applying the standard to a portfolio of contracts if:

1. The contracts have similar characteristics, AND
2. The entity reasonably expects the results to not differ materially from applying the standard to individual contracts

Practical Application

Useful For	Not Suitable For
High-volume, similar transactions (retail)	Individually negotiated large contracts
Standard service contracts	Contracts with significant variable consideration
Routine product sales	Complex multi-element arrangements

> *The portfolio approach is a practical expedient. Use it to reduce effort, but ensure it doesn't materially distort results.*

Common Student Pitfalls

Pitfall	Correct Approach
Assuming all signed documents are contracts	Apply all five criteria-especially collectability
Ignoring oral or implied contracts	Enforceability matters, not form
Treating all modifications as new contracts	Apply the two tests-distinct + stand-alone price
Forgetting to combine related contracts	Assess if negotiated together with linked pricing
Continuing to recognise revenue when collectabilit	If probable threshold not met, no contract exists
Confusing collectability with credit loss measurem	Collectability = contract existence; credit loss =

Exam Technique

Step 1 Discussion Questions

When asked about contract identification:

1. List the five criteria (briefly)
2. Apply each criterion to the scenario
3. Conclude whether a contract exists
4. If NOT, explain the accounting for cash received

Step 1 Calculation Impact

Remember that if no contract exists:
- Zero revenue in the period
- Cash received = liability
- Re-assess at each reporting date

Contract Modification Questions

Structure your answer:

1. Is this a modification? (Change in scope/price, approved)
2. Are additional goods/services distinct?
3. Is the pricing at stand-alone selling price?
4. Conclude: Separate contract, termination + new, or cumulative catch-up
5. Show calculations if required

Summary: Step 1 Checklist

Question	If Yes	If No
All 5 criteria met?	Contract exists ? proceed to Step 2	No contract ? no revenue
Multiple contracts with same customer?	Assess if should be combined	Treat separately
Contract modification?	Apply modification accounting	Continue with original
High volume similar contracts?	Consider portfolio approach	Account individually

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What's Next?

In Part 3, we tackle Step 2: Identifying Performance Obligations, including:
- The "distinct" test in detail
- Series of distinct goods/services
- Promises in contracts
- Principal vs. agent considerations

? Previous: Part 1 - Scope & Core Principle

? Next: Part 3 - Identifying Performance Obligations

IFRS 15 Revenue from Contracts with Customers - Part 3: Identifying Performance Obligations (Step 2)

Why Performance Obligations Matter

Performance obligations are the unit of account for revenue recognition. Getting this step wrong cascades through the entire analysis:

- Wrong performance obligations ? Wrong allocation of transaction price
- Wrong allocation ? Wrong timing of revenue recognition
- Wrong timing ? Misstated financial statements

> *Step 2 is where most judgment is required. Examiners love testing this because it requires both conceptual understanding AND application to novel scenarios.*

What is a Performance Obligation?

> *IFRS 15.22: A performance obligation is a promise in a contract with a customer to transfer to the customer:*
> *(a) a good or service (or bundle of goods or services) that is distinct; or*
> *(b) a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer.*

Breaking It Down

Element	Meaning
Promise	A commitment in the contract (explicit or implicit
Good or service	Something of value the customer receives
Distinct	Can be a separate unit of account
Series	Multiple similar items treated as one obligation

Identifying Promises in a Contract

Before assessing whether something is distinct, identify all promises in the contract.

Types of Promises

Type	Examples
Explicit promises	Clearly stated goods/services in the contract
Implicit promises	Customary business practices, published policies,

Examples of Promises

Industry	Goods/Services Promised
Telecom	Handset, airtime, data, customer support
Software	License, implementation, training, support, update
Retail	Product, gift wrapping, loyalty points, warranty
Construction	Design, building, project management
Car dealership	Vehicle, servicing, extended warranty, accessories

What is NOT a Performance Obligation

Administrative or setup activities that do NOT transfer goods/services:

Activity	Performance Obligation?
Opening a customer account	[X] No (administrative)
Setting up access to software	[X] No (setup activity)
Regulatory paperwork	[X] No (administrative)
Designing to customer specifications	[OK] Yes (if provides value) or [X] No (if only pr

> *Ask: "Does this activity transfer something of value to the customer, or is it just preparing to transfer something?"*

The "Distinct" Test

This is the critical test. A good or service is distinct if BOTH conditions are met:

Condition 1: Capable of Being Distinct

> *IFRS 15.27(a): The customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer.*

"Readily available" means:
- Sold separately by the entity
- Sold separately by other suppliers
- Already obtained by the customer

Examples:

Good/Service	Capable of Being Distinct?	Reasoning
Smartphone in a bundled contract	[OK] Yes	Can be used without the service plan
Software license	[OK] Yes	Customer could use it with their own IT team
Installation of complex equipment	Depends	If customer could hire another installer, yes
Custom software module	[OK] Yes	If customer could integrate it themselves or with

Condition 2: Separately Identifiable in the Contract

> *IFRS 15.27(b): The promise to transfer the good or service is separately identifiable from other promises in the contract.*

This asks: Is this promise transformative or integrated with other promises?

Indicators that a promise is NOT separately identifiable:

Indicator	Example
Integration service	Building contractor that manages subcontractors to
Significant modification/customisation	Software requiring substantial custom development
High interdependence	Components that cannot function without each other

The Two-Part Test in Practice

```
Is the good/service DISTINCT?
?
??? Part A: Capable of being distinct?
?   ??? YES ? Continue to Part B
?   ??? NO ? NOT DISTINCT (combine with other goods/services)
?
??? Part B: Separately identifiable?
    ??? YES ? DISTINCT (separate performance obligation)
    ??? NO ? NOT DISTINCT (combine with other goods/services)
```

Working Examples: The Distinct Test

Example 1: Telecom Bundle

Contract: 24-month mobile contract including:
- Smartphone (retail value R12,000)
- 24 months of airtime/data (retail value R500/month)
- Total monthly payment: R800

Analysis:

Promise	Capable of Being Distinct?	Separately Identifiable?	Distinct?
Smartphone	[OK] Yes (customer can use with	[OK] Yes (not integrated with ser	[OK] Yes
Airtime/Data	[OK] Yes (customer can use with	[OK] Yes (separate service delive	[OK] Yes

Conclusion: Two performance obligations: (1) Smartphone, (2) Telecom services over 24 months.

Example 2: Construction Contract

Contract: Build a manufacturing facility including:
- Site preparation
- Foundation and structure
- Mechanical and electrical installation
- Project management throughout

Analysis:

Promise	Capable of Being Distinct?	Separately Identifiable?	Distinct?

Site preparation	[OK] Yes (other contractors could	[X] No (integrated into single build	[X] No
Foundation	[OK] Yes	[X] No (integrated)	[X] No
M&E installation	[OK] Yes	[X] No (integrated)	[X] No
Project management	[OK] Yes	[X] No (integration service)	[X] No

Conclusion: ONE performance obligation-the completed facility. Entity provides significant integration service.

Example 3: Software with Implementation

Contract: Enterprise software including:
- Perpetual license for standard software
- Implementation services (configuration, data migration)
- 12 months of support

Analysis:

Promise	Capable of Being Distinct?	Separately Identifiable?	Distinct?
Software license	[OK] Yes (customer could implem	[OK] Yes (standard software, min	[OK] Yes
Implementation	[OK] Yes (third parties could prov	[OK] Yes (doesn't significantly mo	[OK] Yes
Support	[OK] Yes (customer could operat	[OK] Yes (separate from license/i	[OK] Yes

Conclusion: THREE performance obligations.

BUT, if implementation involves significant customisation that creates new functionality:
- Implementation may NOT be separately identifiable
- Could result in two obligations: (1) Customised software solution, (2) Support

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Example 4: Equipment with Warranty

Contract: Manufacturing equipment including:
- Equipment delivery
- 12-month warranty (repairs/replacement for defects)
- Optional extended warranty (additional 24 months, sold separately)

Analysis:

Promise	Analysis

Equipment	Clearly distinct
Standard warranty	NOT distinct-it's an assurance-type warranty (assu
Extended warranty	Distinct-it's a service-type warranty (provides ad

Conclusion: TWO performance obligations: (1) Equipment (with embedded assurance warranty), (2) Extended warranty service.

> *Warranty analysis is covered in depth in Part 7.*

Series of Distinct Goods or Services

When a Series is ONE Performance Obligation

Multiple distinct goods/services are treated as a single performance obligation if:

1. Each distinct good/service in the series is satisfied over time, AND
2. The same method is used to measure progress toward satisfaction

Practical Application

Scenario	Series?	Reasoning
Monthly cleaning services (12-month contrac	[OK] Yes	Each month distinct, same pattern
Transaction processing services	[OK] Yes	Each transaction distinct, same pattern
Managing multiple retail locations	[OK] Yes	Each day/location distinct, same pattern
Installing different types of equipment	[X] No	Not substantially the same

Why It Matters

Treating a series as ONE performance obligation:
- Simplifies accounting
- Allows consistent revenue recognition pattern
- Avoids allocating transaction price to each individual service

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Principal vs. Agent Considerations

The Critical Question

When another party is involved in providing goods/services to the customer:

> *Is the entity a PRINCIPAL (controls the good/service) or an AGENT (arranges for another party to provide)?*

Determining Principal vs. Agent

Principal = Controls the good/service BEFORE transfer to customer

Agent = Arranges for principal to provide, does NOT control

Indicators of Control (Principal)

Indicator	Suggests Principal
Primary responsibility for fulfillment	[OK] Entity is responsible for ensuring goods/serv
Inventory risk	[OK] Entity bears risk of loss/obsolescence
Pricing discretion	[OK] Entity sets the price charged to customer

Accounting Implications

Role	Revenue Recognition
Principal	Gross revenue (total amount from customer)
Agent	Net revenue (commission/fee only)

Working Example: Online Marketplace

Scenario: TechMart operates an online platform where third-party sellers list products. TechMart:
- Displays products on its website
- Processes payments
- Takes 15% commission
- Third-party seller ships directly to customer
- Seller sets prices

Analysis:

Indicator	Assessment
Primary responsibility	[X] Seller responsible for shipping and product
Inventory risk	[X] Never holds inventory
Pricing discretion	[X] Seller sets price

Conclusion: TechMart is an AGENT.

Revenue: 15% commission only, not gross sales.

Journal entry when R10,000 product sold:

```
Dr  Cash                          10,000
    Cr  Payable to seller                  8,500
    Cr  Revenue (commission)               1,500
```

Working Example: Electronics Retailer

Scenario: ShopElec purchases TVs from Samsung, holds them in its warehouse, and sells to customers at prices it determines. ShopElec bears the risk if TVs don't sell.

Analysis:

Indicator	Assessment
Primary responsibility	[OK] ShopElec sells and delivers to customer
Inventory risk	[OK] Holds inventory, bears obsolescence risk
Pricing discretion	[OK] Sets retail prices

Conclusion: ShopElec is a PRINCIPAL.

Revenue: Gross amount charged to customer.

Common Bundled Arrangements

Bundling Patterns by Industry

Industry	Common Bundle	Typical # of POs

Telecom	Device + Services	2 (device, services)
Software	License + Implementation + Support	2-3 depending on customisation
Construction	Design + Build	1-2 depending on integration
Franchise	License + Training + Supplies	2-3+ depending on distinct analysis
Automotive	Vehicle + Extended warranty + Servicing	2-3

Common Student Pitfalls

Pitfall	Correct Approach
Treating all promises as separate obligations	Apply the distinct test-integration often combines
Ignoring implicit promises	Consider customary practices and published policie
Confusing "capable of being distinct" with "separa	Both tests must be passed independently
Treating assurance warranties as performance oblig	Standard warranties are NOT separate-only service-
Always treating installation as distinct	Depends on complexity and whether customer could o
Recording gross revenue when acting as agent	Agents only record commission

---

Exam Technique

Step 2 Discussion Questions

Structured approach:

1. List all promises in the contract (explicit and implicit)
2. For each promise:
3. Is it capable of being distinct? (Reason)
4. Is it separately identifiable? (Reason)
5. Combine or separate based on analysis
6. State the number of performance obligations and what they are

Example Answer Structure

> *"The contract contains the following promises: [list]*
> *Applying the distinct test under IFRS 15.27:*
> *Promise 1 (Equipment):*
> *- Capable of being distinct: Yes-the customer could use the equipment with installation services from third parties*
> *- Separately identifiable: Yes-the equipment is not significantly customised and does not require integration with other promises*
> *- Conclusion: Distinct-separate performance obligation*
> *Promise 2 (Installation):*
> *- Capable of being distinct: Yes-third party installers are available*
> *- Separately identifiable: No-installation involves significant customisation to integrate with customer's existing systems, making it highly interdependent with the equipment*
> *- Conclusion: Not distinct-combine with equipment*
> *Total performance obligations: ONE (combined equipment and installation)"*

Summary: Step 2 Decision Framework

```
For each promise in the contract:
?
??? Is it a good or service (not an administrative task)?
?   ??? YES ? Continue
?   ??? NO ? Not a performance obligation
?
??? Capable of being distinct?
?   ??? YES ? Continue
?   ??? NO ? Combine with other promise(s)
?
??? Separately identifiable?
?   ??? YES ? SEPARATE performance obligation
?   ??? NO ? Combine with other promise(s)
?
??? Part of a series?
    ??? YES ? Single performance obligation for series
    ??? NO ? Individual performance obligation(s)
```

What's Next?

In Part 4, we tackle Step 3: Determining the Transaction Price, including:

- Fixed vs. variable consideration
- Constraining variable consideration
- Significant financing components
- Non-cash consideration
- Consideration payable to customers

? Previous: Part 2 - Identifying the Contract

? Next: Part 4 - Determining Transaction Price

IFRS 15 Revenue from Contracts with Customers - Part 4: Determining the Transaction Price (Step 3)

The Transaction Price Concept

> *IFRS 15.47: The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.*

Key Points

1. "Expects to be entitled" - Not what might be received, but what the entity has a right to
2. "Excluding third party amounts" - VAT, sales taxes collected are NOT revenue
3. Time value of money - May need to adjust for significant financing components

---

Components of Transaction Price

The transaction price may include:

Component	Treatment
Fixed consideration	Include at stated amount
Variable consideration	Estimate and potentially constrain
Non-cash consideration	Measure at fair value
Consideration payable to customer	Generally reduces transaction price
Significant financing component	Adjust for time value

Fixed Consideration

The simplest scenario: a stated price that won't change.

Example:
- Sale of goods for R100,000, payable in 30 days
- No discounts, penalties, or bonuses
- Transaction price = R100,000

Variable Consideration

What is Variable Consideration?

Consideration that can vary due to:

Type	Examples
Discounts	Volume discounts, early payment discounts
Rebates	Retrospective rebates based on volume
Refunds	Right of return
Credits	Performance credits
Incentives	Bonuses for early delivery
Penalties	Late delivery penalties
Price concessions	Expected price adjustments
Contingent payments	Milestone payments, royalties

Estimating Variable Consideration

Two methods are permitted-use whichever better predicts the amount:

Method 1: Expected Value

Probability-weighted sum of possible outcomes.

Best for: Large number of similar contracts where outcomes can be statistically estimated.

Example: Volume Rebate

Entity sells products with a 5% rebate if annual sales exceed R1,000,000.

Scenario	Probability	Rebate	Expected Value
Sales < R1m	30%	R0	R0
Sales >= R1m	70%	R50,000	R35,000
Expected rebate			R35,000

Transaction price reduction = R35,000

Method 2: Most Likely Amount

Single most likely outcome from a range.

Best for: Binary outcomes (will happen or won't).

Example: Performance Bonus

Contract includes R100,000 bonus if delivery is made by 31 December.

Outcome	Probability
Bonus earned	80%
Bonus not earned	20%

Most likely amount = R100,000 (then subject to constraint below)

> *Expected value works better when there are many possible outcomes along a continuum. Most likely amount works better for "all-or-nothing" scenarios.*

The Constraint on Variable Consideration

The Core Rule

> *IFRS 15.56: Include variable consideration in the transaction price only to the extent that it is highly probable that a significant reversal of revenue will NOT occur when the uncertainty is subsequently resolved.*

Understanding "Highly Probable"

Term	IFRS Meaning

Probable	More likely than not (>50%)
Highly probable	Much more than "more likely than not" (~75-80%+ in

The Two-Part Test

Variable consideration should NOT be included if:

1. It's susceptible to factors outside the entity's influence (e.g., weather, market conditions), OR
2. The uncertainty won't be resolved for a long period of time

Factors Increasing Risk of Reversal

Factor	Why It Matters
Price is highly sensitive to factors outside entit	Volatility risk
Long time before uncertainty resolves	More unknowns
Limited experience with similar contracts	Poor estimation basis
Entity has history of offering concessions	Past behaviour predicts future
Broad range of possible outcomes	Hard to estimate reliably

Working Example: Constraining Variable Consideration

Scenario:
- Entity contracts to provide consulting services for a fixed fee of R500,000 plus a performance bonus of up to R200,000
- Bonus is based on client achieving cost savings, measured after 18 months
- Entity has limited experience with this client

Analysis:

Variable Amount	Estimated	Constraint Assessment
Performance bonus	R150,000 (expected value)	High risk of reversal-client outcomes uncertain, l

Conclusion:
- Include only the amount that is highly probable not to reverse
- This might be R0 or a reduced amount (e.g., R50,000)
- Re-assess at each reporting date

Transaction price:
- Fixed: R500,000
- Variable (constrained): R50,000

- Total: R550,000 (re-assess as information becomes available)

Right of Return

Accounting Treatment

When customers have a right to return goods:

1. Recognise revenue for consideration expected to be entitled (net of expected returns)
2. Recognise a refund liability for expected refunds
3. Recognise a "right of return asset" for the right to recover goods from customers

Working Example: Right of Return

Facts:
- Entity sells 1,000 units at R100 each = R100,000
- Cost per unit: R60
- Expected return rate: 5% (based on historical experience)
- Returns occur within 30 days

Calculations:

Component	Amount
Expected sales retained (950 units x R100)	R95,000
Expected returns (50 units x R100)	R5,000

Journal Entry at Sale:

```
Dr  Receivable/Cash                            100,000
Dr  Right of Return Asset (50 x R60)             3,000
    Cr  Revenue                                            95,000
    Cr  Refund Liability                                    5,000
    Cr  Cost of Sales (contra entry for return asset)       3,000
```

Or alternatively presented:

```
Dr  Cash                                  100,000
    Cr  Revenue                                    95,000
    Cr  Refund Liability                            5,000

Dr  Cost of Sales                          57,000
Dr  Right of Return Asset                   3,000
    Cr  Inventory                                  60,000
```

Subsequent re-assessment:

At each reporting date, update estimates:
- Adjust refund liability
- Adjust right of return asset
- Adjust revenue (and cost of sales)

Significant Financing Component

When Does a Financing Component Exist?

A significant financing component exists when the timing of payments provides a significant financing benefit to either party.

Key Question: Is the customer or entity getting more than just goods/services-are they getting financing?

Factors to Consider

Factor	Indication
Difference between cash price and consideration	Large difference suggests financing
Length of time between payment and transfer	Longer = more likely financing
Prevailing interest rates	Compare implicit rate with market rates

Adjusting the Transaction Price

Customer pays in advance: Transaction price = PV of consideration (discount the liability)

Customer pays in arrears: Transaction price = PV of consideration (discount the receivable)

Practical Expedient

> *IFRS 15.63: An entity need NOT adjust for financing if the period between transfer and payment is one year or less.*

Most entities apply this expedient for normal trade credit (30-60-90 day terms).

Working Example: Significant Financing Component

Facts:
- Entity sells equipment with cash price of R1,000,000
- Customer elects to pay in 3 annual instalments of R380,000
- Implicit interest rate: 8%

Step 1: Identify the financing component

Total payments: 3 x R380,000 = R1,140,000
Financing component: R1,140,000 - R1,000,000 = R140,000

Step 2: Calculate PV at transaction date

Year	Payment	PV Factor (8%)	Present Value
1	380,000	0.9259	351,842
2	380,000	0.8573	325,774
3	380,000	0.7938	301,644
Total			979,260

(Slight difference from R1m due to rounding in implicit rate)

Step 3: Journal entries

At sale:

```
Dr  Receivable                              1,140,000
    Cr  Revenue                                          979,260
    Cr  Unearned interest income                         160,740
```

*Using calculated PV

Over the payment period:

```
Dr  Unearned interest income                    XX,XXX
    Cr  Interest income (P/L)                            XX,XXX

Dr  Cash                                       380,000
    Cr  Receivable                                       380,000
```

Customer Pays in Advance

If the customer pays significantly in advance:

Example:
- Customer pays R900,000 upfront
- Delivery in 2 years
- Market interest rate: 6%

Transaction price = R900,000 x $(1.06)^2$ = R1,011,240

Entries:

At receipt of payment:

```
Dr  Cash                                       900,000
    Cr  Contract liability                               900,000
```

Over the 2 years (interest accretion):

```
Dr  Interest expense                            XX,XXX
    Cr  Contract liability                               XX,XXX
```

At delivery:

```
Dr  Contract liability                       1,011,240
    Cr  Revenue                                      1,011,240
```

Non-Cash Consideration

Measurement

When customers pay with non-cash consideration (goods, services, shares):

> *IFRS 15.66: Measure non-cash consideration at fair value.*

What if Fair Value Cannot Be Determined?

Use the stand-alone selling price of the goods/services transferred to the customer.

Working Example: Barter Transaction

Scenario:
- Entity provides advertising services to Client
- In exchange, Client provides R500,000 worth of inventory
- Fair value of inventory: R480,000

Transaction price = R480,000 (fair value of non-cash consideration)

```
Dr  Inventory                                  480,000
    Cr  Revenue                                        480,000
```

Consideration Payable to Customer

Types of Payments to Customers

Type	Example
Cash payments	Slotting fees, listing fees
Credits	Rebates credited against amounts owed
Vouchers/coupons	Issued to customers for future use
Equity instruments	Shares issued to customers

Accounting Treatment

Generally: Reduce the transaction price (reduce revenue)

Exception: If the payment is for a distinct good or service from the customer:
- Account for the purchase separately
- Only reduce revenue if payment exceeds fair value of what's received

Working Example: Slotting Fee

Scenario:

- Supplier pays R100,000 to retailer to stock products
- No distinct good or service received in exchange

Treatment:
- Reduce transaction price by R100,000
- Recognise as reduction of revenue over the expected period

```
Dr  Contract asset (prepaid fee)              100,000
    Cr  Cash                                          100,000

As revenue is earned:
Dr  Revenue (reduction)                        XX,XXX
    Cr  Contract asset                                 XX,XXX
```

Timing of Recognition

Reduce revenue at the later of:
- When the entity recognises revenue for the related goods/services
- When the entity pays (or promises to pay)

Summary: Transaction Price Determination

```
Start with stated contract price
?
??? Is there VARIABLE consideration?
?   ??? YES ? Estimate (expected value OR most likely amount)
?   ?         ? Apply CONSTRAINT (highly probable no reversal)
?   ??? NO ? Use stated price
?
??? Is there a SIGNIFICANT FINANCING component?
?   ??? YES ? Adjust to present value (unless < 1 year)
?   ??? NO ? No adjustment
?
??? Is there NON-CASH consideration?
?   ??? YES ? Measure at fair value
?   ??? NO ? No adjustment
?
??? Is there CONSIDERATION PAYABLE TO CUSTOMER?
    ??? YES ? Reduce transaction price (unless for distinct good/service)
    ??? NO ? No adjustment

= TRANSACTION PRICE (to allocate in Step 4)
```

Common Student Pitfalls

Pitfall	Correct Approach
Including unconstrained variable consideration	Apply the constraint-only include highly probable
Using wrong estimation method	Expected value for many outcomes; most likely for
Ignoring financing in long-term contracts	Adjust if > 1 year between payment and transfer
Reducing revenue for distinct goods/services	Only reduce if payment exceeds fair value of what'
Forgetting right of return asset	When returns expected, recognise asset for recover
Measuring barter at invoice value	Use FAIR VALUE of consideration received

Exam Technique

Calculation Questions

Show clearly:
1. Fixed consideration
2. Variable consideration (show estimation method)
3. Constraint applied (with reasoning)
4. Financing adjustment (if applicable)
5. Final transaction price

Example format:

Component	Amount (R)	Notes
Fixed consideration	500,000	Per contract
Performance bonus (expected value)	80,000	80% x R100,000
Less: Constraint	(30,000)	High uncertainty-limit to highly probable
Financing adjustment	-	Payment within 30 days-practical expedient
Transaction price	550,000	

Discussion Questions

1. Identify the type of consideration
2. Explain the IFRS 15 requirement
3. Apply to the scenario
4. Conclude with the treatment

What's Next?

In Part 5, we cover Step 4: Allocating the Transaction Price, including:
- Stand-alone selling prices
- Allocation methods
- Discounts and variable consideration allocation

? Previous: Part 3 - Identifying Performance Obligations

? Next: Part 5 - Allocating the Transaction Price

IFRS 15 Revenue from Contracts with Customers - Part 5: Allocating the Transaction Price (Step 4)

Why Allocation Matters

When a contract has multiple performance obligations, the transaction price must be allocated to each obligation. This determines:

- How much revenue is recognised for each obligation
- When revenue is recognised (as each obligation is satisfied)

> *If you identified only ONE performance obligation in Step 2, allocation is simple-the entire transaction price goes to that obligation. This section is critical when there are multiple performance obligations.*

The Allocation Objective

> *IFRS 15.73: The objective is to allocate the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the entity expects to be entitled in exchange for transferring the promised goods or services.*

The General Rule

Allocate based on relative stand-alone selling prices.

```
Allocation to PO = Transaction Price x (Stand-alone SSP of PO / Total of all Stand-alone SSPs)
```

Stand-Alone Selling Price (SSP)

What is the Stand-Alone Selling Price?

> *IFRS 15.77: The stand-alone selling price is the price at which an entity would sell a promised good or service separately to a customer.*

In plain terms: What would you charge if you sold this item on its own?

The Best Evidence: Observable Prices

The best evidence of SSP is the observable price when the entity sells that good or service separately in similar circumstances to similar customers.

When Observable Prices Don't Exist

If stand-alone selling price isn't directly observable, estimate it using one of these methods:

Method	Description	When to Use
Adjusted Market Assessment	Evaluate what customers in the market woul	Market data available
Expected Cost Plus Margin	Forecast costs + add appropriate margin	Cost structure is clear
Residual Approach	Transaction price minus other observable S	Highly variable or uncertain prices

Method 1: Adjusted Market Assessment

Look at the market and estimate what customers would pay for similar goods/services.

Steps:
1. Research prices charged by competitors
2. Adjust for entity-specific factors (brand, quality, features)
3. Consider what the entity's customers would pay

Example:
- Entity sells software that competitors price at R80,000 - R120,000
- Entity's product has premium features
- Estimated SSP: R110,000

Method 2: Expected Cost Plus Margin

Estimate costs and add an appropriate margin.

Steps:
1. Calculate expected cost to satisfy the obligation
2. Add a margin consistent with similar transactions

Example:
- Implementation service costs: R50,000 (labour, overheads)
- Normal margin for similar services: 40%
- Estimated SSP: R50,000 x 1.40 = R70,000

Method 3: Residual Approach

Assign the "leftover" amount after deducting other observable SSPs.

Can ONLY be used when:
- The entity sells the same good/service to different customers at a wide range of prices, OR
- The price has not been established (new product)

Example:
- Bundle sold for R200,000
- Component A (observable SSP): R150,000
- Component B (highly variable pricing): Residual = R50,000

> *The residual approach can result in zero allocation to a performance obligation. This is only acceptable if genuinely supported by evidence.*

Working Example: Basic Allocation

Scenario

TechCo sells a bundled package:
- Software license (normally sold separately for R100,000)
- Implementation services (normally sold separately for R40,000)
- 12 months support (normally sold separately for R20,000)
- Bundle price: R130,000

Step 1: Identify Stand-Alone Selling Prices

Performance Obligation	SSP
Software license	R100,000
Implementation	R40,000
Support (12 months)	R20,000

Total SSP	R160,000

Step 2: Calculate Allocation Percentages

Performance Obligation	SSP	%
Software license	100,000	62.5%
Implementation	40,000	25.0%
Support	20,000	12.5%
Total	160,000	100%

Step 3: Allocate Transaction Price

Performance Obligation	Allocation (R130,000 x)	Amount
Software license	62.5%	R81,250
Implementation	25.0%	R32,500
Support	12.5%	R16,250
Total		R130,000

Result

- Revenue for software: R81,250 (recognised when license delivered)
- Revenue for implementation: R32,500 (recognised over implementation period)
- Revenue for support: R16,250 (recognised over 12 months)

Allocation of Discounts

General Rule: Proportionate Allocation

A discount is generally allocated proportionately to all performance obligations.

Exception: Allocate Discount to Specific Obligations

A discount can be allocated entirely to one or more (but not all) performance obligations if all three criteria are met:

1. Entity regularly sells each distinct good/service separately
2. Entity regularly sells bundles of some (but not all) of those goods/services at a discount
3. The discount is substantially the same as the discount in the current bundle, with observable evidence

Working Example: Specific Discount Allocation

Scenario:

Entity sells:
- Product A (SSP R100)
- Product B (SSP R50)
- Service C (SSP R50)

Regular pricing:
- A + B as a bundle: R120 (R30 discount)
- C sold alone: R50 (no discount)

Current contract:
- A + B + C for R170

Analysis:
- Total SSP: R200
- Discount: R30
- Historical evidence: Discount normally relates to A + B bundle

Allocation:

Obligation	SSP	Discount	Allocated Amount
Product A	100	(20)*	80
Product B	50	(10)*	40
Service C	50	0	50
Total	200	(30)	170

*Discount allocated proportionately within the A+B bundle (R30 x 100/150 = R20; R30 x 50/150 = R10)

Allocation of Variable Consideration

General Rule: Proportionate Allocation

Variable consideration is generally allocated proportionately to all performance obligations.

Exception: Allocate Variable Consideration to Specific Obligations

Allocate variable consideration entirely to one performance obligation (or a distinct good/service in a series) if both criteria are met:

1. The terms of the variable payment relate specifically to satisfying that obligation
2. Allocating entirely to that obligation is consistent with the overall allocation objective

Working Example: Variable Consideration Allocation

Scenario:

Construction contract:
- Phase 1: Foundation (SSP R2m)
- Phase 2: Superstructure (SSP R5m)
- Bonus of R500,000 if Phase 2 completed early

Analysis:
- The bonus relates specifically to Phase 2
- Allocation entirely to Phase 2 is consistent with the objective

Allocation:

Obligation	Fixed Price	Variable (Bonus)	Total (if earned)
Phase 1	R2,000,000	R0	R2,000,000
Phase 2	R5,000,000	R500,000	R5,500,000
Total	R7,000,000	R500,000	R7,500,000

Changes in Transaction Price After Allocation

What Happens When the Transaction Price Changes?

After contract inception, the transaction price may change due to:
- Resolution of variable consideration uncertainty

- Contract modifications
- Changes in estimates

General Rule

Allocate changes to performance obligations on the same basis as the original allocation.

Exception for Changes in Variable Consideration

If variable consideration was allocated to a specific performance obligation:
- Changes in that variable consideration are allocated only to that obligation

Working Example: Change in Transaction Price

Original allocation:

Obligation	%	Original Allocation
Product A	60%	R60,000
Service B	40%	R40,000
Total		R100,000

Subsequently:
- Performance milestone achieved
- Additional R20,000 becomes unconstraint

Updated allocation:

Obligation	%	Additional	New Total
Product A	60%	R12,000	R72,000
Service B	40%	R8,000	R48,000
Total		R20,000	R120,000

If Product A already fully satisfied:
- R12,000 recognised immediately as revenue
- R8,000 recognised as Service B is satisfied

Practical Considerations

When SSP Estimation is Challenging

Challenge	Approach
New product (no history)	Expected cost plus margin, or market assessment
Highly customised goods	Expected cost plus margin
Free items in bundles	Allocate based on relative SSP (even if given free
Price varies by customer	Consider if residual approach appropriate

SSP of "Free" Items

If a good/service is provided "free" in a bundle, it still has an SSP. Revenue must be allocated to it.

Example:
- "Buy phone, get case free"
- Case SSP: R500
- This R500 must be allocated from the bundle price

Summary: The Allocation Process

```
1. DETERMINE transaction price (Step 3)
   ?
2. IDENTIFY performance obligations (Step 2)
   ?
3. DETERMINE stand-alone selling price for EACH obligation
   ?
   ??? Observable price available? ? Use it
   ?
   ??? Not observable? ? Estimate using:
       ??? Adjusted market assessment
       ??? Expected cost plus margin, OR
       ??? Residual approach (limited use)
   ?
4. ALLOCATE proportionately based on relative SSPs
   ?
5. APPLY exceptions where criteria met:
   ??? Allocate discount to specific obligations
   ??? Allocate variable consideration to specific obligations
   ?
6. RECOGNISE revenue as each obligation is satisfied (Step 5)
```

Common Student Pitfalls

Pitfall	Correct Approach
Using contract prices instead of SSPs	SSP is what you'd charge SEPARATELY, not the bundl
Forgetting to allocate to "free" items	Free items still have an SSP-allocate accordingly
Using residual approach without justification	Can only use when prices are highly variable or no
Allocating discount to all obligations	Check if evidence supports specific allocation
Ignoring variable consideration allocation rules	If payment relates to specific obligation, allocat
Not updating allocation when transaction price cha	Use same basis as original allocation

Exam Technique

Standard Calculation Format

Step 1: List SSPs

Performance Obligation	SSP
Obligation 1	R___
Obligation 2	R___
Obligation 3	R___
Total	R___

Step 2: Calculate Percentages

Performance Obligation	SSP	Percentage
Obligation 1	R___	___%
...		
Total	R___	100%

Step 3: Allocate Transaction Price (R___)

Performance Obligation	Percentage	Allocation
Obligation 1	___%	R___
...		
Total	100%	R___

Discussion Points

When asked to explain the allocation:
1. State the IFRS 15 objective (depict consideration expected)
2. Explain the use of relative SSPs
3. Describe how SSPs were determined (observable or estimated)
4. Justify any exceptions applied (discount/variable allocation)

What's Next?

In Part 6, we tackle Step 5: Recognising Revenue, including:
- Satisfaction of performance obligations
- Over time vs. point in time recognition

- Measuring progress
- Transfer of control indicators

? Previous: Part 4 - Determining Transaction Price

? Next: Part 6 - Recognising Revenue

IFRS 15 Revenue from Contracts with Customers - Part 6: Recognising Revenue (Step 5)

The Core Recognition Principle

> *IFRS 15.31: An entity shall recognise revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service (i.e., an asset) to a customer.*

What Does "Transferring" Mean?

A good or service is transferred when the customer obtains control of that asset.

What is Control?

> *IFRS 15.33: Control of an asset refers to the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset. Control includes the ability to prevent other entities from directing the use of, and obtaining the benefits from, an asset.*

The Fundamental Question

For each performance obligation:

> *"Does the customer obtain control OVER TIME or at a POINT IN TIME?"*

This determines:
- Over time: Revenue recognised progressively as performance occurs
- Point in time: Revenue recognised at a single moment

Over Time Recognition

The Three Criteria (ANY ONE Must Be Met)

A performance obligation is satisfied over time if any one of the following criteria is met:

Criterion	What It Means	Example
A. Simultaneous receipt and consumption	Customer receives and consumes benefits a	Cleaning services, routine maintenance
B. Customer controls asset as created	Entity's performance creates or enhances ar	Building on customer's land
C. No alternative use + right to payment	Asset has no alternative use AND entity has	Custom manufacturing, specialised software

Criterion A: Simultaneous Receipt and Consumption

Test: Would another entity need to substantially re-perform the work already completed if it took over the contract?

If NO (another entity wouldn't need to re-perform) ? Criterion A is met

Examples:
- Routine or recurring services (cleaning, security, payroll processing)
- Transportation services
- Subscription services where benefit is consumed immediately

Criterion B: Customer Controls Asset as Created

Common scenarios:
- Construction on customer's land
- Work in progress that the customer could take elsewhere
- Consulting work that produces customer-owned deliverables

Key question: Can the customer direct the use of the work in progress?

Criterion C: No Alternative Use + Right to Payment

Both elements must be present:

No Alternative Use

The asset must be customised to the extent that the entity:
- Cannot practically redirect it to another customer without significant cost, OR
- Is contractually restricted from doing so

Test factors:
- Practical limitations (design, function, location)
- Contractual restrictions

Enforceable Right to Payment

Entity must have a right to payment for:
- Performance completed to date
- At an amount that approximates the selling price (cost + reasonable margin)

Note: This isn't just a termination penalty-it's compensation for work done.

Working Example: Over Time Assessment

Scenario: Custom Software Development

Facts:
- Entity develops custom inventory management system for Customer
- System is designed specifically for Customer's processes
- Contract allows Customer to terminate for convenience with 30 days' notice
- On termination, Customer must pay for work completed plus 10% margin
- Customer doesn't control work in progress

Analysis:

Criterion	Assessment
A. Simultaneous receipt/consumption	[X] No-Customer doesn't benefit until software del
B. Customer controls as created	[X] No-Entity controls WIP until delivery
C. No alternative use + right to payment	[OK] Yes

Criterion C analysis:
- No alternative use: Custom design means entity can't sell to another customer
- Right to payment: Contract provides for payment on termination (cost + margin)

Conclusion: Recognise revenue over time.

Scenario: Speculative House Construction

Facts:
- Developer builds houses on own land
- Houses sold when completed or partially completed

- Standard house designs (not customised)
- No contracts with buyers until sale

Analysis:

Criterion	Assessment
A. Simultaneous receipt/consumption	[X] No-No customer yet
B. Customer controls as created	[X] No-Developer owns the land and WIP
C. No alternative use + right to payment	[X] No-Houses can be sold to any buyer (alternativ

Conclusion: Recognise revenue at a point in time (when control transfers to buyer on sale).

Measuring Progress Toward Completion

When revenue is recognised over time, the entity must measure progress toward complete satisfaction of the performance obligation.

The Objective

> *IFRS 15.39: The objective is to depict an entity's performance-the transfer of control of goods or services to the customer.*

Methods of Measuring Progress

Method Type	Description	Examples
Output Methods	Based on direct measurement of value trans	Units produced, milestones achieved, surveys of wo
Input Methods	Based on entity's efforts relative to total expe	Costs incurred, labour hours, time elapsed

Output Methods

Measure based on what has been transferred to the customer.

Examples:
- Units delivered
- Contract milestones reached
- Appraisals of work completed

- Time elapsed (for stand-ready obligations)

Practical Expedient (IFRS 15.B16): If entity has a right to invoice at an amount corresponding directly to the value delivered, it can recognise revenue at that amount.

Example: Consulting at R2,000/hour-recognise revenue for hours worked.

Input Methods

Measure based on what the entity has put into the contract.

Most common: Cost-to-cost method

```
Progress = Costs incurred to date / Total expected costs
Revenue to date = Progress x Transaction price
Revenue this period = Revenue to date - Revenue previously recognised
```

Critical considerations:
- Exclude costs that don't reflect transfer of control (e.g., wasted materials, unexpected inefficiencies)
- Use consistent methods across similar contracts

Working Example: Cost-to-Cost Method

Scenario: Construction Contract

Contract details:
- Contract price: R10,000,000
- Estimated total costs: R8,000,000
- Contract started 1 July 20X1

Year 1 (to 31 December 20X1):
- Costs incurred: R2,400,000
- Updated total cost estimate: R8,000,000 (unchanged)

Year 2 (to 31 December 20X2):
- Additional costs incurred: R4,200,000
- Cumulative costs: R6,600,000
- Updated total cost estimate: R8,800,000 (cost overrun)

Year 3 (to 31 December 20X3):
- Additional costs incurred: R2,200,000
- Cumulative costs: R8,800,000

- Contract completed

Calculations:

	Year 1	Year 2	Year 3
Cumulative costs	2,400,000	6,600,000	8,800,000
Total estimated costs	8,000,000	8,800,000	8,800,000
Progress %	30%	75%	100%
Revenue to date	3,000,000	7,500,000	10,000,000
Previously recognised	-	(3,000,000)	(7,500,000)
Revenue this period	3,000,000	4,500,000	2,500,000
Cost of sales	2,400,000	4,200,000	2,200,000
Gross profit	600,000	300,000	300,000

Note the impact of cost overrun:
- Total margin reduced from R2m to R1.2m
- Year 2 bears impact of revised estimate

Point in Time Recognition

When Criteria for "Over Time" Are NOT Met

If NONE of the three over-time criteria are met, revenue is recognised at the point in time when control transfers.

Indicators of Control Transfer

IFRS 15.38 provides indicators that control has transferred:

Indicator	What It Tells You
Present right to payment	Customer owes for the asset
Legal title transferred	Formal ownership has passed
Physical possession transferred	Customer has the goods
Significant risks and rewards transferred	Customer bears economic risk
Customer has accepted	No remaining acceptance provisions

> *These are indicators, not requirements. Use judgment considering all facts.*

Common Point-in-Time Scenarios

Scenario	Typical Point of Recognition
Standard product sales	Delivery to customer
Ex-works sales	Customer collects from premises
FOB shipping point	Shipment from entity's location
FOB destination	Arrival at customer's location
Sale with installation	Completion of installation (if installation is par

---

Working Example: Determining Point of Control Transfer

Scenario: Equipment Sale with Installation

Facts:
- Entity sells industrial equipment for R500,000
- Price includes delivery and installation
- Installation is straightforward (could be done by third party)
- Customer takes physical possession on delivery
- Payment due on installation completion

Analysis:

First: Are delivery and installation separate performance obligations?
- Equipment: distinct (customer can benefit from it)
- Installation: distinct (third parties could install)
- BUT: Are they separately identifiable or highly interrelated?

If installation is straightforward ? Two performance obligations

Second: When does control transfer for each?
- Equipment: On delivery (physical possession, risks and rewards transfer)
- Installation: On completion of installation

Revenue recognition:
- Equipment revenue: recognised on delivery

- Installation revenue: recognised on completion

Scenario: Equipment with Complex Installation

Facts:
- Same as above, but installation involves significant customisation
- Entity has specialised expertise
- Equipment cannot function without installation

Analysis:

Installation is NOT distinct (highly interdependent with equipment)

? One performance obligation (combined equipment and installation)

When does control transfer?
- Customer cannot direct use until installation complete
- Control transfers on completion of installation

Revenue recognition:
- Full amount recognised on installation completion (point in time)
- OR, if over-time criteria met (e.g., customer controls asset as created), recognise over time

---

Bill-and-Hold Arrangements

What is Bill-and-Hold?

Entity bills the customer but retains physical possession of the goods until a future date.

When to Recognise Revenue

Revenue is recognised when control transfers, which requires:

1. Substantive reason for the arrangement (customer's request, not seller's convenience)
2. Goods are separately identified as belonging to the customer
3. Goods are currently ready for transfer
4. Entity cannot use the goods or direct them to another customer

Working Example

Facts:
- Customer orders equipment for R200,000
- Delivery delayed at customer's request (warehouse not ready)
- Entity segregates goods, cannot sell to others
- Risk of loss passed to customer

Analysis:
- All bill-and-hold criteria met
- Control has transferred despite physical possession remaining

Treatment: Recognise revenue of R200,000 when criteria satisfied.

Consignment Arrangements

What is Consignment?

Entity delivers goods to another party (dealer, distributor) who sells to end customers on the entity's behalf.

When to Recognise Revenue

Revenue is NOT recognised on delivery to consignee. Recognise when:
- The consignee sells to end customer, OR
- Another event transfers control

Indicators of Consignment

Indicator	Suggests Consignment
Entity controls goods until specified event	[OK] Consignment
Entity can require return or transfer to third par	[OK] Consignment
Consignee doesn't have unconditional payment oblig	[OK] Consignment

---

Repurchase Agreements

Types of Repurchase Agreements

Type	Description	Accounting
Forward	Entity obligated to repurchase	Financing (typically) or lease
Call option	Entity has right to repurchase	Financing (typically) or lease
Put option	Customer has right to require repurchase	Depends on economics

Forward and Call Options

If repurchase price < original price ? Lease
If repurchase price >= original price ? Financing arrangement

Financing treatment:
- No revenue recognition
- Cash received is a liability
- Difference accretes as interest expense

Put Options

If customer has a significant economic incentive to exercise ? Financing or lease
If customer does NOT have incentive ? Sale with right of return

---

Summary: The Recognition Decision Tree

```
Performance Obligation satisfied OVER TIME?

Ask: Does ANY of these apply?
??? A. Customer simultaneously receives and consumes benefits?
??? B. Entity creates/enhances customer-controlled asset?
??? C. No alternative use + enforceable payment right?

If ANY = YES:
?   ??? OVER TIME recognition
?       ??? Measure progress (output or input method)
?       ??? Recognise revenue over the period

If ALL = NO:
    ??? POINT IN TIME recognition
        ??? Identify when control transfers
        ??? Consider indicators (payment, title, possession, risk, acceptance)
        ??? Recognise revenue at that point
```

Common Student Pitfalls

Pitfall	Correct Approach
Assuming all construction is over time	Test against the three criteria-speculative develo
Ignoring "no alternative use" condition	Both conditions (no alternative use + payment righ
Using progress % on all costs	Exclude costs not reflecting transfer (inefficienc
Recognising revenue on shipment for all sales	Depends on terms-FOB destination means control tra
Treating all consignment as sales	Consignment is NOT a sale until sold to end custom
Recognising bill-and-hold automatically	Must meet all four criteria

Exam Technique

Over Time vs. Point in Time Questions

Structure your answer:

1. State the three criteria (briefly)

2. Test each criterion against the facts
3. Conclude which applies (or none)
4. If over time: explain progress measurement method
5. If point in time: identify when control transfers

Calculation Questions (Over Time)

Show your workings:

	Year 1	Year 2	Year 3
Cumulative costs			
Total estimated costs			
Progress %			
Cumulative revenue			
Previously recognised			
Current period revenue			

What's Next?

In Part 7, we tackle Specific Application Issues, including:
- Warranties (assurance vs. service-type)
- Licensing (right-to-use vs. right-to-access)
- Repurchase agreements in depth
- Customer acceptance clauses
- Breakage and unused rights

? Previous: Part 5 - Allocating the Transaction Price

? Next: Part 7 - Specific Application Issues

IFRS 15 Revenue from Contracts with Customers - Part 7: Specific Application Issues

Introduction

IFRS 15 includes detailed guidance on specific transaction types that commonly cause complexity. This section covers the key areas that frequently appear in exams.

Warranties

The Fundamental Question

> *Does the warranty provide assurance that the product meets specifications, OR does it provide a service beyond assurance?*

Types of Warranties

Type	Description	Accounting
Assurance-type	Assures product meets agreed specification	NOT a separate performance obligation-accounted
Service-type	Provides service beyond assurance (e.g., ex	Separate performance obligation-allocate transacti

Assurance-Type Warranties

Characteristics:
- Required by law or standard practice
- Covers defects existing at time of sale
- Duration is typically short (e.g., 12 months)

Accounting:
- NOT a separate performance obligation
- Estimate warranty costs

- Recognise provision (IAS 37)

Journal entry at sale:

```
Dr  Warranty expense                          XX,XXX
    Cr  Provision for warranty                        XX,XXX
```

Service-Type Warranties

Characteristics:
- Purchased separately or optional
- Provides coverage beyond defect repair
- Extended period or enhanced service

Accounting:
- Separate performance obligation
- Allocate transaction price
- Recognise revenue over warranty period

Example:
- Product sold for R10,000
- Standard 1-year warranty included (assurance)
- Extended 2-year warranty sold separately for R1,500

Treatment:
- R10,000 revenue for product (point of sale, less provision for standard warranty)
- R1,500 revenue for extended warranty (recognised over 2 years)

When Warranty Type is Unclear

Consider:
- Can customer purchase warranty separately?
- Does warranty cover additional services?
- What is the length of coverage period?

If both types exist, separate them and account accordingly.

Licensing

The Classification Challenge

Licenses grant rights to intellectual property (IP). The accounting depends on the nature of the license.

Two Types of Licenses

Type	Customer's Right	Revenue Recognition
Right to access	Access IP as it exists throughout the license	Over time
Right to use	Use IP as it exists at the point of grant (static	Point in time

Determining License Type

A license is a right to access (over time) if ALL THREE criteria are met:

1. The contract requires (or customer expects) the entity to undertake activities that significantly affect the IP
2. The rights expose the customer to positive or negative effects of those activities
3. The activities do NOT result in transfer of a good or service to the customer

If any criterion is NOT met ? Right to use (point in time)

Examples by IP Type

Intellectual Property	Typical Classification	Reasoning
Software (static)	Right to use	Entity not required to update
Software (SaaS/cloud)	Right to access	Ongoing service, continuous updates
Brand/franchise	Right to access	Entity maintains brand, customer affected by chang
Patent (technology license)	Right to use	Customer uses as-is, no ongoing support
Media content (fixed)	Right to use	Content doesn't change
Sports team brand	Right to access	Team performance affects brand value

Working Example: Franchise License

Facts:
- Entity grants 5-year franchise license for R500,000
- Franchisee uses entity's brand, systems, and procedures
- Entity continuously updates systems and markets the brand
- Franchisee's success is affected by entity's activities

Analysis:

Criterion	Assessment
Entity undertakes activities affecting IP?	[OK] Yes-marketing, system updates
Customer exposed to effects?	[OK] Yes-brand reputation affects franchisee
Activities don't transfer a good/service?	[OK] Yes-activities support the IP, not separate d

Conclusion: Right to access ? Recognise revenue over 5 years

Revenue pattern: Consider if over time criteria met (typically yes for access licenses)

Working Example: Software License

Facts:
- Entity sells perpetual software license for R100,000
- No updates included (sold separately)
- Customer can use software indefinitely
- Entity has no ongoing obligations

Analysis:
- No activities significantly affecting IP after grant
- Customer has the software "as-is"

Conclusion: Right to use ? Recognise revenue at point in time (when customer can use and benefit from the software)

Sales-Based or Usage-Based Royalties

The Exception Rule

For licenses of IP where consideration is a sales-based or usage-based royalty:

> *IFRS 15.B63: Recognise revenue at the LATER of:*
> *(a) When the subsequent sale or usage occurs*
> *(b) When the performance obligation is satisfied (or partially satisfied)*

Why This Exception Exists

- Variable consideration rules could require estimation upfront

- For royalties, this creates too much uncertainty
- The exception ensures revenue matches actual usage

Working Example: Music Royalties

Facts:
- Record label licenses song catalog to streaming service
- Royalty: R0.01 per stream
- License transferred on 1 January

Treatment:
- Revenue recognised as streams occur
- No estimation of future streams required
- Each month: Revenue = Actual streams x R0.01

Customer Options for Additional Goods or Services

When is an Option a Performance Obligation?

Customer options (loyalty points, renewal discounts, free upgrades) are performance obligations if they provide a material right the customer wouldn't receive without entering the contract.

Identifying Material Rights

Scenario	Material Right?	Reasoning
Loyalty points redeemable for discounts	[OK] Yes	Customer earned discount through purchase
Renewal at 10% below market	[OK] Yes	Discount exceeds normal pricing
Option to renew at same price (market terms	[X] No	Available to all customers
"Buy one get one 50% off"	[OK] Yes	Second item discounted due to first purchase

Accounting for Material Rights

1. Allocate transaction price between the sale and the material right (based on relative SSPs)
2. Recognise revenue when option exercised OR expires

Working Example: Loyalty Points

Facts:
- Customer purchases goods for R1,000
- Earns 100 loyalty points
- Each point redeemable for R1 discount on future purchases
- Expected redemption rate: 80%
- SSP of points (adjusted for likelihood): 100 x R1 x 80% = R80

Allocation:

Element	SSP	Allocation
Goods	1,000	R926
Loyalty points	80	R74
Total	1,080	R1,000

Calculation: R1,000 x (1,000/1,080) = R926; R1,000 x (80/1,080) = R74

Entries:

At initial sale:

```
Dr  Cash/Receivable                          1,000
    Cr  Revenue (goods)                                926
    Cr  Contract liability (points)                     74
```

When points redeemed (say 60 points of 80 expected):

```
Dr  Contract liability                          56*
    Cr  Revenue                                            56
```

*R74 x (60/80) = R55.50, plus any adjustment for revised redemption estimates

---

Non-Refundable Upfront Fees

Common Examples

- Activation fees (telecom, gym memberships)
- Setup/installation fees (SaaS, equipment)
- Joining fees

The Key Question

> *Does the upfront fee relate to a separate performance obligation?*

Usually: NO-the fee is an advance payment for future goods/services.

Accounting Treatment

If the fee does NOT relate to a distinct service:
- Include in transaction price
- Allocate to performance obligations
- Recognise as those obligations are satisfied

Working Example: Gym Membership

Facts:
- Customer pays R500 joining fee (non-refundable)
- Monthly membership: R200
- Contract: 12 months
- Joining fee covers administrative processing (no distinct service)

Treatment:
- Transaction price: R500 + (R200 x 12) = R2,900
- One performance obligation: Access to gym over 12 months
- Recognise R2,900 ÷ 12 = R241.67 per month

Customer Acceptance Clauses

Purpose

Customer acceptance clauses allow customers to terminate or require remediation if goods/services don't meet specifications.

When Can Revenue Be Recognised?

Scenario	Recognition
Acceptance is a formality (objective specification	Recognise on delivery

Acceptance is substantive (customer discretion)	Recognise on acceptance
Delivery for trial/evaluation	Recognise on acceptance or expiry of trial

Working Example: Equipment with Trial Period

Facts:
- Entity delivers equipment on 15 December
- Customer has 30-day trial period
- If unsatisfied, customer can return for full refund

Analysis:
- Acceptance is substantive (customer has discretion)
- Control has NOT transferred during trial period

Treatment:
- No revenue on 15 December
- Recognise revenue on earlier of:
  - Customer acceptance (explicit or implied)
  - Expiry of trial period (if customer retains)

Breakage (Unused Rights)

What is Breakage?

Customers often don't exercise all their contractual rights:
- Unused gift cards
- Unused prepaid phone credit
- Unredeemed loyalty points

Accounting Treatment

Expectation	Treatment
Entity expects customer to exercise right	Recognise revenue when customer exercises
Entity expects customer NOT to exercise (breakage)	Recognise breakage in proportion to rights exercis
Entity expects forfeiture but amount uncertain	Recognise when likelihood of customer exercising b

Proportional Recognition

If entity expects 20% breakage:
- As rights are exercised, recognise both exercised revenue AND proportional breakage

Working Example: Gift Cards

Facts:
- Entity sells R100,000 in gift cards during December
- Historical breakage rate: 10%
- By year-end, R40,000 redeemed

Calculation:

Expected redeemable amount: R100,000 x 90% = R90,000
Expected breakage: R100,000 x 10% = R10,000

Revenue recognised at year-end:
- From redemptions: R40,000
- Proportional breakage: R10,000 x (40,000/90,000) = R4,444

Total revenue: R44,444

Remaining liability: R100,000 - R44,444 = R55,556

Principal vs. Agent (Recap)

Quick Reference

Factor	Principal	Agent
Controls goods/services before transfer	[OK]	[X]
Bears inventory risk	[OK]	[X]
Has pricing discretion	[OK]	[X]
Revenue	Gross	Net (commission only)

Working Example: Travel Agency

Facts:

- Travel agency books hotel rooms for customers
- Agency receives 15% commission from hotels
- Customer pays agency R1,000 for room
- Agency remits R850 to hotel

Analysis:
- Agency doesn't control hotel room before customer's stay
- Hotel sets prices (agent passes through)
- Agency bears no inventory risk

Conclusion: Agent ? Revenue = R150 (commission)

South African Application Examples

Retail Industry

Issue	SA Context
Returns	Consumer Protection Act provides cooling-off perio
Loyalty programs	Widespread (Pick n Pay Smart Shopper, Clicks ClubC
Gift cards	Subject to 3-year expiry under CPA

Mining Industry

Issue	SA Context
Provisional pricing	Commodity sales often have provisional prices adju
Off-take agreements	Long-term sales contracts may have take-or-pay pro
Toll processing	Principal vs. agent analysis required

Telecommunications

Issue	SA Context
Bundled handsets and contracts	Two performance obligations; allocate based on SSP
Airtime vouchers	Breakage analysis for unused credit
Upfront connection fees	Generally no separate performance obligation

Common Student Pitfalls

Pitfall	Correct Approach
Treating all warranties as provisions	Distinguish assurance-type (provision) from servic
Recognising license revenue immediately	Assess if "right to access" or "right to use"
Ignoring loyalty point allocations	Material rights require transaction price allocati
Recognising upfront fees immediately	Allocate to performance obligations unless fee is
Recording agent gross revenue	Agents record net revenue only
Recognising breakage only on expiry	Recognise proportionally as rights are exercised

Exam Technique

Application Issues Questions

These questions test whether you can identify the issue and apply the specific guidance.

Structure:
1. Identify the issue (warranty, license, loyalty points, etc.)
2. State the specific IFRS 15 guidance
3. Apply to the facts
4. Quantify if numbers are provided
5. Conclude with the accounting treatment

Common Exam Scenarios

Scenario	What to Look For
"Extended warranty available"	Service-type warranty ? separate PO
"Franchise agreement"	Likely right to access ? over time
"Software sold with updates"	Assess if updates are separate PO or part of acces
"Loyalty points earned"	Material right ? allocate transaction price
"Gift cards sold"	Contract liability + breakage analysis
"Commission received"	Principal vs. agent analysis

What's Next?

In Part 8, we cover Contract Costs, including:

- Costs to obtain a contract
- Costs to fulfil a contract
- Amortisation and impairment

? Previous: Part 6 - Recognising Revenue

? Next: Part 8 - Contract Costs

IFRS 15 Revenue from Contracts with Customers - Part 8: Contract Costs

Introduction

IFRS 15 provides guidance on costs related to obtaining and fulfilling contracts. While the primary focus of IFRS 15 is revenue recognition, the cost guidance ensures proper matching of costs with revenue.

Two Categories of Contract Costs

Category	Description	Key Requirement
Costs to obtain a contract	Incremental costs of obtaining the contract	Capitalise if expect to recover
Costs to fulfil a contract	Costs directly related to fulfilling obligations	Capitalise if criteria met

---

Costs to Obtain a Contract

What Are They?

> *IFRS 15.91: Incremental costs of obtaining a contract are costs that would NOT have been incurred if the contract had NOT been obtained.*

The Key Word: "Incremental"

Incremental = Only incurred BECAUSE the contract was obtained

Cost	Incremental?	Reasoning
Sales commission on signed contracts	[OK] Yes	Wouldn't pay if no contract
General advertising	[X] No	Incurred regardless of specific contracts

Legal fees for contract negotiation	[X] Usually no	Often incurred whether or not contract is obtained
Sales salaries (fixed)	[X] No	Paid regardless of contracts obtained
Success-based commission	[OK] Yes	Only paid when contract secured

Recognition Criteria

Capitalise costs to obtain a contract if:

1. The costs are incremental, AND
2. The entity expects to recover those costs

If not capitalisable ? Expense when incurred

Practical Expedient

> *IFRS 15.94: An entity may recognise the incremental costs as an expense when incurred if the amortisation period would be one year or less.*

Why this matters:
- Simplifies accounting for short-cycle businesses
- Reduces asset tracking burden
- Must disclose if expedient is applied

Working Example: Sales Commissions

Facts:
- Entity pays 5% commission on contract value when contracts are signed
- Contract value: R1,000,000
- Commission: R50,000
- Contract period: 3 years (services rendered evenly)

Without practical expedient:

Initial recognition:

```
Dr  Contract cost asset                      50,000
    Cr  Cash / Commission payable                        50,000
```

Amortisation (over 3 years):

```
Dr  Amortisation expense                    16,667
    Cr  Contract cost asset                          16,667
```

With practical expedient (if amortisation <= 1 year):

```
Dr  Commission expense                      50,000
    Cr  Cash / Commission payable                    50,000
```

Costs to Fulfil a Contract

What Are They?

Costs directly relating to a contract (or anticipated contract) that:
- Relate directly to a specific contract
- Generate or enhance resources used in satisfying performance obligations
- Are expected to be recovered

Recognition Criteria

Capitalise costs to fulfil if ALL THREE criteria are met:

#	Criterion	Example
1	Costs relate directly to a contract	Setup costs for specific customer project
2	Costs generate or enhance resources used t	Design work, materials staged for use
3	Costs are expected to be recovered	Entity expects to earn sufficient margin

Costs That Relate Directly

Examples of costs that may relate directly:

Cost	Capitalise?
Direct labour	[OK] Yes
Direct materials	[OK] Yes
Allocations of directly related costs (depreciatio	[OK] Yes
Costs explicitly chargeable to customer	[OK] Yes

Subcontractor costs	[OK] Yes

Costs That Do NOT Qualify

Always expense:

Cost	Treatment
General and administrative	Expense
Wasted materials, labour, overhead	Expense
Costs relating to satisfied performance obligation	Expense
Costs where can't distinguish satisfied vs. unsati	Expense

Relationship with Other Standards

If another standard addresses specific costs, apply that standard first:

Cost Type	Applicable Standard
Inventory	IAS 2
Property, plant & equipment	IAS 16
Intangible assets	IAS 38

Only apply IFRS 15 to costs NOT covered by another standard.

Working Example: Setup Costs

Facts:
- Entity enters contract to provide IT services for 5 years
- Initial setup costs (data migration, system configuration): R500,000
- Setup doesn't transfer a good/service to customer (not a separate PO)
- Contract expected to be profitable

Analysis:

Criterion	Assessment
Directly related?	[OK] Yes-specific to this contract
Generate/enhance resources?	[OK] Yes-enables future service delivery
Expected to be recovered?	[OK] Yes-contract is profitable

Treatment:

Capitalise setup costs:

```
Dr  Contract fulfilment asset               500,000
    Cr  Cash / Payables                                 500,000
```

Amortise over contract period (5 years):

```
Dr  Cost of services (amortisation)         100,000
    Cr  Contract fulfilment asset                       100,000
```

Amortisation of Contract Cost Assets

Amortisation Basis

> *IFRS 15.99: Amortise on a systematic basis consistent with the transfer of goods or services to which the asset relates.*

Amortisation Period

Consider:
- Goods or services directly related to the asset
- Anticipated contracts - if commission relates to expected renewals, the asset may be amortised over a longer period

Example: Commission with Expected Renewal

Facts:
- Commission of R10,000 paid on 2-year contract
- Entity expects customer to renew for additional 2 years
- Commission on renewal is NOT commensurate with initial commission

Analysis:
- The initial commission effectively relates to 4 years of expected services
- Amortise over 4 years, not 2 years

Amortisation: R10,000 / 4 = R2,500 per year

Impairment of Contract Cost Assets

When to Test

Test for impairment when indicators suggest the carrying amount exceeds:

> *Recoverable amount = Remaining consideration expected ? Direct costs to satisfy the contract*

Impairment Calculation

Component	Amount
Remaining consideration expected	R___
Less: Costs not yet recognised as expenses	(R___)
Recoverable amount	R___
Carrying amount of asset	R___
Impairment (if carrying amount > recoverable)	R___

Working Example: Impairment

Facts:
- Contract cost asset: R200,000
- Remaining consideration: R500,000
- Remaining costs to satisfy contract: R450,000

Calculation:

Recoverable amount = R500,000 - R450,000 = R50,000

Carrying amount = R200,000

Impairment = R200,000 - R50,000 = R150,000

Entry:

```
Dr  Impairment loss                          150,000
    Cr  Contract cost asset                            150,000
```

Reversal of Impairment

If conditions improve, reverse impairment (up to original amortised cost).

Summary: Contract Costs Decision Tree

```
Is the cost covered by another standard?
??? YES ? Apply that standard (IAS 2, IAS 16, IAS 38, etc.)
??? NO ? Continue

Is it a cost to OBTAIN the contract?
??? YES ? Is it INCREMENTAL?
?         ??? YES ? Expect to recover?
?         ?         ??? YES ? CAPITALISE (unless practical expedient)
?         ?         ??? NO ? EXPENSE
?         ??? NO ? EXPENSE
??? NO ? Continue

Is it a cost to FULFIL the contract?
??? YES ? Does it meet ALL THREE criteria?
?         ??? YES ? CAPITALISE
?         ??? NO ? EXPENSE
??? NO ? EXPENSE
```

Presentation

Statement of Financial Position

Contract cost assets are presented:

- As a separate line item, OR
- Included in relevant asset category with disclosure

Statement of Profit or Loss

Amortisation is presented:

- Consistent with the nature of the cost (e.g., cost of sales, selling expenses)

Common Student Pitfalls

Pitfall	Correct Approach

Capitalising all costs to win contracts	Only INCREMENTAL costs qualify
Ignoring practical expedient	Apply if amortisation <= 1 year
Not extending amortisation for renewals	If asset relates to anticipated renewals, extend p
Forgetting impairment testing	Test when indicators exist
Capitalising general overheads	Only direct and directly allocable costs qualify
Applying IFRS 15 to inventory	Use IAS 2 for inventory costs

Exam Technique

Contract Cost Questions

Structure:

1. Identify the cost category (obtain vs. fulfil)
2. Apply the criteria for capitalisation
3. Calculate the asset amount (if capitalised)
4. Determine amortisation period and pattern
5. Test for impairment if relevant

Mark Allocation Awareness

Topic	Typical Marks
Identifying cost type	1-2 marks
Applying capitalisation criteria	2-3 marks
Calculating asset/amortisation	2-4 marks
Impairment calculation	2-3 marks
Journal entries	2-3 marks

What's Next?

In Part 9, we cover Disclosures and Exam Strategy, including:

- Disclosure requirements
- Common exam pitfalls
- Comprehensive exam technique
- SA-specific considerations

? Previous: Part 7 - Specific Application Issues

? Next: Part 9 - Disclosures & Exam Strategy

IFRS 15 Revenue from Contracts with Customers - Part 9: Disclosures & Exam Strategy

The Disclosure Objective

> *IFRS 15.110: The objective of the disclosure requirements is to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.*

What This Means in Practice

Disclosures should help users understand:
- What the entity sells and to whom
- How much revenue is recognised and when
- What judgments were made
- What uncertainties exist around future revenue

Categories of IFRS 15 Disclosures

Category	Focus Area
Contracts with customers	Revenue, contract balances, performance obligation
Significant judgments	Timing, transaction price, allocation
Assets from contract costs	Costs capitalised, amortisation, impairment

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Part A: Contracts with Customers

1. Disaggregation of Revenue

> *IFRS 15.114: Disaggregate revenue into categories that depict how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors.*

Common disaggregation categories:

By	Examples
Type of good/service	Products, services, licensing
Geographical region	SA, Africa, Europe, Americas
Market or customer type	Retail, wholesale, government
Contract type	Fixed-price, cost-plus
Timing of transfer	Point in time, over time
Sales channel	Direct, distributors, online

Example Disclosure:

Revenue	20X2 (R'm)	20X1 (R'm)
By product type:		
Hardware sales	450	380
Software licenses	220	195
Maintenance services	180	160
Professional services	150	130
Total	1,000	865
By timing:		
Recognised at a point in time	670	575
Recognised over time	330	290
Total	1,000	865

2. Contract Balances

Disclose opening and closing balances of:

Balance	Description
Contract assets	Right to consideration for goods/services transfer
Contract liabilities	Obligation to transfer goods/services for which co

Receivables	Unconditional right to consideration

Required disclosures:

- Opening and closing balances
- Revenue recognised that was included in contract liability at period start
- Revenue recognised from performance obligations satisfied in prior periods
- Significant changes in balances with explanation

Example:

Contract Balances	20X2 (R'm)	20X1 (R'm)
Contract assets	85	62
Contract liabilities	(145)	(120)
Trade receivables	210	185

"Revenue of R110 million (20X1: R95 million) was recognised during the year from amounts included in contract liabilities at the beginning of the year."

3. Performance Obligations

Disclose when the entity typically satisfies performance obligations:

Obligation Type	Examples of Timing Disclosure
On shipment/delivery	"Revenue from product sales is recognised on deliv
Over time (progress)	"Revenue from long-term contracts is recognised ov
On customer acceptance	"Revenue is recognised when the customer accepts t
Ratably over contract	"Subscription revenue is recognised evenly over th

Disclose significant payment terms:

- When payment is typically due
- Whether there are variable elements
- Whether financing components exist

4. Transaction Price Allocated to Remaining Performance Obligations

> *IFRS 15.120: Disclose the aggregate amount of transaction price allocated to performance obligations that are unsatisfied (or partially unsatisfied) at the end of the reporting period.*

Disclose:
- The amount expected to be recognised as revenue, AND
- When the entity expects to recognise it (either quantitatively or qualitatively)

Example:

"At 31 December 20X2, the aggregate amount of transaction price allocated to remaining performance obligations was R320 million, expected to be recognised as follows:

Period	Amount (R'm)
Within 1 year	180
1-2 years	95
2-5 years	45
Total	320

Practical expedients (don't need to disclose if):
- Original expected duration <= 1 year
- Right to invoice = value delivered to customer

Part B: Significant Judgments

1. Judgments Affecting Timing

Disclose judgments and changes in judgments that significantly affect:

Area	Disclosure Required
Over time vs. point in time	How determination was made
Methods to measure progress	Why method selected, how applied
Determining when control transfers	Indicators used, judgment applied

2. Judgments Affecting Transaction Price

Disclose methods, inputs, and assumptions for:

Area	Examples
Estimating variable consideration	Method (expected value vs. most likely), constrain
Assessing constraint	Factors considered, changes in estimates
Allocating transaction price	SSP determination methods
Measuring obligations for refunds	Return rate estimates, approach

Example Disclosure:

"Variable consideration is estimated using the expected value method for volume rebates, based on historical patterns and current forecasts. The Group constrains variable consideration to amounts for which a significant reversal is considered highly improbable."

Part C: Assets from Contract Costs

Disclosures Required

Area	Disclosure
Judgments	How costs are determined to qualify for capitalisa
Amortisation method	Systematic basis used
Closing balances	By category (costs to obtain, costs to fulfil)
Amortisation and impairment	Amounts recognised in the period

Example:

Contract Cost Assets	20X2 (R'm)
Costs to obtain contracts	12.5
Costs to fulfil contracts	28.3
Total	40.8

"Amortisation of R8.2 million was recognised during the year. No impairment losses were identified."

Exam Strategy for IFRS 15

Understanding the Exam Landscape

IFRS 15 is among the most frequently examined standards because:

1. It applies to virtually all entities
2. It combines principles with specific applications
3. It requires significant judgment
4. It integrates with other standards
5. It affects key financial metrics (revenue, margins, ratios)

Typical Exam Question Types

Type	Characteristics	Typical Marks
Discussion	Explain principles, apply to scenario	8-15 marks
Calculation	Transaction price, allocation, recognition	10-20 marks
Mixed	Discussion + calculations	15-25 marks
Disclosure preparation	Prepare note disclosures	8-12 marks
Integrated	IFRS 15 with consolidations, impairment	Variable

The Golden Framework

For EVERY IFRS 15 question, mentally run through the 5 steps:

Step	Question to Ask
1. Contract	Is there a valid contract? Any combination/modific
2. Performance obligations	What are the distinct promises? How many POs?
3. Transaction price	Fixed? Variable? Financing? Non-cash? Payable to c
4. Allocation	What are the SSPs? How to allocate?
5. Recognition	Over time or point in time? When does control tran

Common Exam Scenarios and Focus Areas

Scenario	What Examiners Test
Bundled sales	Steps 2-4 (identifying POs, allocation)
Construction contracts	Over time recognition, cost-to-cost
Returns and rebates	Variable consideration, constraint

Customer loyalty programs	Material rights, allocation
Licensing	Right to use vs. right to access
Bill-and-hold	Control transfer criteria
Principal vs. agent	Gross vs. net revenue
Warranties	Assurance vs. service-type
Contract modifications	Separate contract vs. remeasurement

Common Student Pitfalls (The Bear Traps)

Pitfall	Correct Approach	Marks at Risk
Skipping Step 1	Always confirm contract criteria are met	2-3 marks
Not identifying all POs	List ALL promises, including implicit	3-5 marks
Using contract prices instead of SSPs	SSP is stand-alone, not bundled price	2-4 marks
Ignoring variable consideration constraint	Only include amounts "highly probable" not t	2-3 marks
Recognising over time without testing criteria	Test the THREE criteria; if none met, point in	3-4 marks
Treating all construction as over time	Speculative development is point in time	2-3 marks
Recording agent revenue gross	Agents recognise commission only	2-4 marks
Forgetting loyalty point allocation	Material rights require transaction price alloc	2-3 marks
Recognising license revenue immediately	Test if right to access (over time) vs. right to	2-4 marks

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Answer Structure Best Practices

Discussion Questions

Use this structure:

1. State the IFRS 15 principle (paragraph reference if possible)
2. Apply to the scenario (use specific facts given)
3. Conclude (what is the accounting treatment)

Example:

> *"IFRS 15.35 requires revenue to be recognised over time if the customer simultaneously receives and consumes the benefits as the entity performs.*
> *In this case, TechCo provides monthly IT support services. Each month, CustomerCo receives and consumes the benefit of the support. Another provider taking over would not need to re-perform services already rendered.*
> *Conclusion: The performance obligation is satisfied over time. Revenue of R120,000 should be recognised evenly over the 12-month contract period (R10,000 per month)."*

Calculation Questions

Label everything clearly:

Step 1: Identify Performance Obligations
- List POs identified

Step 2: Determine Stand-Alone Selling Prices

PO	SSP
A	R___
B	R___
Total	R___

Step 3: Allocate Transaction Price (R___)

PO	%	Allocation
A	_%	R___
B	_%	R___

Step 4: Recognise Revenue

PO	Timing	Amount	Period
A	Point in time	R___	On delivery
B	Over time	R___	12 months

Journal Entry Questions

Format properly:

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Dr  [Account]                          XXX,XXX
Dr  [Account]                          XXX,XXX
    Cr  [Account]                              XXX,XXX
    Cr  [Account]                              XXX,XXX
(Narration explaining the entry)
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Time Management

Recommended Time per Mark

Level	Time per Mark
CTA/PGDA	1.2 - 1.5 minutes
ITC	1.8 minutes

For a 20-Mark IFRS 15 Question

Activity	Time
Read and understand	3-4 minutes
Plan (identify the issues)	2 minutes
Answer structure	1 minute
Calculations	8-10 minutes
Discussion	5-6 minutes
Review	2 minutes

South African Context

Industry-Specific Considerations

Industry	Key IFRS 15 Issues
Retail	Returns, loyalty programs, gift vouchers, layby sa

Mining	Provisional pricing, off-take agreements, toll pro
Telecoms	Bundled handsets, contract modifications, airtime
Construction	Over-time recognition, claims, variations, delays
Banking	Fee income, trail commissions (IFRS 15 vs IFRS 9)
Property	Pre-sales, transfer timing, developer incentives

JSE and Regulatory Focus

- Revenue recognition policies under intense scrutiny
- SEC and IRBA have flagged revenue as high-risk area
- Expect detailed disaggregation in listed company reports
- King IV emphasises transparent reporting on key judgments

Comprehensive Exam-Style Question

Question

RetailCo Ltd operates a chain of electronics stores. The following transactions occurred during the year ended 31 December 20X2:

Transaction 1:
RetailCo sells a laptop bundled with a 2-year extended warranty. The laptop sells separately for R15,000 and the extended warranty for R2,000. The bundle is sold for R15,500.

Transaction 2:
Customers earn 1 loyalty point for every R10 spent. 100 points can be redeemed for R50 discount. Based on history, 80% of points are expected to be redeemed. During 20X2, customers earned 2,000,000 points on qualifying purchases.

Transaction 3:
RetailCo sells gift vouchers. During 20X2, R5,000,000 of vouchers were sold. R3,800,000 were redeemed by year-end. Historical breakage rate is 5%.

Required:

(a) For Transaction 1, identify the performance obligations and calculate the revenue to be recognised on sale of the bundle and over the warranty period. (6 marks)

(b) For Transaction 2, calculate the contract liability for loyalty points at 31 December 20X2, assuming 40% of expected redemptions occurred during the year. (6 marks)

(c) For Transaction 3, calculate revenue to be recognised during 20X2 for gift vouchers. (5 marks)

(d) Discuss the disclosure requirements for RetailCo's loyalty program under IFRS 15. (4 marks)

Total: 21 marks

Model Answer

Summary: IFRS 15 Success Checklist

Element	[OK]
Identified all contracts meeting criteria	
Listed all performance obligations	
Assessed if goods/services are distinct	
Determined complete transaction price	
Applied variable consideration constraint	
Used correct SSP estimation methods	
Allocated proportionately (or justified exceptions	
Tested over time criteria (all three)	
Identified correct point of control transfer	
Applied specific guidance where needed	
Considered contract costs	
Prepared required disclosures	

Key Takeaways

1. The 5-step model is your framework - Always mentally run through it
2. Step 2 (POs) and Step 5 (recognition) carry the most marks - Spend time here
3. Judgment areas attract discussion marks - Explain your reasoning
4. Show your workings - Partial marks are available

5. Link to the standard - Use IFRS 15 terminology and references
6. Practice specific applications - Warranties, licenses, loyalty points are favourites

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? Previous: Part 8 - Contract Costs

? Continue to: Groups & Business Combinations