



# SLFRS 15

“Revenue From Contracts With  
Customers”

# Following Standards and Interpretations were Abolished from SLFRS 15

- *LKAS 11 Construction Contracts*
- *LKAS 18 Revenue*
- *IFRIC 13 Customer Loyalty Programmes*
- *IFRIC 15 Agreements for Construction of Real Estate*
- *IFRIC 18 Transfers of Assets from Customers*
- *SIC-31 Revenue - Barter Transactions involving Advertising Services*

• SLFRS 15 was adopted in 2015 effective for financial periods beginning on or after 01<sup>st</sup> April 2018. It recommends a five step model in the recognizing of revenue as follows;

➤ Step 01 – Identify the contract with customer

➤ Step 02 - Identify the performance obligation in the contract

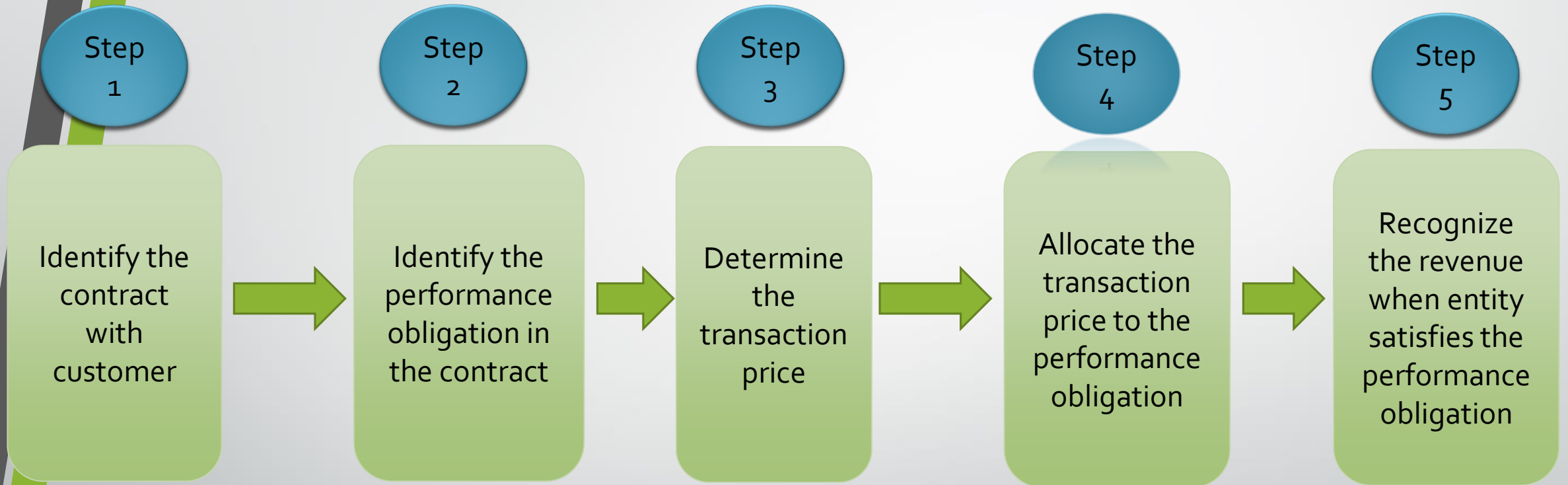
(is a promise to deliver a good or provide a service (or a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer)

➤ Step 03 – Determine the transaction price

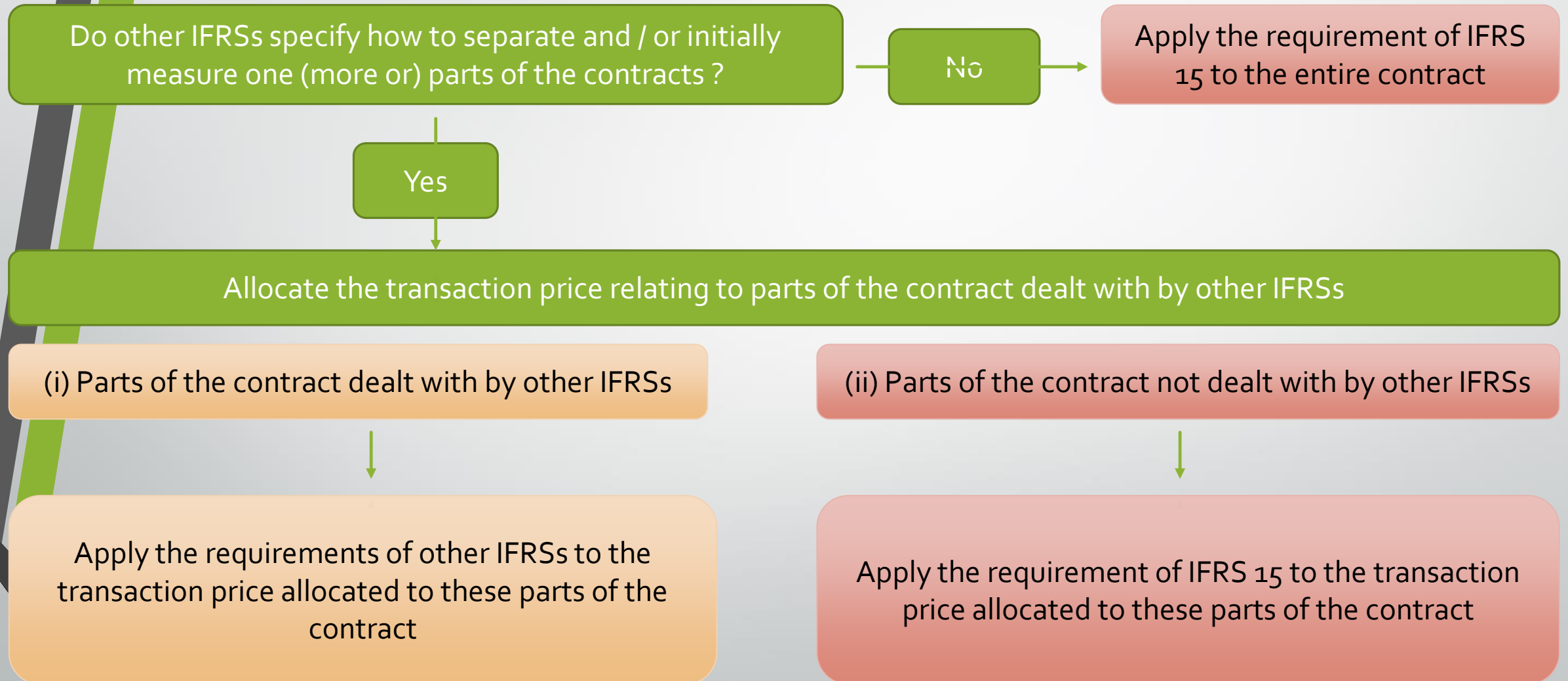
➤ Step 04 – Allocate the transaction price to the performance obligation

➤ Step 05 – Recognize revenue when ( or as) the entity satisfies a performance obligation

# 5 Steps Model



- A contract may be partially within the scope of IFRS 15 and partially within the scope of other IFRSs



# Step 01 – Identify the Contract

- SLFRS 15 is applied to contracts with customers that meet all of the following five criteria
  - 1) The contract has been approved in writing, orally or in accordance with other customary business practices and the parties are committed to perform their obligation in the contract
  - 2) Each party's rights and obligations regarding the goods or services to be transferred can be identified
  - 3) The payment terms for the goods or services to be transferred can be identified
  - 4) The contract has commercial substance (i.e. risk, timing or amount of the vendor's future cash flows are expected to change as a result of the contract)
  - 5) It is probable that the consideration for the exchange of goods or services that the vendor is entitled to will be collected. For the purpose of this criterion, only the customer's ability and intention to pay the amounts when they become due are considered.

Collection of consideration is probable

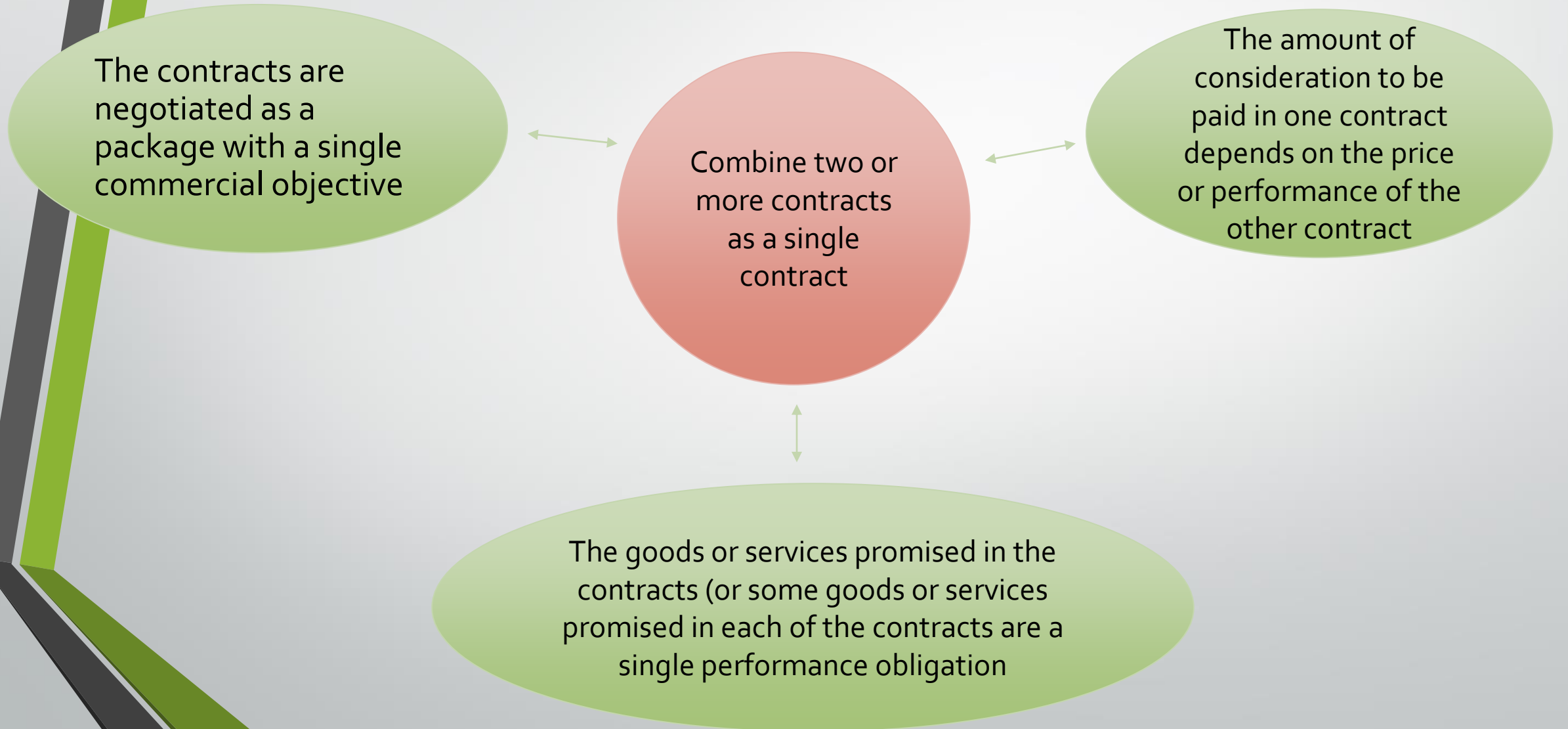
Rights to goods or services and payment terms can be identified

A Contract Exists

There should be a commercial substance

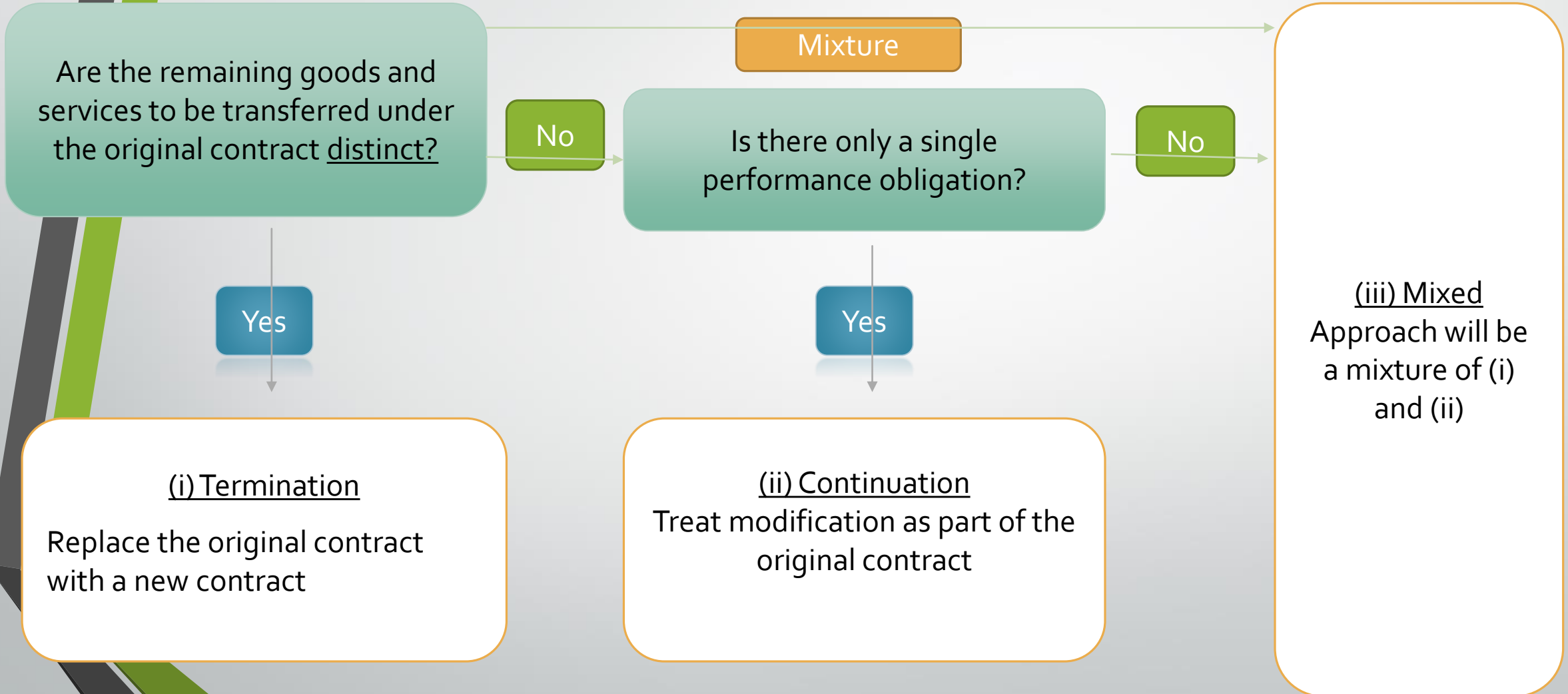
Parties are approved and committed to their obligation

# Combination of Contracts





# Modifications to the Contract



# Contract Modification

Contract modification (not a price change and reflect a scope modification)

Yes

Are the goods and services in the contract modification distinct

No

Modification is an extension of the original contract

Yes

Do the price of the goods and services in the modification reflect stand alone price

No

Modification is a cancellation of the previous contract and creation of a new contract

Yes

Modification is a new contract

# Step 2 – Identify Separate Performance Obligations in the Contract

Can the customer benefit from the goods or services, either in its own, or with other readily available resources?  
(\*readily available resources are those that the customer possesses or is able to obtain from the entity or another third party)

No

The goods or services are 'not distinct'

Yes

Is the promise to transfer a goods or services separate from the other promised goods or services in the contract? Indicators may include:

The entity does not provide a significant service or integrating the goods or services

Goods or services do not significantly modify or customize the other goods or services

Goods or services are not highly dependent or interrelated with other goods or services

No

These are then grouped in to "bundles" of goods and services that are themselves "distinct"

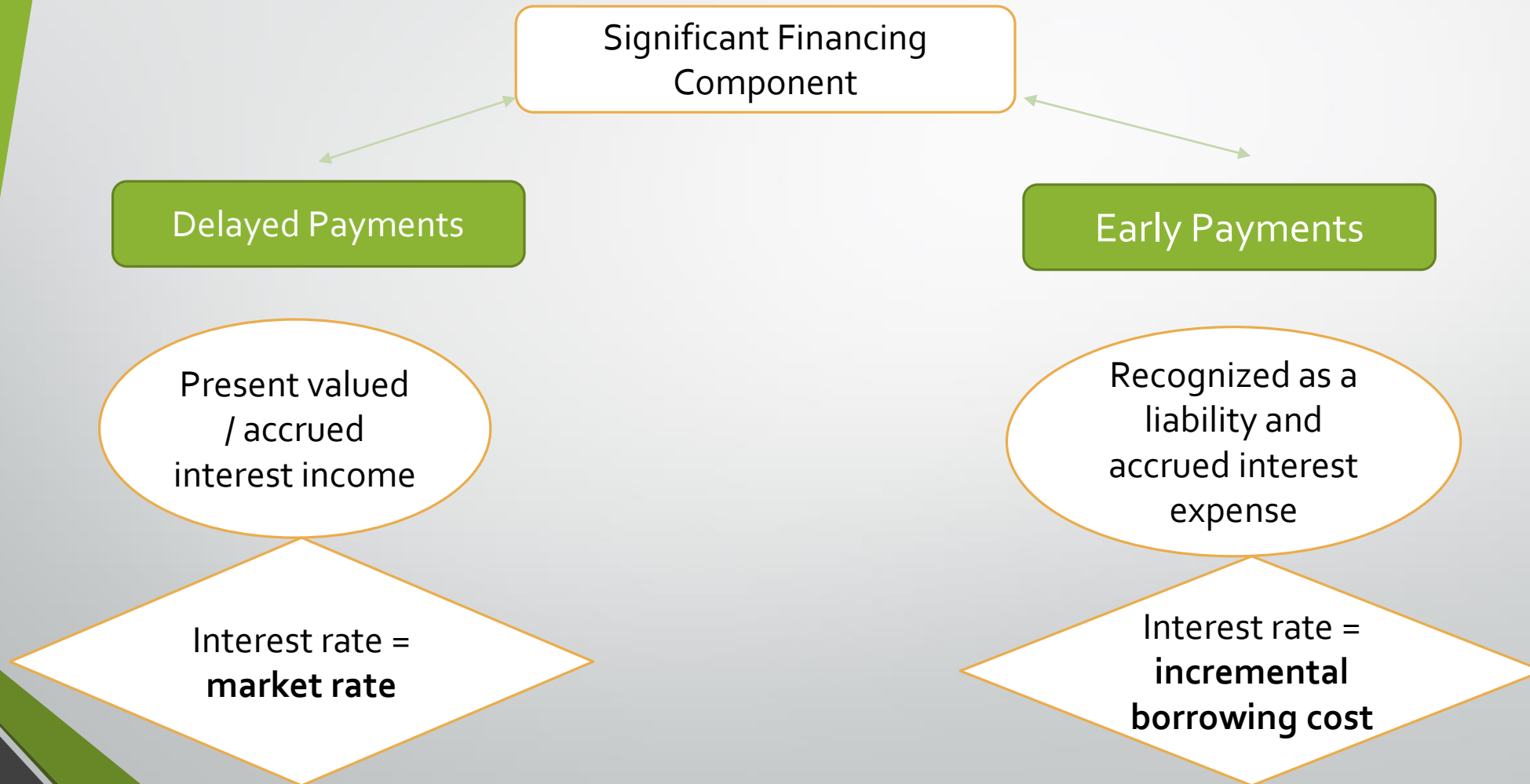
Yes

The goods or service is "Distinct"

# Step 3 – Determine the Transaction Price of the Contract

- The transaction price is the amount of consideration that a vendor expects to be entitled to in exchange for the goods or services.
- When determining the transaction price needs to consider effects of the following:
  - ✓ Variable consideration
  - ✓ Constraining estimates of variable consideration
  - ✓ Existence of a significant financing component in the contract
  - ✓ Non – cash consideration
  - ✓ Consideration payable to a customer

# The Existence of a Significant Financing Component in the Contract



## Step 4 – Allocate the Transaction Price to the Performance Obligation

- ❖ Allocating the transaction price based on the “stand-alone selling price”
- ❖ When a stand alone selling price is not directly observable,
  - Adjusted market assessment
  - Expected cost plus margin
  - Residual

# Allocate the Transaction Price

Allocate based on relative stand-alone selling prices

PO<sub>1</sub>

PO<sub>2</sub>

PO<sub>3</sub>

Determine stand-alone selling prices

Is observable price available ?

Yes

Use observable price

No

Estimate price

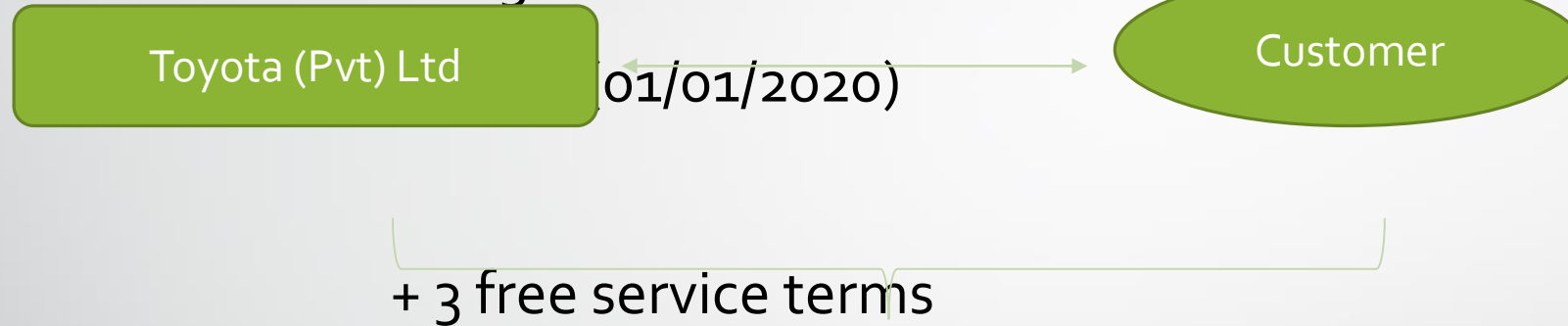
Adjusted market assessment approach

Expected cost plus margin approach

Residual approach

# Allocate the Transaction Price to the Performance Obligation

Ex. Motor vehicle sales + 3 free service terms



Transaction Price = Rs.6,000,000

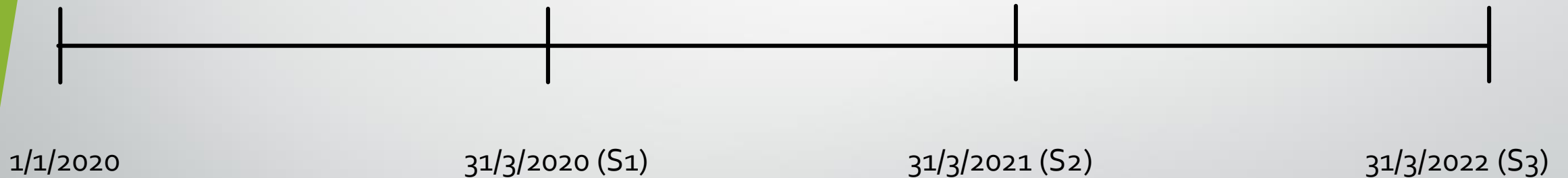
Services are provided to outsiders at a price of = Rs.200,000 per service/-

Selling price of the car = Rs. 5,750,000/-



# Allocate the Transaction Price to the Performance Obligation

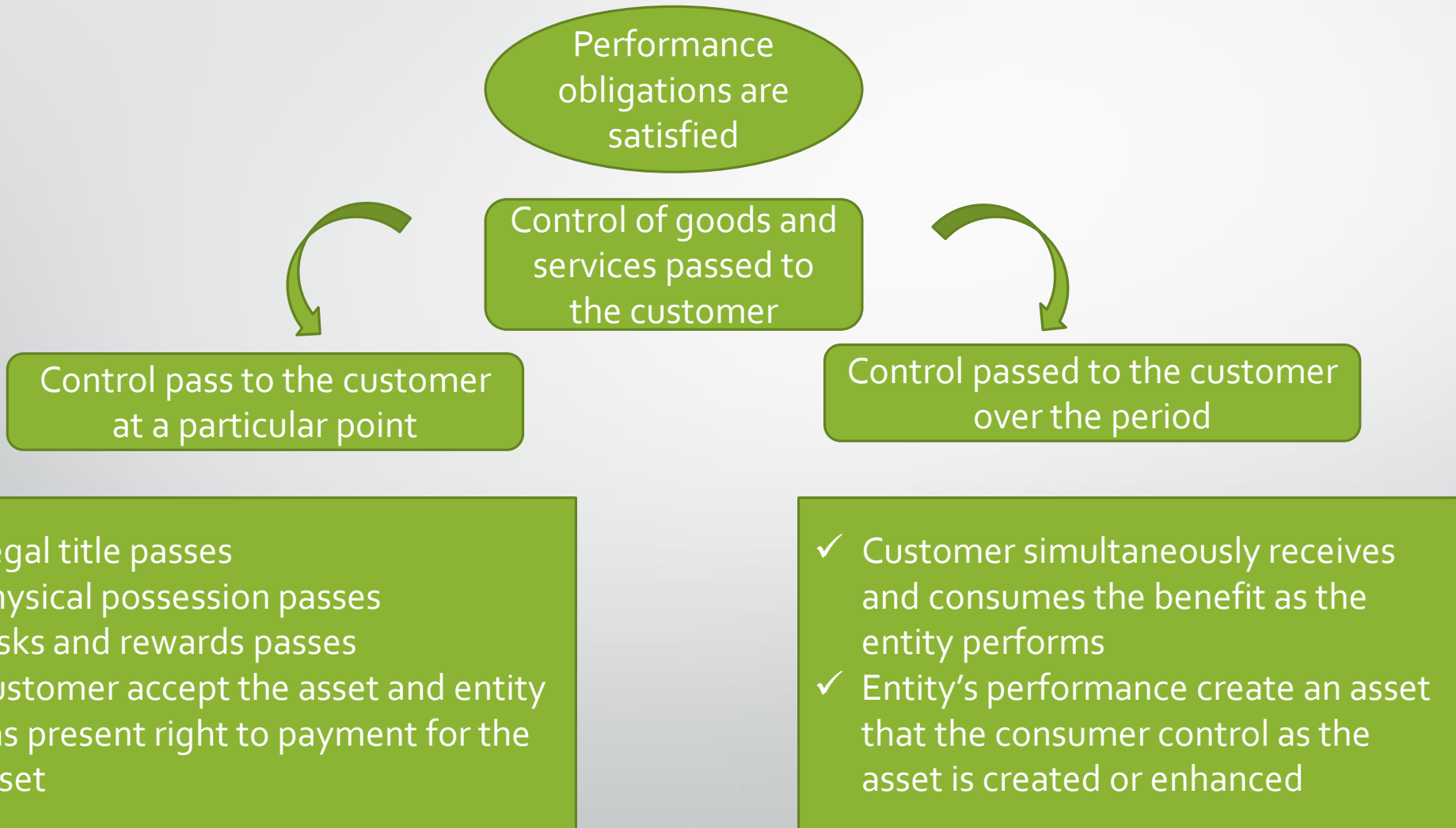
Item	Stand alone price	%	Value (recognize as a revenue)
Car	5,750,000	90.55%	5,433,000
Service	600,000	9.45%	567,000
<b>Total</b>	<b>6,350,000</b>	<b>6,000,000</b>	<b>6,000,000</b>



Cash (Dr) – 60,000,000  
 Sales (Cr) – 54,330,000  
 Deferred Revenue (Cr) - 5,670,000

Service Income (as at 31/3/2020)  
 Deferred Revenue (Dr) – 1,890,000  
 Revenue (Cr) – 1,890,000

# Step 5 – Recognize Revenue when each Performance Obligation is Satisfied



# Practical Application of SLFRS 15 in Some Organizations

Organization	Description
Construction company	Complexity → Stage of completion → Revenue is recognized over a period of time → Contract modifications ?
Hotels and restaurants	Package (BF, HB, FB) → Advance payments → Recognized revenue when satisfied the performance obligation
Vehicle sales	Single contract → Different performance obligations
Telecommunication industry	Complexity → Wider range of deliverables → When satisfied each performance obligation
Real state companies	Before LKAS 11 (SOC) → Now ? → Revenue recognized at a point of time as the customer obtained benefits after the completion of the apartment
Shipping company	Principle vs agent relationship → Factors to be determined as an agent → Fee or commission income (another third party responsible for fulfilling the contract, inventory risk, commission, not exposed to credit risk, does not have discretion in establishing price)