

SLFRS 15

Revenue from Contracts with Customers

Sandeepa Jayasekera

ACA, B.Sc. (Accounting) Sp. Hons., ACMA (SL), SAT, CIMA Passed Finalist,
Reading for MBA (PIM), CA and CIMA Prize Winner



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Accounting Standards

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B.Sc. (Accounting) Sp. Hons., ACA, ACMA (SL), SAT, CIMA Passed Finalist, MBA PIM-USJP, Gold Medal Winner for the Most Outstanding Student in University of Sri Jayewardenepura Accounting Batch 2014. Chief Executive Officer and Lecturer of JMC

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SLFRS 15 Revenue from Contracts with Customers (01-01-2018)

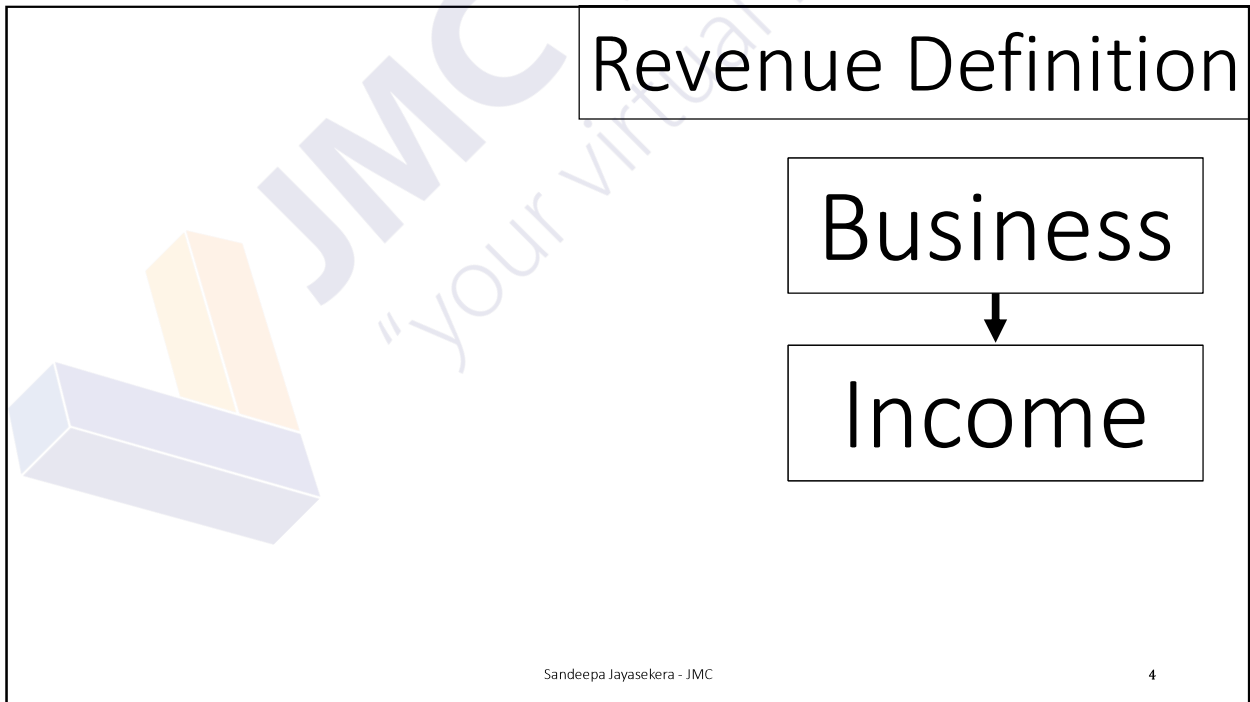
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Assume:
You as the
SELLER

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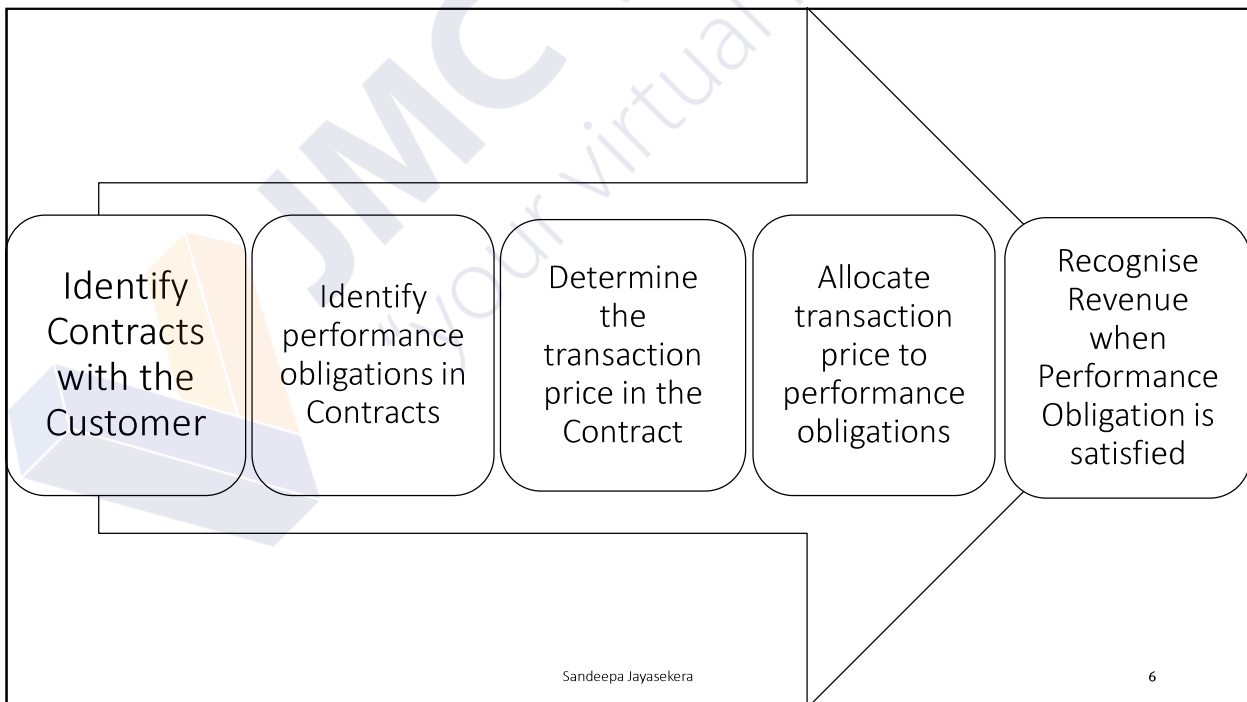


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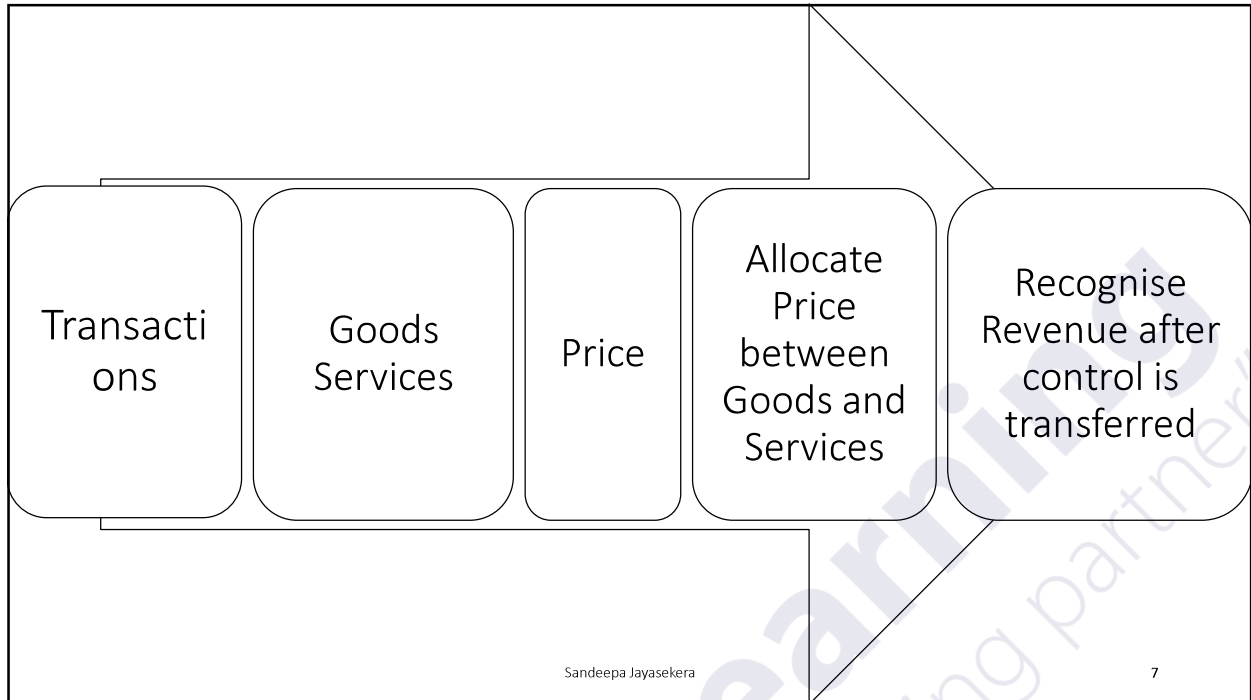
Revenue Recognition 05 Step Model

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Step 01

Identify the Contracts with a Customer

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Criteria to be satisfied to identify a Contract	Commercial Substance	Change in risk or amount of future cashflows as a result of the contract	
	Approved	In Writing	
		Orally	
		Implied	
	Rights of parties	Seller	Cash
		Customer	Goods & Services
	Payment Terms	Time of payment	
		Instalments	
		Penalties or incentives	
	Recoverability		

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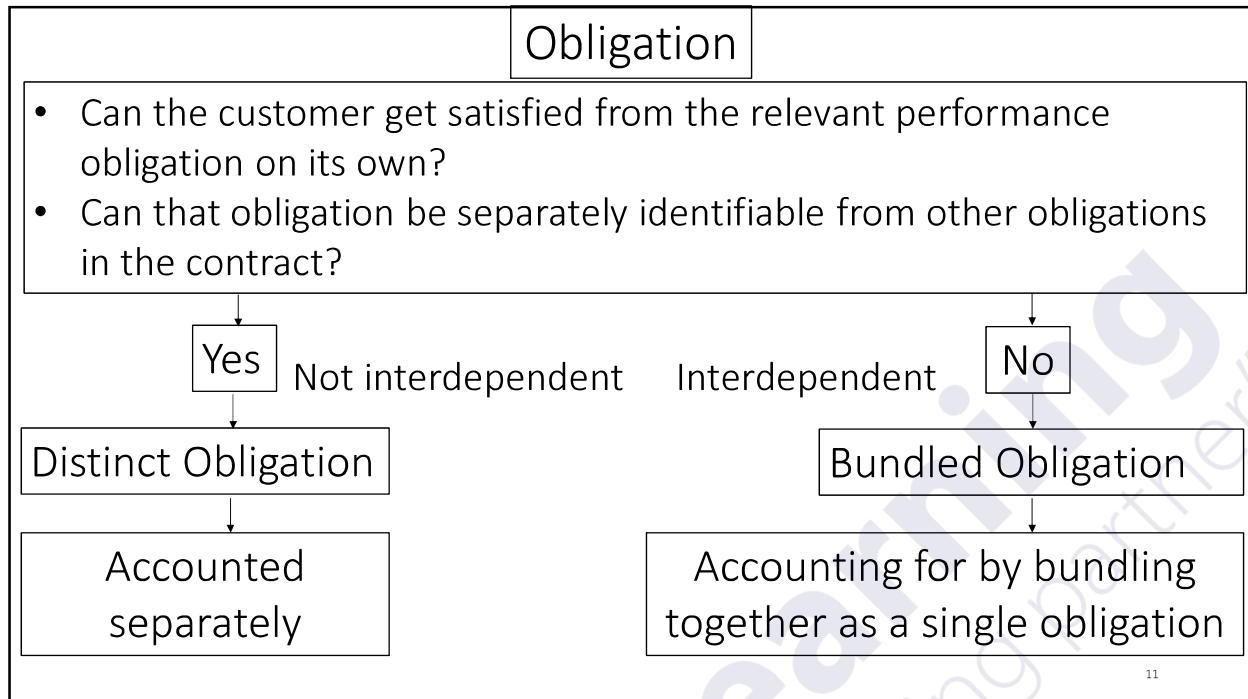
Step 02

Identify the Performance Obligations in a Contract

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Question 01

Amal (Pvt) Ltd. is engaged in the sale of air conditioners. On 01/01/20X1 an air conditioner worth Rs. 500,000/- was sold, where it was agreed to install at an additional charge of Rs. 10,000/-.

- Identify the Performance Obligation in relation to the above transaction.
- Explain whether such obligations are distinct obligations or bundled obligations.

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Question 02

Wasantha (Pvt) Ltd. is engaged in the sale of computers. On 01/03/20X0 a computer sale transaction was initiated, where it was agreed to sell Rs. 1,000,000/- worth computer hardware, install Rs. 400,000/- worth operating software in the computers and to charge Rs. 100,000/- for a one-year service.

- Identify the performance obligations in relation to the above transaction.
- Explain whether such obligations are distinct obligations or bundled obligations.
- Explain how such revenue should be recognized.

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Step 03

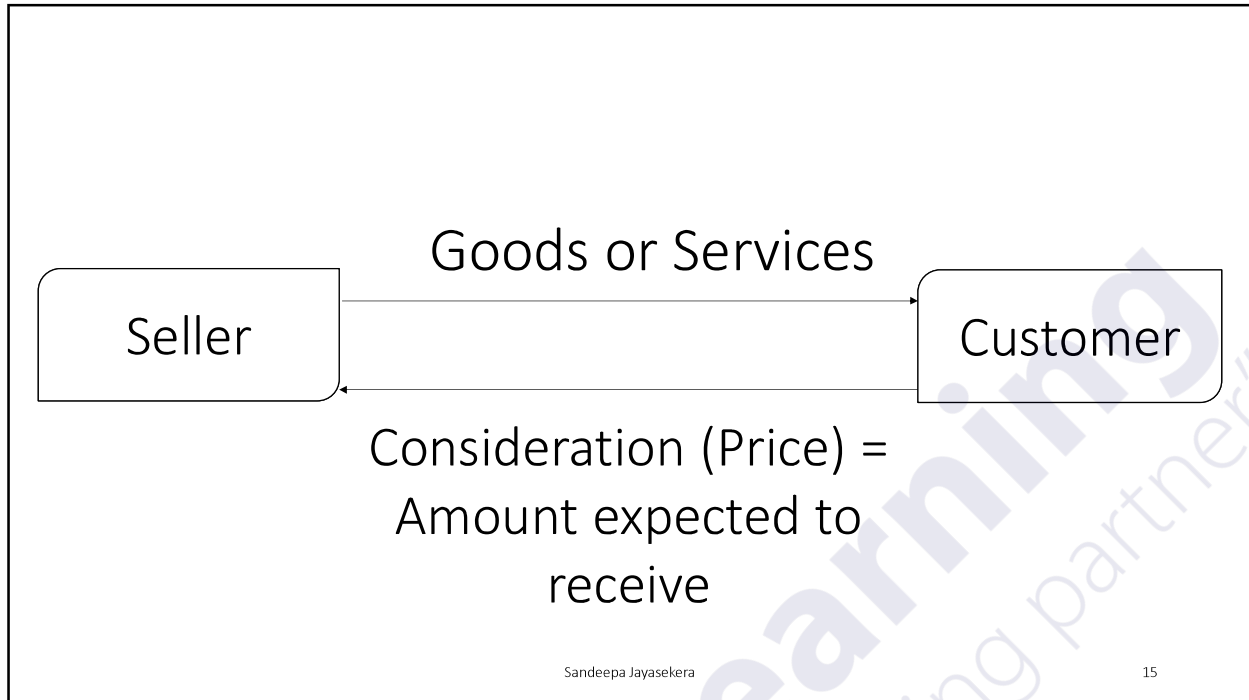


Determine the Transaction Price

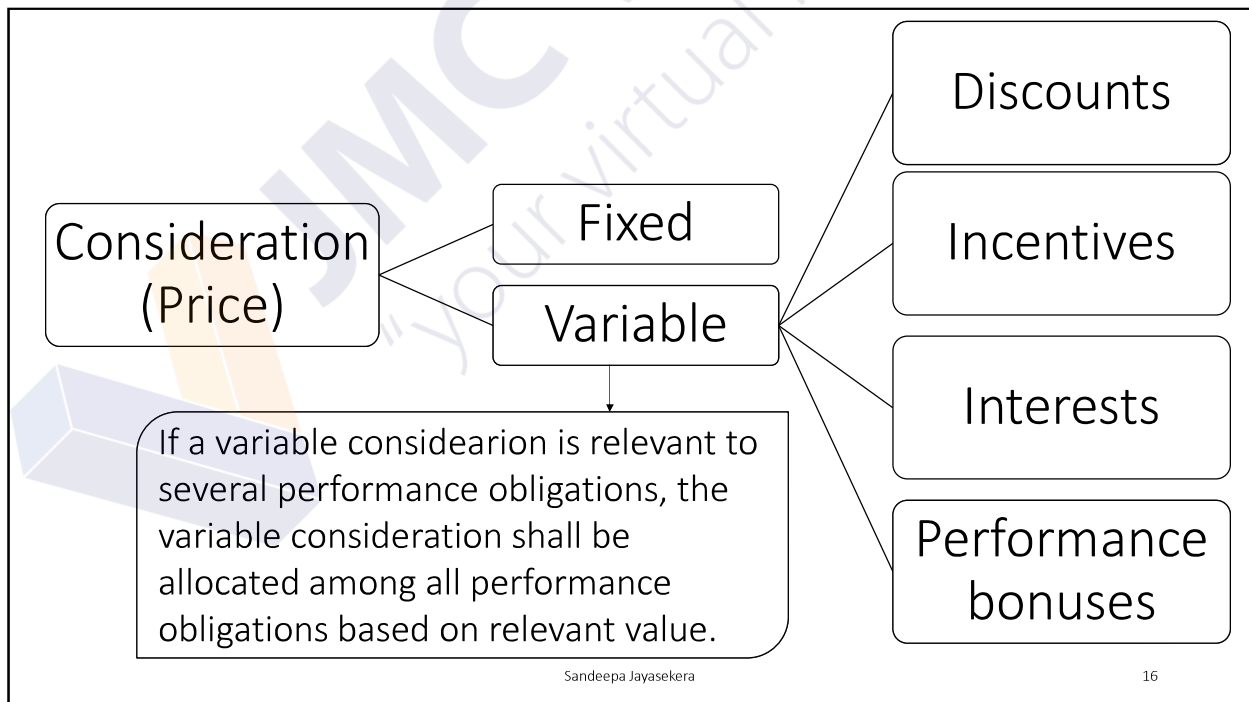
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Question 03

MY PC entity is engaged in the sale of computers. Damith entered into a contract with MY PC to purchase 10 computers for his own business. According to such contract, MY PC agreed to a one-year service period.

One computer was Rs. 100,000/-, while the service period was worth Rs. 250,000/-. A discount of Rs. 200,000/- was given for entire transaction.

- Identify the performance obligations of the above transaction.
- Separate the Distinct Obligations and Bundled Obligations.
- Compute the value of each obligation.
- Explain how the revenue should be recognized.

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Question 04

OIT (Pvt) Ltd is a company engaged in the production and sale of software. The company developed an accounting software and charged Rs. 1,000,000/- for the software and Rs. 500,000/- for the one year service period. Rs. 1,200,000/- will be charged, if both the software and the service period is obtained.

- Saman obtained both the software and the after sales service. In relation to this transaction, explain the performance obligations, value of each obligation and how revenue needs to be recognized.

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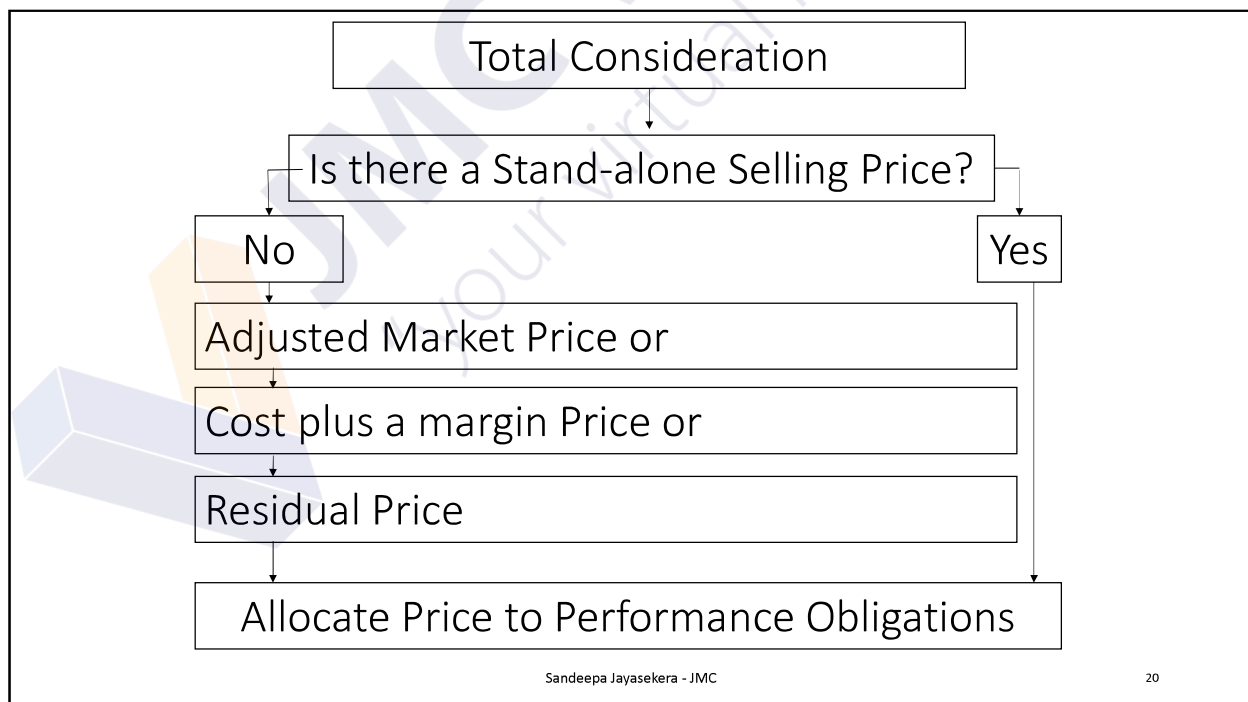
Step 04

Allocate the Transaction Price to Performance Obligations

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Stand-alone Selling Price is

The Price charged

If good or service is

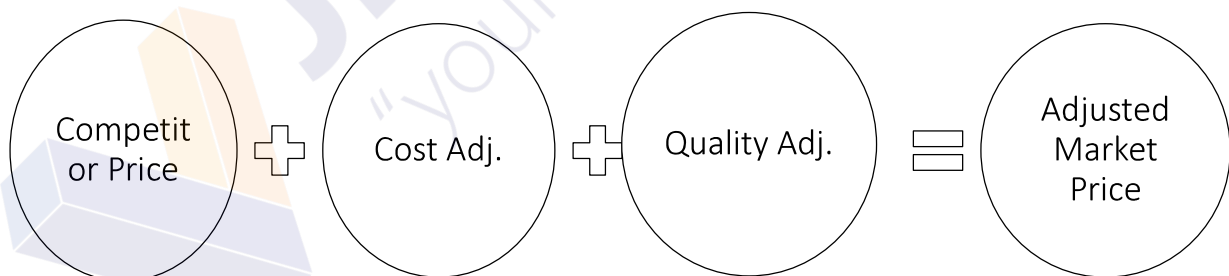
Sold separately

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Adjusted Market Assessment Approach

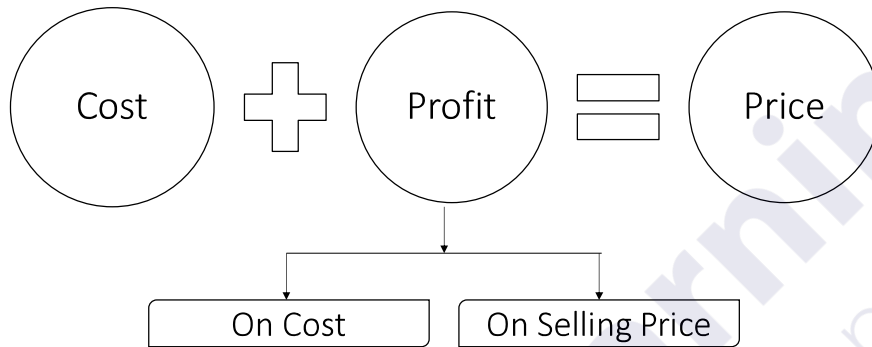


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Expected Cost plus a margin Approach



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Residual Approach

(This can be used only in limited occasions)

Total Selling Price

☐ Stand-alone Selling Price

☐ Adjusted Selling Price

☐ Cost plus profit margin Price

☐ Residual Price

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Question 05

JMC Institute is engaged in the education service. Explain the performance obligations, prices of such performance obligations and revenue recognition for the courses given below.

Business English Course

Course duration is 4 months and the total course fee is Rs. 15,000/-. The course includes lecture contribution, hall facilities, course material having a market value of Rs. 1,000/-, a one-day practical training workshop, field trip, etc. If a student joins only for the one-day practical workshop and field trip, Rs. 3,000/- and Rs. 4,000/- respectively will be charged.

Chartered Accountancy Course

Monthly course fee is Rs. 2,500/-, while the total course duration is 06 months. During the course duration, the JMC Institute would provide lecture contribution, hall facilities and course material. A course material kit costs Rs. 2,000/- and JMC Institute expects a 15% profit markup on cost.

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Step 05

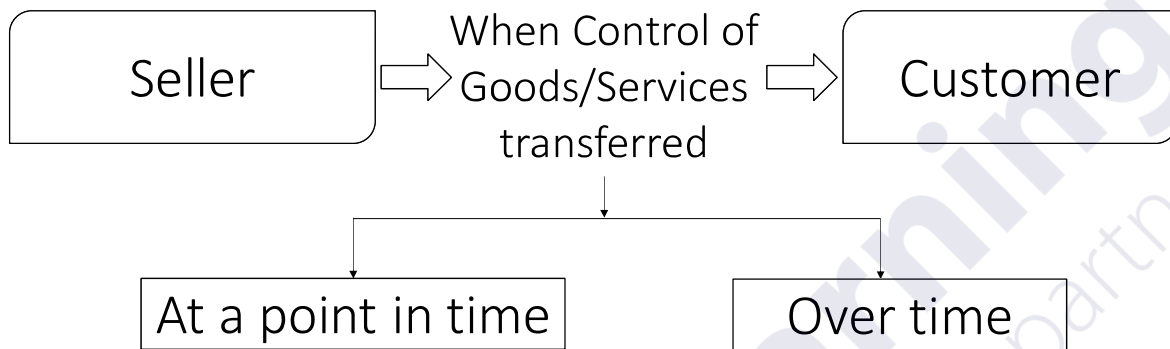
Recognise Revenue when a Performance Obligation is satisfied

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At what point should Revenue be recognized?



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Control

Economic Benefits

Use of asset

Enjoy 100% benefits

Directing the use

Prevent others enjoying benefits

Prevent others from directing the use

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Transfer of Control	At a point in time	Transfer of physical possession
		Customer has accepted the asset
		Transfer of risks and rewards
		Transfer of legal title
	Over time	Receive and consume goods/services simultaneously
		Asset is in the control of the customer
No alternative uses and having an enforceable right to receive payments		
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Question 06

Namal (Pvt) Ltd. is engaged in software development. Chathura (Pvt) Ltd. entered into a contract with Namal (Pvt) Ltd. to develop a software for payroll processing of its company. According to this contract, Namal (Pvt) Ltd. agreed to develop the software, purchase hardware, provide staff training and to provide a one-year service period.

Value of the total software contract is Rs. 1,000,000/-. If Namal (Pvt) Ltd. provides the above services separately, the market prices are as follows:

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Question 05

Software Development	400,000
Purchase of Hardware	400,000
Staff Training	100,000
One-year service period	100,000

The company commenced the software development on 01/01/20X1 and it was completed on 01/03/20X1. Hardware was purchased on 05/03/20X1 and a hardware unit with the developed software was installed in the office premises of Chathura (Pvt) Ltd. on 15/03/20X1. From that date onwards, staff training was provided for a period of one week. It was agreed to provide a one-year service from 22/03/20X1 to 22/03/20X2. Explain the performance obligations, prices of performance obligations and how revenue should be recognized.

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Question 07

Digicell Ltd. is a telecommunication company engaged in selling of brand new laptops and providing internet facilities. On 01st April 2021, the company entered into a two year contract with a customer to supply a laptop and internet facilities for a monthly rental of Rs.10,000/-.

If this sells separately, the market price of a laptop is Rs.100,000/- and internet charge per month is Rs.7,000/-.

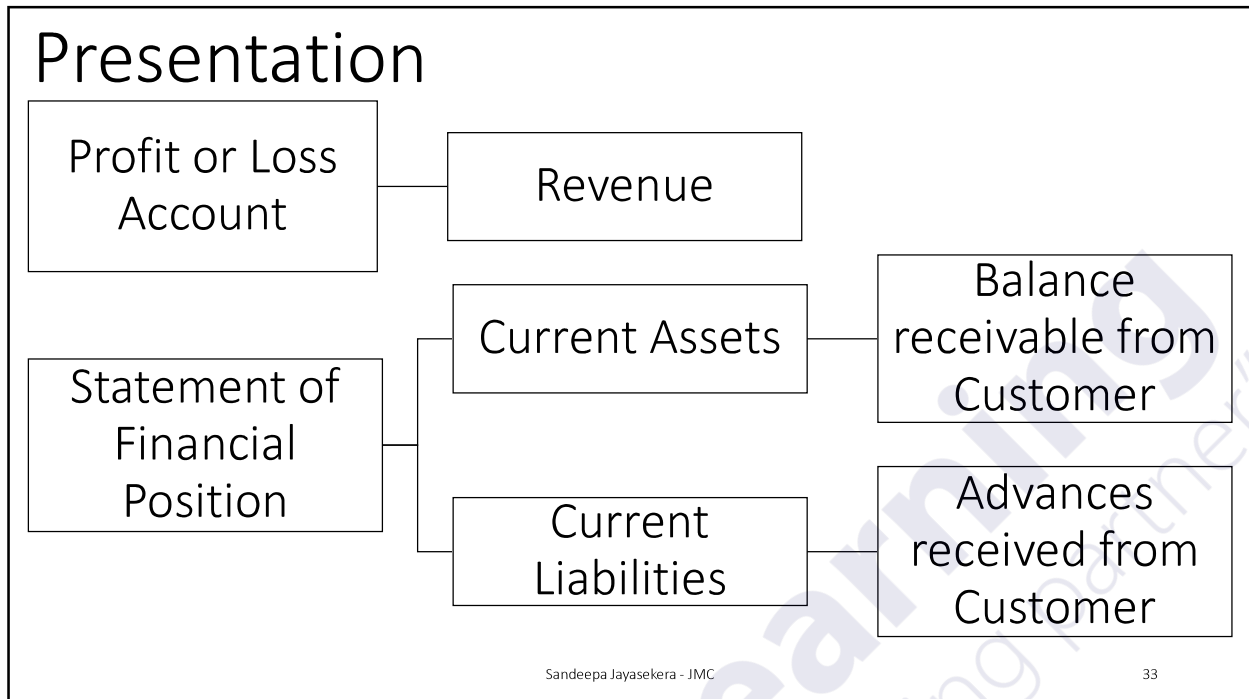
You are required to:

Prepare accounting entries relevant for years ended 31st March 2022 and 31st March 2023 of Digicell Ltd. for the recognition of revenue as per SLFRS -15 - Revenue from Contracts with Customers.

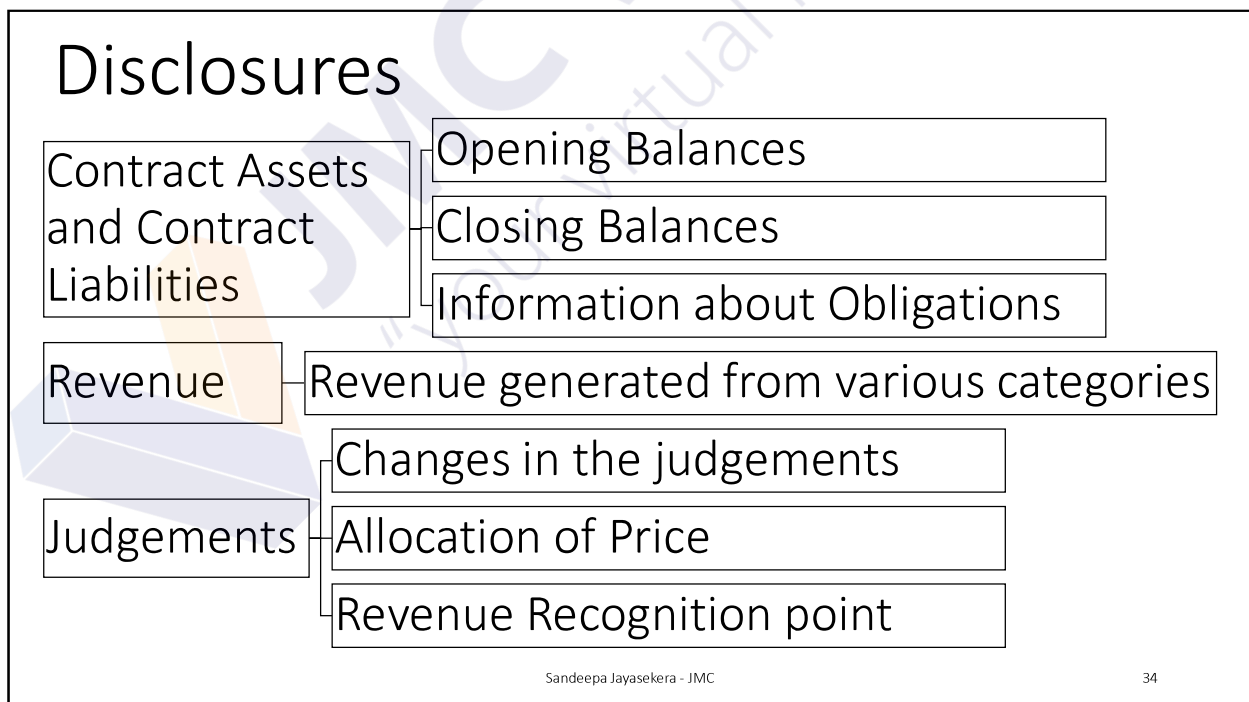
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