

Ministry of Education and Science of Ukraine

Kyiv National Economic University
named after Vadym Hetman

**СТРАТЕГІЧНІ ІМПЕРАТИВИ
СУЧАСНОГО
МЕНЕДЖМЕНТУ**

**STRATEGIC IMPERATIVES OF
MODERN
MANAGEMENT**

VI - / Proceedings /
VI International Conference
/ Kyiv
21 жовтня 2022 р. / 21, October 2022

336.1:334.021:005.2(06)

91

VI
[] - :
, 2022. 370 .
ISBN 978-966-926-416-9 © КНЕУ, 2022

Mariam Vardiashvili

Academic Doctor of Economics

Faculty of Economics and Business

Iv. Javakishvili Tbilisi State University

SOME ISSUES OF ACCOUNTING FOR LONG-TERM CONTRACTS

Abstract

The Article reviews main features of accounting long-term contracts - recognition of revenue and expenses in supply of goods and services in long term, measure progress of performance obligations, recognition and measure of liability in onerous contract as a provision, contract costs etc.

Keywords: Long-term contracts; Performance obligations; Costs of contract

Introduction

IFRS 15 “Revenue from Contracts with Customers” establishes the basic principles that an entity shall apply to report useful information to users of financial statements about the recognition of the revenue and nature, amount, timing and uncertainty of the cash flows arising from one of the important elements of the financial reporting - contract with a customer.

The Standard, with its more structural approaches and introduction of universal criteria for different contracts, ensures avoidance of all misunderstandings conditioned with the previous standards. If, in the past, for selling the goods and delivering the services and construction works as per the subject of the contracts, various models of accounting existed, the new standard provides unified and more detailed mechanism for the accounting. [1]

The introduction of IFRS 15 and new rules of recognition of revenue have a minimal impact on some entities, but in many companies “the new Standard may change the timing of revenue recognition as the emphasis is made on the risk associated with the transfer of goods”. [2] They include companies that consider the supply of goods and services as a single package, or carry out large projects, such as software licensing and selling, as well as entities working in the fields of telecommunications, construction, security, etc.

The dates of commencement and completion of the operations under the long-term contracts, as a rule, go beyond one reporting period. Distribution of the revenues from this type of contracts and of the expenses incurred for the reporting periods during which the supply of goods and services was carried out, is one of the main issues of accounting.[3]

The basic principles of IFRS 15 are discussed in the Article titled On Recognition and Measurement of Revenues According to IFRS 15. [1]

Therefore, this article does not envisage to consider them.

Purpose. The purpose of this study is to identify the key concepts of IFRS 15 that companies should be guided by when recognizing revenue under long-term contracts.

Results.

The basic concept of recognition of income from long-term contracts. An entity shall recognise revenue when (or as) the customer obtains control of that asset. In some cases it occurs at a certain point in time, and sometimes – over time.

If an enterprise transfers control over goods or services over time and, at least one of the criteria of Paragraph 35 of IFRS 15 is satisfied, then the revenue must be recognized over time.

When performing an obligation over time, the entity must choose a method by which it determines the amount of revenue for each reporting period.

From contracts that are to be satisfied over time, the measurement and recognition of revenues depends on the progress of performance obligation.[3]

Methods of measuring progress include output methods and input methods.

Output methods recognize revenue on the basis of direct measurements of the works performed until the reporting date, with a direct measuring the value of the goods or services transferred to a customer at the specific date.[3]

The input methods recognize revenue on the basis of the entity's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation.[3]

If an entity does not fulfill the obligation to be performed over time, then it must consider that it fulfills the obligation to be performed at a certain point in time.

According to the general principle, the revenues should be recognized when the entity fulfills the obligation by transferring goods and services to the consumer. The asset is considered transferred when (or as) the customer gains control over the transferred asset and receives substantially all the remaining benefits from it. When evaluating whether a customer obtains control of an asset, an entity shall take into account the requirements of Paragraphs 31-34 of IFRS 15. In addition to the control-related requirements, the entity must also consider the control transfer indicators to determine whether there are other factors that could change the moment of recognition of the revenue.

The presence of an important component of financing in the contract. If the cost of the goods is paid much later than its delivery, it is considered by international standards that the contract contains an important financing component. In such circumstances, the Standard requires adjustment of the expected remuneration value taking into account the money-time value. The effect of money-time value is not considered and the adjustment of the amount is not required when the receipt of the amount and the obligation undertaken by the contract involve less than one year. [1]

Adjustment is required for long-term payment, that involves postponement for more than 12 months).

Under the IFRS 15, revenues are measured in the amount of compensation that the buyer would have to pay at the moment of gaining control of the assets.

Onerous Contract. Identification of onerous contracts is not related to the expected real costs, but only to the parts of these costs that are inevitable to be fulfilled.

According to the Standard, an onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.[4]

The rules for accounting for onerous contracts do not differ from the rules for accounting for profitable contracts and are regulated by IFRS 15. IFRS 15 does not include specific requirements for contracts with customers that are, or have become, onerous. This issue is regulated under IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”, stating that “If an entity has a contract that is onerous, the present obligation under the contract shall be recognized and measured as a provision”.[4]

Provisions shall be established in the minimum amount of the inevitable costs of the performance of the contract and the expected penalties for the obligations under the contract.

Suppose a company supplies electricity to legal entities and individuals. The government demanded to reduce domestic tariffs by 5% and fix the prices for 2 years. This costs the company 20 MIO GEL, because it cannot reduce the cost. This agreement is onerous and, to cover 20 MIL loss, the provision shall be established.

In cases where (for example, some routine purchase orders) the contract can be cancelled without paying compensation, no obligation arises.[1]

Contract costs. The costs associated with signing the contract are expenses that the company would not have incurred if it had not signed the contract. Additional expenses incurred for the conclusion of the contract must be capitalized when several conditions are met, among which the main one is that these expenses are expected to be reimbursed.

An entity may recognize additional costs for the period of conclusion of a contract as expenses if, according to the terms of the contract, the duration of the period of depreciation of the asset, which the enterprise was supposed to recognize, does not exceed one year.

If expenses are incurred for the fulfillment of the terms of the contract and are not included in the scope of other standards, such as IAS 2 “inventories”, IAS 16 “Property, Plant and Equipment”, or IAS 38 “Intangible Assets”, the company shall recognize such expenses as the asset, if they meet all the criteria provided for by IFRS 15 Point 95

Conclusion

Thus, when the obligation to be performed is fulfilled over a period of time greater than one reporting period, the proceeds may be recognized at a certain point in time or over time. To define this, IFRS 15 “Revenue from Contracts with Customers”

For each obligation to be performed over time in accordance with IFRS 15 Paragraphs 35-37, an entity shall recognize revenue if the entity can reasonably measure its progress towards complete satisfaction of the performance obligation (IFRS 15 P.44)

To measure the progress of the performance obligation, the entity shall use the output methods and input methods.

To measure the progress of the performance for each obligation to be fulfilled over time, the entity shall use one of these methods. To determine the appropriate method, the entity must take into account the nature of the goods or services that it promised to deliver to the customer according to the contract. In addition, the same method shall invariably apply to similar obligations and in similar circumstances. At the end of each reporting period, the entity must measure once again the progress of the performance obligation to be performed over time

References

1. Vardiashvili M., Maisuradze M. ON RECOGNITION AND MEASUREMENT OF THE REVENUES ACCORDING TO IFRS 15; [Economy & Business Journal](#), International Scientific Publications, Bulgaria, vol. 11(1), 2017. pages 182-190.
2. ; 2016. pp 148-154, <https://www.researchgate.net/publication/321105489>
3. SABAURI, I, VARDIASHVILI M, MAISURADZE MMETHODS FOR MEASUREMENT OF PROGRESS OF PERFORMANCE OBLIGATION UNDER IFRS 15, 2 Ecoforum Journal, 11(3)2022. pp 160-165; <http://www.ecoforumjournal.ro/index.php/eco/article/view/1398>
4. IAS 37 Provisions, Contingent Liabilities and Contingent Assets; www.ifrs.org
5. Giorgia Mattei & Niccolò Paoloni ; Understanding the Potential Impact of IFRS 15 on the Telecommunication Listed Companies, by the Disclosures' Study; International Journal of Business and Management; Vol. 14, No. 1; 2019.
6. Marek Muc Performance Obligations and Timing of Revenue Recognition (IFRS 15); .2022 <https://ifrscommunity.com/knowledge-base/ifrs-15-performance-obligations-and-timing-of-revenue-recognition>.
7. Veronica, Grosu I , Marian, Socoliuc. EFFECTS AND IMPLICATIONS OF THE IMPLEMENTATION OF IFRS 15 - REVENUE FROM CONTRACTS WITH CUSTOMERS, 2017.pp 95-105 <http://www.strategiimanageriale.ro/papers/160413.pdf>
8. Vedat ACAR; Gökberk BAYRAMO LU EVALUATION OF IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMER WITHIN THE SCOPE OF CUSTOMER LOYALTY PROGRAMS; 2020. <https://www.researchgate.net/publication/344201348>
9. IFRS 15 Revenue from Contracts with Customers; <https://www.ifrs.org>
10. IAS 2 Inventories; www.ifrs.org
11. GrantThornton IASB and FASB release major new standard on revenue recognition; 2016. <https://www.granthornton.global/globalassets/1.-member-firms/global/insights/article-pdfs/2016/ifrs-15-special-edition-newsletter-oct-2016.pdf>
12. <http://msfo-dipifr.ru/msfo-ifrs-15-priznanie-vyruchki-v-techenie-vremeni/>; 2017.
13. [https://fin-accounting.ru/articles/2018/ifrs-15-example-of-accounting-construction-contracts-under-ifrs:\(2018\)](https://fin-accounting.ru/articles/2018/ifrs-15-example-of-accounting-construction-contracts-under-ifrs:(2018)).
14. <https://assets.kpmg/content/dam/kpmg/xx/pdf/2019/06/ifrs15-revenue-handbook.pdf>; 2019.
15. https://www2.deloitte.com/content/dam/Deloitte/ua/Documents/webinar/06_12_17_webinar_IFRS15. 2017.