Fiji Institute of Accountants: Technical Workshop 2017

IFRS 15 *Revenue from Contracts with Customers*

Case Study Questions

Case study 1: Performance obligations

This case study was based on IFRS 15 Illustrative Example 11 which is reproduced below (with minor amendments)

GoFast Computing (GFC), a software developer, enters into a contract with Emirates Team New Zealand (ETNZ) to transfer a software licence, perform an installation service and provide unspecified software updates and technical support (online and telephone) for a two-year period. GFC sells the licence, installation service and technical support separately. The contract specifies that, as part of the installation service, the software is to be substantially customised to add significant new functionality to enable the software to interface with other customised software applications used by the customer. The customised installation service can be provided by other entities. The software remains functional without the updates and the technical support.

Question

What are the performance obligations under this contract?

Solution

Case study 2: Consideration payable to a customer

This case study was based on IFRS 15 Illustrative Example 32 which is reproduced below (with minor amendments)

Good Looking Inc (GLI) manufactures branded sports gear enters into a one-year contract to sell goods to Yachting New Zealand (YNZ). YNZ commits to buy at least $15 million of products during the year after TNZ with the America's Cup. The contract also requires GLI to make a non-refundable payment of $1.5 million to YNZ at the inception of the contract. The $1.5 million payment will compensate YNZ for the changes it needs to make to its shelving to accommodate the GLI's products.

Question

How does the GLI account for the upfront payment to YNZ?

Solution

Case study 3: Option that provides the customer with a material right (discount voucher)

This case study was based on IFRS 15 Illustrative Example 49 which is reproduced below (with minor amendments)

Smart Pens Limited (SPL) enters into a contract with the ETNZ supporters club for the sale of fountain pens for $100. As part of the contract, SPL will give the ETNZ supporters club a 40 per cent discount voucher for any future purchases of branded ETNZ pens up to $100 in the next 30 days. But SPL intends to offer a 10 per cent discount on all sales during the next 30 days as part of a seasonal promotion. The 10 per cent discount cannot be used in addition to the 40 per cent discount voucher.

SPL estimates an 80 per cent likelihood that members of the ETNZ Supporters club will redeem the voucher and that ETNZ supporters club members will, on average, purchase $50 of additional products.

Question

How would the transaction price be allocated?

Solution

Case study 4: Assessing whether a performance obligation is satisfied at a point in time or over time

This case study was based on IFRS 15 Illustrative Example 17B which is reproduced below (with minor amendments)

Great Views Limited (GVL) is developing a multi-unit residential complex in Auckland, right beside the ETNZ compound. A customer enters into a binding sales contract with GVL for a specified unit that is under construction. Each unit has a similar floor plan and is of a similar size, but other attributes of the units are different (for example, the location of the unit within the complex).

The customer pays a non-refundable deposit upon entering into the contract and will make progress payments during construction of the unit. The contract has substantive terms that preclude the entity from being able to direct the unit to another customer. In addition, the customer does not have the right to terminate the contract unless the entity fails to perform as promised. If the customer defaults on its obligations by failing to make the promised progress payments as and when they are due, GVL would have a right to all of the consideration promised in the contract if it completes the construction of the unit. The courts have previously upheld similar rights that entitle developers to require the customer to perform, subject to the entity meeting its obligations under the contract.

Question

How should revenue be recognised?

Solution

Case study 5: Non-refundable upfront fee

This case study was based on IFRS 15 Illustrative Example 53 which is reproduced below (with minor amendments)

A payroll processing company enters into a contract with ETNZ for one year of transaction processing services. The payroll processing company contracts have standard terms that are the same for all customers (no matter who they are!). The contract requires ETNZ to pay an upfront fee to set up the ETNZ on the payroll processing company's systems and processes. The fee is a nominal amount and is non-refundable. ETNZ can renew the contract each year without paying an additional fee.

Question

How should the payroll processing company recognise the non-refundable upfront fee?

Solution

Case study 6: Identifying a distinct licence

This case study was based on IFRS 15 Illustrative Example 56B which is reproduced below (with minor amendments)

ETNZ, licenses to a customer called Fast Boats Limited (FBL) its patent rights to n keel design for 10 years and also promises make the keels for the customer. Following the racing in Bermuda, the keel technology is a mature product; therefore the ETNZ will not undertake any activities to support use of the keel, which is consistent with its customary business practices. The manufacturing process used to produce the keelis not unique or specialised and several other entities can also manufacture the keel for the customer.

Question

1. How many performance obligations exist?
2. How should revenue be recognised?

Solution

Case study 7: Costs that give rise to an asset

This case study was based on IFRS 15 Illustrative Example 37 which is reproduced below (with minor amendments)

Quick Computers Limited (QCL) enters into a service contract to manage ETNZ's information technology data centre for five years. The contract is renewable for subsequent one-year periods. The average customer term is seven years. QCL pays an employee a $10,000 sales commission upon the customer signing the contract with ETNZ. Before providing the services, QCL designs and builds a technology platform for ETNZ's internal use that interfaces with other TNZ systems. That platform isnot transferred to ETNZ, but will be used to deliver services to the ETNZ.

The initial costs incurred to set up the technology platform are as follows:

	$
Design services	40,000
Hardware	120,000
Software	90,000
Migration and testing of data centre	100,000
Total costs	350,000

Question

How should the costs shown be treated?

Solution