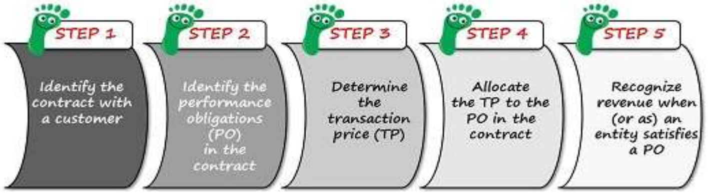
N.	Title	Location
Example 1	Illustration of 5-step model (telecom contract)	Handouts + Excel
Example 2	Contract modification	Excel
Example 3	Explicit vs. implicit performance obligations	Excel
Example 4	Performance obligations: are they distinct? (IT contract)	Handouts
Example 5	Variable consideration with contingency	Excel
Example 6	Significant financing component and right of return	Excel
Example 7	Allocating variable consideration + licenses	Excel
Example 8	Revenue over time vs. at the point of time (real estate)	Excel
Example 9	Contract costs	Excel
Example 10	Transition to IFRS 15	Excel

Telecom operator, ABC Corp. entered into a contract with Johnny on 1 July 20X1. In line with the contract, Johnny subscribes for ABC's monthly plan for 12 months and in return, Johnny receives free handset from ABC Corp. Johnny will pay a monthly fee of CU 100. Johnny gets the handset immediately after contract signature.
ABC sells the same handsets for CU 300 and the same monthly plans for CU 80/month without handset.
How should ABC recognize revenues from the contract with Johnny in 20X1 under IFRS 15?



Step 1: Identify the contract with a customer

= written contract between Johnny and ABC Corp.

Step 2: Identify the performance obligations

PO #1: Network services (monthly plan)
PO #2: Handset

Step 3: Determine the transaction price

Monthly fee:	100
Months of subscription:	12
Total transaction price:	1,200

Step 4: Allocate the transaction price to the performance obligations

Performance obligations	*Stand-alone selling price*	*Allocated transaction price*	*Revenue*	*Billing*
Network services	960	914.29	=> 76.20/month	=>100 / month
Handset	300	285.71	286	0
Total	**1,260**	**1,200**		

Step 5: Recognize revenue when (or as) an entity satisfies a performance obligation

PO #1: Network services (monthly plan) => Over time, as monthly network services are provided
PO #2: Handset => At the point of time, when handset is delivered to Johnny

Journal entries:

Revenue from handset:

Debit Contract assets	286
Credit Revenues from sales of goods)	-286
	0

=> **Contract asset** = entity's right to consideration in exchange for goods or services that the entity has transferred to a customer when that right is conditioned on something other than the passage of time (for example, the entity's future performance).

Invoice - month 1:

Debit Trade receivables	100	
Credit Contract assets	-24	(1/12 of a contract asset)
Credit Revenues from services	-76	
	0	

Total revenue in 20X1:

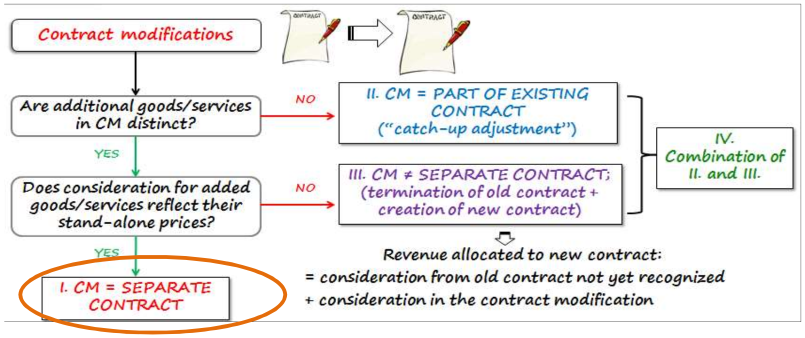
Revenue from handset	286
Revenue from network services (6 months)	457
Total:	**743**

Ball PC, computer manufacturer, enters into contract with Forward University to deliver 300 computers for total price of CU 600 000 (CU 2 000 per computer).
Due to necessary preparation works, Forward University agrees to deliver computers in 3 separate deliveries during the forthcoming 3 months (100 computers in each delivery). Forward University takes control over the computers at delivery.
After the first delivery is made, Forward University and Ball PC amend the contract. Ball PC will supply 200 additional computers (500 in total).
How should Ball PC account for the revenue from this contract if:
Scenario 1: The price for additional 200 computers was agreed at CU 388 000, being CU 1 940 per computer. Ball PC provided a volume discount of 3% for additional delivery which reflects the normal volume discounts provided in similar contracts with other customers.

As of 31 December 20X1, Ball PC delivered 400 computers (300 as agreed initially and 100 under the contract amendment).

How shall Ball PC account for the contract modification under IFRS 15?

1.1 Assessing the type of contract modification



1.2 Amount of revenue

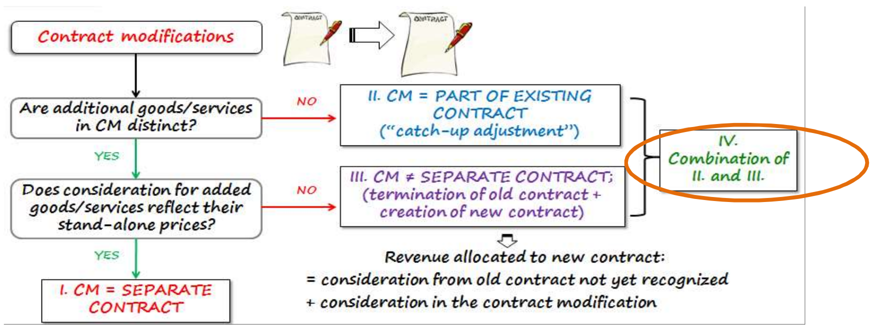
Revenue from the original contract (contract #1):		
Products delivered until 31 December 20X1	300	
Originally agreed price:	2,000	CU/computer
Total revenue from contract #1:	**600,000**	**CU**
Revenue from the additional contract (contract #2):		
Products delivered until 31 December 20X1	100	
Agreed price:	1,940	CU/computer
Total revenue from contract #2:	**194,000**	**CU**
Total revenue in 20X1 from contracts #1 and #2:	**794,000**	**CU**

Debit Contract assets	794,000
Credit Revenues from sales of goods	-794,000
	0

Advise how Ball PC recognizes revenue in 20X1 if:
Scenario 2: The price for additional 200 computers was agreed at CU 268 000, being CU 1 340 per computer. The price for additional computers was reduced significantly due to the following:
- Ball PC provided a discount of 30% for additional delivery because it hopes for the future cooperation with Forward University (nothing even discussed yet). As a result, initial price for additional products was set at CU 1 400 per computer.
- After initial delivery, Forward University discovered minor defects on 50 computers and as a result, Ball PC agreed to provide partial credit of CU 240 per computer. This credit is incorporated into the new agreed price for additional 200 computers (resulting price of (1 400*200-240*50)/200 = 1 340/computer).

Note: contract amendment was made after the first delivery.
As of 31 December 20X1, Ball PC delivered 400 computers (300 as agreed initially and 100 under the contract amendment).

2.1 Assessing the type of contract modification



2.2 Contract modification - type II

a) Revenue from the original contract - before modification:		
Products delivered before contract modification	100	
Originally agreed price:	2,000	CU/computer
Total revenue from contract #1:	**200,000**	**CU**
b) Reduction of revenue for initial 50 computers ("catch-up")		
N. of products with minor defects (initial delivery)	50	
Reduction of price per computer	240	CU/computer
Total adjustment of revenue for initial delivery	**12,000**	**CU**
Total revenue before contract modification	**188,000**	

Debit Contract assets	188,000
Credit Revenues from sales of goods)	-188,000
	0

2.2 Contract modification - type III

a) Total n. of products after modification:		
Products from original contract not yet delivered before modif	200	
Products agreed in modification	200	
Total n. of products to be delivered after modification	**400**	
b) Total consideration to allocate		
Consideration from original contract not yet recognized	400,000	
Consideration from contract modification	280,000	**without the credit for defective products**
Total	***680,000***	
c) Total revenue after modification until 31 December 20X1:		
Allocated price per 1 computer	1,700	**(b/a)**
N. of computers delivered after modification until 31/12/20X1		
from original contract (300-100)	*200*	
from modification	*100*	
Total n. of computers	300	
Total revenue after modification until 31 December 20X1:	**510,000**	

Debit Contract assets	510,000
Credit Revenues from sales of goods)	-510,000
	0

Total revenue in 20X4	**698,000**

ABC Corp., producer of cleaning machines, sells their cleaning machines to various companies. Determine the performance obligations in the following contracts:
1) In contract with the client A, ABC promises to deliver 10 cleaning machines for total price of CU 200 000. The contract A contains a clause about free repair and maintenance service within 2 years after purchase.
2) In contract with the client B, ABC promises to deliver 5 cleaning machines for total price of CU 100 000. No warranty is promised in the contract, however, ABC Corp. is well-known for its perfect customer services and providing 1-year free repair services in the past.
3) In contract with the client C, ABC promises to deliver 50 cleaning machines for total price of CU 1 000 000. No warranty is promised in the contract, and ABC usually does not provide any free services in the country of client C. However, after the contract is signed, ABC offers free maintenance service to a client C as a bonus for big order.

1. Contract A

Here, explicit promise of free maintenance services is offered in the contract.
As a result, there are 2 performance obligations:
#1 Delivery of 10 cleaning machines
#2 Repair and maintenance services within 2 years

As a result, ABC cannot recognize revenue from sale of machines of CU 200 000, because a part of total transaction price needs to be allocated to repair and maintenance services, too.

2. Contract B

There is no explicit promise of repair services in the contract, but based on ABC's practices and reputation, ABC made an implicit promise to deliver free services, too.
As a result, there are 2 performance obligations:
#1 Delivery of 5 cleaning machines
#2 Repair services within 1 year

As a result, ABC cannot recognize revenue from sale of machines of CU 100 000, because a part of total transaction price needs to be allocated to repair services, too.

3. Contract C

There is neither explicit nor implicit promise in the contract.
The promise of free repairs is NOT included in the contract with customer in its inception.
As a result, there is just 1 performance obligation: delivery of 50 cleaning machines.

ABC recognizes revenue from sale of machines amounting to CU 1 000 000.

With regard to subsequently promised free maintenance services - ABC should recognize a provision for free maintenance under IAS 37.

BigBooks Corp. is a company providing centralized accounting services for corporations. It enters into a 3-year contract with client A. The contract states:
- BigBooks will maintain all bookkeeping and document processing activities for client A, including preparing annual financial statements, monthly reports and tax returns. BigBooks prepare monthly reports and annual financial statements only in conjunction with bookkeeping and data processing performed by BigBooks' team.
- The annual fee is CU 272 000 per year , consisting of: CU 250 000 per year for up to 50 000 accounting entries, CU 1 000 per month for monthly reports and and CU 10 000 per year for annual financial statements and tax return. BigBooks is entitled to CU 5 per accounting entry in excess of 50 000 entries per year.
- BigBooks is entitled to an annual bonus payment of CU 12 000 if the average processing time of 1 batch of 1 000 documents is less than 1 week in the particular year.

Careful analysis of client's A activities and past accounting records show that in the first year, n. of accounting entries is assumed at 48 000, in the second year at 50 000 and in the third year at 53 000.

Based on past work records and delivery times BigBooks Corp. assumes that the probability of processing time of 1 000 documents in less than 1 week is 30%.

Identify individual performance obligations in the contract and determine the transaction price.

1. Step #1 - Identify the contract with customer

This is clear here - it is a written contract between the BigBooks Corp. and client A.

2. Step #2 - Identify individual performance obligations

Contract consists of several deliveries:
- processing the documents and accounting records
- preparing monthly reports
- preparting annual financial statements and tax returns.

Even if client A can benefit from processed documents and accounting records, in fact, no monthly reports and annual financial statements can be prepared without them

As a result, these performance obligations cannot be separated and they are not distinct

The contract is to be treated as 1 single performance obligation (combination of all 3 activities).

!! Here, you assess 2 criteria for a performance obligation being distinct - product level and entity level (refer to Chapter 3 of IFRS 15 course).
It can happen that BigBooks may prepare monthly reports based on data processed by the client, and in this case, these PO will be distinct. Look to specific circumstances and make judgement.

3. Step #3 - Determine the transaction price

3.1 Fee for accounting records:	
Year 1 - 48 000 entries	250,000
Year 2 - 50 000 entries	250,000
Year 3 - 53 000 entries (250 000+5*3 000)	265,000
Total - fee for accounting records:	**765,000**
3.2 Fee for monthly reports / annual financial statements	
Monthly reports - Year 1-3	36,000
Annual financial statements - Year 1-3	30,000
Total - fee for monthly reports / annual fin. statements	**66,000**

3.3 Performance bonus 0 or 12 000	
Total performance bonus (3*12 000)	36,000
Probability of processing 1 000 docs under 1 week	30%
Expected value of variable consideration	10,800
After the effect of constraint	**0**
Total transaction price	**831,000**

Constraint limits the amount of revenue as BigBooks can recognize only 0 or 12 000 per year (nothing in between).
Therefore, based on 30% probability, BigBooks limits the bonus to zero until it becomes highly probable that the average processing times fall below 1 week and

How would the transaction price change if the contract states that BigBooks is entitled to an annual bonus amounting to CU 0-12 000 and its precise amount depends on number of times when the batch processing time for 1 000 docs fell below 1 week during the year?

3.3 Performance bonus - variable amount 0 -12 000	
Total performance bonus (3*12 000)	36,000
Probability of processing 1 000 docs under 1 week	30%
Expected value of variable consideration	10,800
After the effect of constraint	**10,800**

Here, the constraint does not limit the amount of bonus as BigBooks can get anything from 0 to 12 000 based on real performance in individual weeks.
In case 1, with 30% probability, it was highly probable that BigBooks will not achieve overall annual target of average time below 1 week.
But in case 2, it is 30% probable that BigBooks will achieve individual average times

Voyage ltd. intends to buy 30 trucks from Autocar, local car dealer. However, due to cash shortage, Voyage is not able to pay immediately after planned delivery, therefore Autocar agrees that Voyage pays a half of total price at delivery and the second half after 1 year. Voyage and Autocar agree on the right of return within 90 days of delivery.
1 month later, Voyage sends an e-mail to Autocar with acceptance of all conditions. 2 weeks after that e-mail, Autocar calls Voyage that 30 trucks are ready, Voyage takes trucks and pays the 1st half of total price.
Price per 1 truck is CU 32 000. However, Autocar agrees to receive one half now and the second half in 1 year only if Voyage accepts increased purchase price of CU 33 000 per truck. The Autocar's cost of 1 truck is CU 28 000. What should Autocar recognize in its financial statements and when?

On the contract date:

No revenue is recognized.

On the delivery date:

No revenue is recognized, as there's a **right of return** and there's no historical evidence based on which Autocar can conclude that it's highly probable that significant reversal of revenue will not occur.
Note: if there would have been such an evidence, revenue could have been recognized.

Journal entries:

#1 Receipt from Voyage (30*33 000/2)	495,000
Debit Cash	495,000
Credit Refund liability	-495,000
	0
#2 Delivery of trucks at cost (30*28 000)	840,000
Debit Asset - right to recover products	840,000
Credit Inventories	-840,000
	0

After 90 days from delivery, when the right of return lapses:

Significant financing component calculation:

Cash selling price (30*32 000) of 1/2	960,000	
Agreed selling price (30*33 000)	990,000	there is a significant financing component

Calculating internal rate of return:

Cash out (in form of trucks at ORIGINAL selling price)	-960,000	
Cash in	495,000	
Net cash out in the beginning of transaction	***-465,000***	
Net cash in at the end of transaction	495,000	
Internal rate of return:	**6.45%**	Let's assume this reflects the rate at separate financing transaction. If not, then it would be necessary to adjust the selling price.

Formula used:
=IRR(c45:c46)

Journal entries:

#1 Revenue from sale of trucks

Debit Refund liability	495,000
Debit Receivable	465,000
Credit Revenue from sale of trucks	-960,000
	0

Difference between cash selling price and the amount already received

#2 Cost of sales

Debit Cost of sales	840,000
Credit Asset - right to recover the products	-840,000
	0

Careful with the interest here! You need to recognize it **over remaining 9 months**, as the receivable (asset) was recognized after right of return lapses.
Therefore, it is necessary to calculate monthly IRR for the period of remaining 9 monhts (if you recognize interest on monthly basis).
(we use the **effective interest method under IFRS 9 here**):

Time	CF	Interest rev	Receivable c/f
Recognition of revenue	-465,000		465,000
Cash in - month 1	0	3,241	468,241
Cash in - month 2	0	3,264	471,506
Cash in - month 3	0	3,287	474,792
Cash in - month 4	0	3,310	478,102
Cash in - month 5	0	3,333	481,435
Cash in - month 6	0	3,356	484,791
Cash in - month 7	0	3,379	488,170
Cash in - month 8	0	3,403	491,573
Cash in - month 9	495,000	3,427	0
Monthly rate of interest for remaining 9 months:	**0.70%**		

Jack & Partner want to produce and distribute clothing with the famous animated characters created by Mikel. Mikel enters into a contract with Jack & Partner for 2 intellectual property licenses:
- License 1: to use trademark "Mikel" in a www domain owned by Jack & Partner in order to promote and sell clothing with Mikel's brand;
- License 2: to use animated Mikel's characters on clothing.

Both licenses will be transferred to Jack & Partner immediately after contract is signed by both parties.The consideration for License 1 is fixed, set at CU 3 000.
The consideration for License 2 is 10% of future sales of clothing with Mikel's animated characters. Based on budgets, Mikel estimates total consideration for License 2 at CU 50 000.
How and when shall Mikel recognize revenue from the contract with Jack & Partner, if:
1) Mikel sold these licenses separately in the past to a similar customer for CU 3 000 (License 1) and CU 50 000 (License 2).
2) Mikel sold these licenses separately in the past to a similar customer for CU 10 000 (License 1) and CU 40 000 (License 2).
In the year 1, total revenues from the sales of Mikel-branded clothing generated by Jack&Partner amount to CU 100 000.

1. Scenario 1: stand-alone prices are CU 3 000/License 1 and CU 50 000/License 2

1.1 Assessment of allocating variable consideration

Here, Mikel's estimate of the sales-based fees approximates stand-alone selling price of License 2; and similarly, consideration for License 1 approximates stand-alone selling price of License 1.
As a result, variable consideration based on sales can be allocated fully to one performance obligation - License 2.

1.2 Allocation of variable consideration

License 1:	3,000
License 2:	50,000
Total	**53,000**

1.3 Revenue - year 1:

Revenue for transfer of License 1 - after contract signature:

Debit Contract Asset	3,000
Credit Revenue from sale of license 1	-3,000
	0

Revenue for transfer of License 2 in the year 1:

Total sales of Mikel-branded clothing:	100,000
Sales-based royalties (10%)	***10,000***

Debit Contract Asset	10,000
Credit Revenue from sale of license 2	-10,000
	0

Note: Mikel can recognize revenue from sales-based royalty only when a subsequent sale occurs (para B63 of IFRS 15).
In this case, it relates only to License 2, as the full revenue for license 1 is fixed.

2. Scenario 2: stand-alone prices are CU 10 000/License 1 and CU 40 000/License 2

2.1 Assessment of allocating variable consideration

Here, Mikel's estimate of the sales-based fees does NOT approximate stand-alone selling prices for both Licenses.
As a result, the conditions for allocating variable consideration to one performance obligations in IFRS 15 (85) are NOT met.
Therefore, Mikel allocates the transaction prices based on the relative stand-alone prices.

2.2 Allocation of a consideration

	Stand-alone selling prices	Allocated transaction prices	
		Consideration 1 (fixed)	Consideration 2 (variable)
License 1:	10,000	600	10,000
License 2:	40,000	2,400	40,000
Total	**50,000**	**3,000**	**50,000**

2.3 Revenue - year 1:

Revenue for transfer of License 1 - after contract signature (fixed part):

Debit Contract Asset	600
Credit Revenue from sale of license 1	-600
	0

Revenue for transfer of License 2 - after contract signature (fixed part)

Debit Contract Asset	2,400
Credit Revenue from sale of license 2	-2,400
	0

Revenue for transfer of License 1 - year 1 (variable part):

Debit Contract Asset	2,000	(CU 10 000/CU 50 000 * sales of CU 100 000 * 10% royalty)
Credit Revenue from sale of license 1	-2,000	
	0	

Revenue for transfer of License 2 - year 1 (variable part):

Debit Contract Asset	8,000	(CU 40 000/CU 50 000 * sales of CU 100 000 * 10% royalty)
Credit Revenue from sale of license 2	-8,000	
	0	

Note: Mikel can recognize revenue from sales-based royalty only when a subsequent sale occurs (para B63 of IFRS 15).
In this case, it relates to both licenses, as the part of variable consideration is allocated to License 1 too.

Also please note that in this particular example, amounts of total revenues in individual point of times are the same.
However, amounts of revenues per licenses is different from scenario 1 and the it would have a significant impact when
the licenses are not transferred at the same time.

RE Construct, property developer, builds a residential complex consisting of 50 apartments. Apartments have a similar size and proportions - however, they can be customized to clients' needs.
RE Construct enters into 2 contracts with 2 different clients (A and B). Both clients want to buy almost identical apartments and agree with total price of CU 100 000 per apartment. The payment schedule is as follows:
- Upon the signature of a contract, clients pay deposit of CU 10 000 each.
- Milestone: 1 year prior planned completion, RE Construct will deliver progress reports to clients and clients need to pay CU 50 000 each.
- Completion: Upon the completion of the construction, the legal ownership to apartments is transferred to clients and they pay the remaining amount of CU 40 000 each.

Assumed period of construction is 2 years from the date of contract. RE Construct has the right to retain the payments from any client in the situation when that client defaults on the contract before its completion.
The contracts with clients A and B are NOT identical. Further contractual terms specify that:
- No other specific terms in the contract with client A.
- The contract with client B specifies that RE Construct cannot transfer or direct the apartment to another client and in return, the client B cannot terminate the contract. If the client B defaults on the contract before its completion, RE Construct has the right for all contractual price if RE Construct decides to complete the contract.

Total assumed cost of construction is CU 80 000, thereof CU 35 000 in the first year of construction and CU 45 000 in the second year of construction.

When and how shall RE Construct recognize revenue from contract A and contract B?

1. Contract A

1.1 Assessment

The third criterion for recognizing revenue over time is NOT met, for the following reasons:
1) An apartment can be easily sold / transferred to another client in the case of default.
2) RE Construct has NO enforceable right to payment for performance up to date (keeps only the progress payments - these might not be sufficient)

RE construct must recognize revenue from the contract A **at the point of time.**

1.2 Revenue recognition

Year 1

No revenue is recognized.

Year 2 - at delivery of apartment to a client

RE Construct will recognize revenue of CU 100 000 (full amount) at the point of delivery.

1.3 Journal entries

Upon the signature of contract - deposit received from client A

Debit Cash	10,000
Credit Contract liability	-10,000
	0

Milestone 1 - progress payment received from client A

Debit Cash	50,000
Credit Contract liability	-50,000
	0

Completion - final payment received from client A

Debit Cash	40,000
Credit Contract liability	-40,000
	0

Delivery of apartment to the client A

Debit Contract liability	100,000
Credit Revenue	-100,000
	0

2. Contract B

2.1 Assessment

The third criterion for recognizing revenue over time IS met, due to following reasons:
1) RE Construct cannot direct the apartment for the alternative use (the contract with client B does not permit the transfer).
2) RE Construct has the enforceable right to payment for performance completed to date.

RE Construct recognizes revenue from the contract B **over time.**

2.2 Revenue recognition

Year 1

Revenue is recognized with reference to the progress towards completion.
In this case, it is appropriate to measure progress towards completion by the input method.

Year	Costs	Progress	Revenue
1	35,000	43.75%	43,750
2	45,000	56.25%	56,250
Total	**80,000**	**100.00%**	**100,000**

2.3 Journal entries

Upon the signature of contract - deposit received from client B

Debit Cash	10,000
Credit Contract liability	-10,000
	0

Milestone 1 - progress payment received from client B

Debit Cash	50,000
Credit Contract liability	-50,000
	0

Year 1 - revenue recognized from contract B

Debit Contract liability	43,750
Credit Revenue from contract B	-43,750
	0

Completion - final payment received from client B

Debit Cash	40,000
Credit Contract liability	-40,000
	0

Delivery of apartment to the client B + revenue in the year 2

Debit Contract liability	56,250
Credit Revenue	-56,250
	0

BigBooks Corp. (see example 5) is a company providing centralized accounting services for corporations. It enters into a 3-year contract with client A to provide all bookkeeping and data processing activities for the period of 3 years.

Before providing the services, BigBooks incurs the following expenses:
- commission to a sales representative for arranging the contract: CU 5 000
- fee to a lawyer for drafting and finalizing sales contract: CU 3 500
- investment into additional 10 computers dedicated to contract with client A: CU 4 000
- customization of existing accounting software to BigBook's needs, preparing new chart of accounts and data flows, testing: CU 13 000
- payroll expenses of 3 employees dedicated to contract A for 3 years: CU 30 000.

How should BigBooks recognize these expenses in its financial statements?

1. Costs to obtain the contract with client A

Commission to sales representative:	5,000
Legal fees (drafting & finalizing the contract)	3,500
Total	**8,500**

These costs need to be capitalized and amortized over period of 3 years as BigBooks expects to recover them through future fees for the services provided.

Journal entries:

Debit Asset - costs for contract A	8,500
Credit Cash / Bank account	-8,500
	0

Amortization:

Based on revenue recognized for the contract.

	Revenue	Percentage	Amortization
Year 1:	272,000	32.73%	2,782
Year 2:	272,000	32.73%	2,782
Year 3:	287,000	34.54%	2,936
Total	**831,000**	**100.00%**	**8,500**
	(from ex. 5)		

Year 1:

Debit P/L - amortization of costs for contract A	2,782
Credit Asset - costs for contract A	-2,782
	0

2. Costs to fulfill the contract with client A

Investment into additional 10 computers: ***4,000*** => in line with IAS 16 (account as for PPE and depreciate on a systematic basis)

Customization of SW, data flow, testing ***13,000***

Debit Asset - costs for contract A	13,000
Credit Cash / bank account	-13,000
	0

=> costs do relate directly to the contract A
=> costs do generate/enhance resources
=> costs are expected to be recovered

BigBooks need to capitalize these costs and amortize them similarly as costs above

Based on revenue recognized for the contract.

	Revenue	Percentage	Amortization
Year 1:	272,000	32.73%	4,255
Year 2:	272,000	32.73%	4,255
Year 3:	287,000	34.54%	4,490
Total	**831,000**	**100.00%**	**13,000**
	(from ex. 5)		

Year 1:

Debit P/L - amortization of costs for contract A	4,255
Credit Asset - costs for contract A	-4,255
	0

Payroll expenses ***30,000***

=> costs do relate directly to the contract A
=> however, these costs do NOT generate/enhance resources

These costs are expensed in P/L when incurred.

BigBooks, company providing centralized data services, adopts IFRS 15 for the annual period starting 1 January 2017.
During the transition process, BigBooks identified that it has 2 contracts with 2 multinational corporations, under which free computers were provided:. Both contracts are for data processing only and the details are as follows:
Contract 1: starting 1 July 2015 for 5 years, monthly fee CU 300 000, 10 computers with total cost of CU 100 000 were given for free to a client.
Contract 2: starting 1 September 2016 for 5 years, monthly fee CU 200 000, 5 computers with total cost of CU 50 000 were given for free to a client.
During transition process, BigBooks found the following:
- under current standard, IAS 18, no revenue for computers was recognized and cost of computers was treated as a marketing expense
- under IFRS 15, transfer of computers is a separate performance obligation and BigBooks needs to allocate transaction price also to computers. Stand-alone selling price of 1 computer is CU 15 000.
Show how should BigBooks make a transition to IFRS 15 under full retrospective adoption approach and modified approach.

Analysis of reporting under IAS 18 and IFRS 15

	Under IAS 18			Under IFRS 15 (see Working #1 below)		
	2015	2016	2017	2015	2016	2017
Contract 1						
Computers	0	0	0	148,760	0	0
Services	1,800,000	3,600,000	3,600,000	1,785,124	3,570,248	3,570,248
Contract 2						
Computers	0	0	0	0	74,534	
Services	0	800,000	2,400,000	0	795,031	2,385,093
Total						
Computers	0	0	0	148,760	74,534	0
Services	1,800,000	4,400,000	6,000,000	1,785,124	4,365,279	5,955,341
Differences						
Computers	148,760	74,534	0			
Services	-14,876	-34,721	-44,659			

Working #1 - Allocation of TP to PO

	Contract 1		Contract 2	
Transaction price:	***18,000,000***		***12,000,000***	
	Stand-alone selling price	***Allocated TP***	***Stand-alone selling price***	***Allocated TP***
Monthly services	18,000,000	17,851,240	12,000,000	11,925,466
Computers	150,000	148,760	75,000	74,534
Total	***18,150,000***	***18,000,000***	***12,075,000***	***12,000,000***

Transition approach 1: Full retrospective adoption

Journal entries:

#1 Restatement of opening balances for the earliest period presented (2015):

Debit - F/P Contract assets	133,884
Credit - F/P Retained earnings	-133,884
	0

#2 Restatement of comparative period (2016):

Debit - F/P Contract assets	39,813
Credit - F/P Retained earnings	-39,813
	0

Statement of financial position (extract)

	2017	***2016 (restated)***	***1-1-2016 (restated)***
Contract assets (contracts 1 and 2)	129,039	173,697	133,884
Equity - accumulated profit (effect of correction)	-173,697	-173,697	-133,884

#3 Current year's revenues:

No restatement here, as we assume BigBooks adopted IFRS 15 since 1 January 2017 and the revenues have already been reported under new standard.

Working #2 - Balance of contract assets

	b/f	in P/L	c/f
Contract #1			
2015	148,760	-14,876	133,884
2016	133,884	-29,752	104,132
2017	104,132	-29,752	74,380
Contract #2			
2016	74,534	-4,969	69,565
2017	69,565	-14,907	54,658
Total c/f			
2015			133,884
2016			173,697
2017			129,039

Transition approach 2: Modified adoption

Journal entries:

Restatement of previous periods = cumulative catch-up adjustment:

Debit - F/P Contract assets	173,697
Credit - F/P Retained earnings	-173,697
	0

Statement of comprehensive income (extract)

	2017	*2016 (restated)*
Revenues from sales of computer	0	74,534
Revenues from services	5,955,341	4,365,279

Statement of changes in equity (extract)

	Retained earnings before restating	restatement	after restating
Opening balance at 1-Jan-2016	***1,000,000***	***133,884***	***1,133,884***
Profit for the year ended 31-Dec-2016 as restated	250,000	39,813	289,813
Balance at 1-Jan-2017	***1,250,000***	***173,697***	***1,423,697***
Profit for the year ended 31-Dec-2017	280,000		280,000
Balance at 31-Dec-2017	***1,530,000***	***173,697***	***1,703,697***

Statement of financial position (extract)

	2017	*2016*
Contract assets (contracts 1 and 2)	129,039	0
Equity - accumulated profit (effect of correction)	-173,697	0

Statement of comprehensive income (extract)

	2017	*2016*
Revenues from sales of computer	0	0
Revenues from services	5,955,341	4,400,000

Statement of changes in equity (extract)

	Retained earnings before restating	restatement	after restating
Opening balance at 1-Jan-2016	***1,000,000***	***0***	***1,000,000***
Profit for the year ended 31-Dec-2016	250,000	0	250,000
Balance at 1-Jan-2017	***1,250,000***	***0***	***1,250,000***
Change in accounting policy - effect of transition to IFRS 15		***173,697***	***173,697***
Balance at 1-Jan-2017 as restated	***1,250,000***	***173,697***	***1,423,697***
Profit for the year ended 31-Dec-2017	280,000		280,000
Balance at 31-Dec-2017	***1,530,000***	***173,697***	***1,703,697***