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Revenue and expense recognition under IFRS and compare its Accrual based and cash based accounting

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Abstract

The intent of this text is to provide a comparative cash-based accounting for customers and accrual basis accounting and accounting for revenue and expense accounting for the application of IFRS 15 revenue from contracts. Revenue is one of the most important items for both financial statements and users and is used to measure and assess an entity's past financial performance, future expectations and financial health. For this reason, income determination is one of the most studied accounting issues by investors and regulators. Prior to the publication of a new guideline in 2014, despite the dominant and increasing globalization of the global financial market, revenue recognition requirements were different from US GAAP ("US GAAP"). sometimes resulting in different accounting for similar transactions. Most institutions will see some change as a result of implementing this new standard: At the end of the day, the new standard creates a single model to generate revenue from contracts with customers and this single revenue recognition model. It will provide greater consistency and comparability between industries and capital markets.

The scope of this thesis work will be two-sided. First, emphasize the big picture that underlines the change that comes with the introduction of IFRS 15, a new cross-reference and analysis and a new revenue recognition standard; it provides a high-level summary of the new requirements for revenue recognition and background. You will learn some examples of the main topics embedded in the new standard and how you can apply them. Standard principles will be implemented using a five-step model: 1. Define contract (s) with customer 2. Specify separate performance obligations (PO) in the contract 3. Specify transaction fee 4. Transaction fee Separate performance obligation 5. Asset recognizes revenue when it meets a Performance obligation.

Finally, the effects of the standard can be as broad as influencing business strategies, processes, systems, controls, accounting and disclosure of financial

statements. This thesis will analyze the possible impact of the new listing on the Financial Tables of companies listed in different sectors.

Contents

1. INTRODUCTION

1.1. Introduction

Accounting is an information system that provides data about the database of the financial status of businesses as a result of the transactions made by the entities and the sources of the assets, what they use, the changes that occur in these assets and communicate this information to the relevant persons and institutions. The accounting arrange the reports of the information about financial performance and position of the entities . Several organizations have participated in the study to provide the same language in international accounting practices. In contemporary economic conditions around the world, financial accounting and reporting provide useful information to decision makers, investors, buyers, suppliers, financial regulators and other financial users.As a result, as the business environment continues to change, it spreads to accounting standards what govern the reporting of the financial database. In a harmonized economy, international accounting is at the center of this concept.

Accounting Standards are one of the facilitating mechanisms used in the application of the financial regulation. In a harmonized business environment, it is necessary to check the role and function of Accounting Standards globally. Most of organizations are looking to increase capital through borrowing.They are now willing to look at the borders of their countries. Likewise, investors are becoming increasingly curious as they invest in external and world businesses.

Due to the protection of investors and the safeguarding of market assurance, securities controllers are increasing the principle of full disclosure.

The main purpose of the convergence effort is to help to perfect financial reporting information while working towards the goal of a set of harmonized accounting standards. The convergence effort is an important interchange toward for achieving the same accounting frawework and a necessary level in the harmonization of business.

Revenue is usually the single greatest item on the financial statements, and it is one of important and difficult issues revenue recognition are among standard setters and accountants face.

Last years, issues related to the recognition of revenue in accordance with accounting standards have necessarily increased. Often, companies finish up fixing their revenue numbers. An informed market know the effects of economic events when they happen, but the recognition of revenue has to wait to comply with formal accounting recognition criteria. The reason of this fall back is a function of cross-sectional distinction in the application of accounting recognition criteria

1.1. Research Problematic and Methodology

Our research is based on the practical experience of accounting, making it constructive, because the purpose of the research is to disclose some facts.

As a result of this research, we have developed a two-way analysis of the relationship between two types of models to produce information and explanation. So I research new IFRS rule so it is IFRS 15 revenue from contracts with customer. Then I research about cash and accrual accounting, its' advantage and disadvantage. The documents consisted of books and journals, regulations, research reports of relevant professionals, doctoral dissertations, and last but not least sites specializing in accounting.

We also use the comparative method to identify differences or similarities in the use of sectoral analysis and to emphasize the strengths and weaknesses of the new IFRS 15 and accounting models "cash" and "accrual" analysis.

IFRS 15 will represent new requirements compared to the standards it will substituted (IAS 11, IAS 18 and their related interpretations). The purpose of this dissertation is to introduce the essential requirements of IFRS 15, to compare its key differences and updates with existing IFRSs and implementing by the different sector companies in identifying and applying innovations.

For this reason, the present research has the following objectives:

Hence, the current research has the following objectives:

- Describe the main requirements of IFRS 15;
- Identify key differences and innovations brought by IFRS 15 compared a general and sectorial approach to current IFRS;
- To discuss the progress of companies in their implementation of IFRS 15;
- To analyzing that IFRS 15 requirements are the most important challenges, from a general and sectorial perspective;
- Presentation the results of the different sector companies on this new accounting standard.

1.2. Intellectual interest of the research

Since its publication in 2014, many articles have been published on the new requirements of IFRS 15. Most of them emphasized that the IFRS 15 will go beyond the accounting records and will affect other scope of the enterprise's business model. However, since the first application is 1 January 2018, there are still uncertainties as to how entities will be impacted by IFRS 15 in practice and what they should do to prepare their reports under this new standard.
Moreover, this thesis also aims to verify whether the difficulties theoretically determined for companies in certain industries correspond to the difficulties that these institutions face in practice.

1.3. The structure of the dissertation

The dissertation starts with the theoretical theory divided into two parts:

- First, a general approach to IFRS 15 is conceived. It starts with the date and targets of the standard. After that, the key requirements of the standard will be presented. Simultaneously, a comparison with IAS 18 Revenue is setted. Finally, the transition methods to IFRS 15 are introduced and interpreted.
- The second section is about sectoral approach of IFRS 15. In this section, industry-specific accounting challenges are identified and analyzed for the following four industry sectors: telecommunications, construction, aerospace, and pharmaceuticals. More explicitly, the section on the

construction sector is also used to compare IFRS 15 and IAS 11 Construction Contracts. The final section of this section looks at other business dimensions that may be affected by the entry into of IFRS 15.

- The third section is about of cash and accrual method and its analysis. This section also emphasized its advantage, disadvantage and other information.

1.4. The literature review

The literature review is followed by an empirical section with two sections separated:

- The first part is an explanatory example of how the different section companies will prepare itself for the adoption of IFRS 15. This section presents companies' IFRS 15 project, and most importantly expected standard requirements.
- The second part presents and discusses the on-line survey among enterprises. Firstly, I'll inform adoption new requirements of IFRS 15. Accounting impacts are analyzed and presented after on a sectoral basis with additional accounting impacts of the standard.
- The last section summarizes different views on IFRS 15. The end result will take a general outcome of the approach.

2. Theoretical base of revenue and expense due to IFRS

2.1. Revenue

IFRS 15 requires how and when an IFRS reporter will accept and present financial statements that are more descriptive and relevant disclosures to users. The standard is five-step model that will be applied to all contracts made with customers.

IFRS 15 will apply to the annual reporting period, which will be published in May 2014 and will begin on or after 1 January 2018. On 12 April 2016, an analysis of the same amendments as the standard itself was published.

Scope

IFRS 15 amends the following standards and interpretations:

IFRIC 15 Agreements for the Construction of Real Estate

IAS 18 Revenue

IAS 11 Construction contracts

IFRIC 18 Transfers of Assets from Customers

SIC-31 Revenue - Barter Operations Including Advertising Services

IFRIC 13 Customer Loyalty Programs

IFRS 15 Revenue arising from contracts made with customers excludes all transactions with customers, with the following exceptions:

• IAS 17 Leases within leases;

• Financial instruments and other contractual rights or obligations under IFRS 9 Financial Instruments,

• IAS 28 Investments in Subsidiaries and Joint Venture;

• IAS 27 Separate Financial Statements and

• IFRS 11 Joint Arrangements,

• IFRS 10 Consolidated Financial Statements,

• insurance contracts under IFRS 4 Insurance Contracts; and

• Non-monetary changes between entities in the same line of business to facilitate sales to customers or potential customers.

The contract with a customer may be partly covered by IFRS 15 and partly by another standard. In this case:

- IFRS 15 is used if another standard does not decide how to separate one or more portions of the transaction and / or how to measure it initially.

- other standards specify how we divide one or more parts of the contract and / or first measure how it will be measured, then this section and measurement requirements are applied. The transaction price is reduced initially by amounts measured in other standards;

Objective

The intent of IFRS 15 establishes which entity will be responsible for reporting useful information to users of financial statements related to the nature, amount, timing, and uncertainty of revenue, cash, and cash flows from a transaction made with a customer. Implementation of the standard is required for annual reporting periods beginning on 1 January 2018. The previous application is not prohibited.

Key definitions

Contract-An agreement that creates applicable rights and obligations between two or more parties.

The Client-Party has contracted to obtain goods or services that arise as a result of the normal operation of the business. Increases in the economic benefit during the accounting period in the form of an increase in assets or assets that lead to an increase in equity or a decrease in liabilities, other than those related to the contributions of income-equity participants.

The promise of a performance - a promise made by a customer to a customer or a service: a product or service (or package of goods or services) is different; or a number of different goods or services that are largely the same and have the same transfer pattern as the customer.

Revenue-Revenue during the normal course of an entity's activities.

Transaction cost - The amount a business expects to have in exchange for the transfer of a contracted goods or services to a customer, other than amounts collected on behalf of third parties.**Accounting requirements for revenue**

2.1.1. The five-step model framework

The basic guidance of IFRS 15 is that an entity shall recognize revenue to recognize transfers of agreed goods or services to its customers, accounting for the fact that the entities are expected to change in exchange for such goods or services. This basic guide is sent in a five-step model rule:

• Determining contract (s) with the customer

• Determining performance performance obligations

• Set transaction price

• Allocate the transaction price to the performance obligation in the transaction

• Recognize their income when (or together) they fulfill a performance obligation.

The implementation of this framework will depend on the circumstances and circumstances of the contract made with a client and will help to improve the decision.

Step 1: Determine the contract with the customer

A contract is agreement between two or more parties that their obligation and right is accepted and approved.

In order to demand of standards, following terms are met:

- the contract should be accepted and approved by the parties;
- each party's rights and obligation relating to the goods or services to be transferred to customer should be determined;
- Payment terms of transferred goods or services are determined
- the contract should be commercial substance; and
- likely the consideration to that the organization called to in exchange for the goods or services will be gathered.

If agreed contract don't met above terms, entity get money from sold goods or services, on that time revenue are recognized with following terms:

- seller doesn't remain transfer the goods or services to customer any more, all payments are accepted. Return case of goods and services will not be occur.
- Contract is cancelled and money from customer will not be return back.

If a transaction with a customer is not relevant all of the above terms, the organizations will continue to re-estimate the contract in advance determine if it subsequently relevance the above factors. From this fatcor, the organization will arrange IFRS 15 to the transaction.

In order to agreement of parties, Change of contract items can be separate contract or exist contracts. Changes can be oral or written.

Step 2: Determine of performance obligations in the contract

At the beginning of contract, promised goods or serviced should be assessed and its obligation should be determined. In this step, core factor of recognition revenue is distinct goods or service and transferring of control above asset to customer fully. Control of asset is get profit using those assets fully. Transferring of control can be in following terms:

- Buyer entity should get payment right
- Buyer should get owner right
- Buyer should get the asset in form of physical and customer should get using right

Goods and services is distinct when following criteria are relevant:

- Buyer should get profit from these goods or service separately or with other resources
- Transferred goods or services are determined separately

By customer, in the assessment of control of goods or service, redeem of goods or services of seller should be attended.

Repurchase agreement is agreement relating to option or promise repurchase of asset or sales of asset by seller.

Repurchase agreement has three legal form:

- the entity's obligation to redeem the asset (forwards);
- the entity's right to withdraw an asset (call option); and
- obligation of the entity to redeem the asset at the customer's request (put option)

Noted rights period should be write in contract. If an entity has repurchase or sell right, buyer does not get control and seller does not recognize revenue. Because buyer control is limited above those assets. If repurchase process is relating to financing, at this time seller recognize it as asset in financial statements. Payment from buyer is recognized as liability in financial statements. If noted repurchase right expires in contract and it will not use from this asset, at this time buyer can recognize previous liability as revenue in financial statements.

So we look over following sample:

Company A sells goods to Company B that its cost 5000 AZN. Company B has paid 5000 AZN to Company B. In order to contract terms, Company A has 5 months to repurchase right the goods. In that time, Company A recognize the payment as liability during 5 months. If Company A do not use this right after five months, at that time Company A should recognize it as revenue.

One of the Important issue of recognize revenue is estimation of performance level. If Company can't estimate performance level, at that time revenue should be recognized with percentage of expense. For Performance of obligation is used two methods:

a) Method of work done(results method)- Revenue under this method is promised under contractual terms and is actually recognized over the goods and services provided to the buyer during the reporting period.

For example: X company due to contract, replace 150 office tables that cost 30000 AZN. Company X replaces only 50 of 150 office tables. So Company X has done only 33,3 percentage of work. In result, Company X should recognize revenue only 10000 AZN. (30000 AZN*50/150)

b) Expense method (resources method)- Revenue under this method is recognized as performance of obligation by the entity, or as a result of the involvement of resources. Such costs include working time, material expense, equipment expense, and others can be involved.

Expense not mentioned in the contract but incurred in commitments should be deducted from the revenue when estimating the level of performance. Such costs may include following:

- General and administrative expenses
- Commercial and marketing expenses
- Amortization expense of non-using asset
- Material loss expenses

- Excess salary and other expenses

Example: Construction company under contractual terms should be surrender building. Its cost 6 000 000 AZN. In order to contractual terms, contract expense is 3 600 000 AZN. First year's expense is 720 000 AZN. Company recognize revenue with expense incurred method.

Contract expense- 6 000 000 AZN

Level of work done- 20% = (720 000 / 3600000)

Revenue recognition- 6 000 000*20%= 1 200 000 AZN

Costs- 720 000 AZN

Profit- 480 000 AZN

Step 3: Determine the transaction price

Transaction price is right of compensation amount for transferred goods or services. An organization should analyze its ordinary work experience and the terms of the contract when determining the transaction value. When determining price of the transaction, it is necessary to look at the effects of following:

a) Fixed amount of consideration
b) Variable amount of consideration- its include discount, sale off, bonus, credits, return of allocation, penalty and others
c) Accounting for non-cash consideration- If the buyer company promises with non-cash payments, at that time company should estimate price with fair value. Fair value can vary depending on circumstances
d) Accounting payable to customer-Such reimbursement shall include information on the amount paid or payable by the seller to the buyer. So an entity should recognize returned goods and services as assets. The amount payable to the buyer will reduce both the transaction value and the amount of revenue. An entity shall prepare a liability for the change in the amount.

The amount of that liability should be reviewed and assessed by the entity at the end of the reporting period. The entity may also determine the transaction price by applying discounted prices. Discounted price- This is the price that is not estimated separately in the contract during initial negotiation. Discounts can be applied for a variety of reasons. For example, a seller can compromise the buyer to stimulate the purchase of goods. In this case, the entity should determine the last transaction value by estimating the probability of discounting the pricing.

For example, E&SH Distributor Company sells equipment to UNEC which cost 100 000 AZN. So one equipment cost is 1000 AZN. Under the terms of the contract, the cost of the equipment will be paid to E&SH Company after UNEC will sell the equipment. E&SH Company can apply discount on equipment's price for speed up the sale of equipment. E&SH Company can apply 20% discount on its equipment based for previous years' experience. As a result, the final price of the contract will be AZN 80,000.

Step 4: Allocate the contract price to the performance obligations in the contracts

Main objective of this step is to express the value of the transaction price in the value of sharing the level of performance of each obligation. For this, when company sign contract, the selling value of each product and service should be evaluated.

Cost of sales of each kind of products and services is accepted as the value of the goods and services promised by the enterprise separately and it is estimated as following way.

a) Market adjustment assessment approach -The organization should make a market research before signing a contract and compare the value of its products and services with the cost of the similiar goods and services.
b) Excepted value+ margin approach- An organization can predetermined its

expected costs for meeting its obligations. As a result, the appropriate margin is added to the mentioned goods and services.

c) Residual Approach - The unit may be determined the with value of separate sales from the value of the total transaction value to the difference between the value of other products and services promised in the contract.

An entity should distribute all discounts between proportional items and services on a regular basis between the level of performance of one or several obligations. An entity should distribute all discounts between promotional items and services on a regular basis between the level of performance of one or several obligations. The variable amount of compensation should be distributed among the obligations performed fully

Step 5: Recognise revenue as the entity satisfies a performance obligation

An entity recognizes revenue when the obligation is met and control of goods and services is fully transferred to the customer. The control mechanism of the asset in the acquirer include the following:

- Using of assets during production and service
- Using of assets for increasing the value of other assets
- Using of assets for reduce cost and settle an obligation
- Change or sale of asset
- Introducing of assets on credit

Contractual obligations must be accomplished within a specified period, and control of goods and services must be transferred to the buyer fully. Main objective of control transfer is date of transfer of control. In this case, following terms must be met:

- Customer get or demand profit relating to accomplished obligation
- Assets are generated from fulfillment of obligations, and the control of assets transfer to the buyer depending on the level of completion.

- The resulting assets from fulfillment of obligations can not be used for active alternative purposes.
- If any of the above circumstances occur, the entity may recognize revenue as method of work done and costs incurred.

Now let's look at the following example for a more comfortable understanding of the revenue recognition and accountability of accounting for revenue:

E&SH Company sells office equipment in 01.09.2017. In order to contractual terms, E&SH Company take over to provide free service within two years for office equipment. The payment schedule is as follows:

a) 800 000 AZN, if the buyer does not pay till 31.12.2017,
b) 810 000 AZN, if the buyer does not pay until 31.01.2018,
c) 820 000 AZN, if the buyer does not pay till 28.02.2019,

E&SH Company management believes that the payment will take place in January 2018 based on high probability. The cost of the equipment is 700,000 AZN and the service fee is 140,000 AZN. Let's look at the solution to this problem:
The value of the transaction consists of a fixed value element and a variable value element. The fixed value element is 800 000 AZN, the variable value element is 10 000 AZN or 20 000 AZN. The variable value element must be included in the transaction value. If we consider that that the cost of payment by the buyer is 31.01.2016, the final value of the transaction can be 810 000 AZN. The value of the transaction should be divided among the obligations. Thus, 700 000 AZN / 140 000 AZN or 5/1. AZN 675 000 (810,000 AZN * 5/6), 135,000 AZN (810,000 AZN * 1/6) will be the amount of service commitments.

Submission of equipment obligation will end on 30.09.2017, E&SH Company will recognize it as 675,000 AZN. Revenue for performance of service obligations will be 5625 AZN (135,000 AZN * 1/24)

On 20.09.2017, E&SH Company will recognize revenue 810 000 AZN as short term dept(account receivable) on assets in its financial statements.

On 30.09.2017, E&SH Company will recognize 129 375 AZN (810,000 AZN - 675,000 AZN - 5625 AZN) as income for the next reporting period. From this amount, 67,500 AZN (129,375 AZN * 12/23) as short term revenue for the next reporting period, 61,875 AZN (129,375 AZN - 67,500 AZN), should be recognized as earnings for the long-term period.

Now we look at dual accounting records of the above transactions.

N	Debit	Credit	Amount
1	Account receivable	Sales	680625
2	Account receivable	Unearned revenue	129375
3	Unearned revenue	Unearned revenue	67500
4	Sales	Profit	680625

In this example, we have focused on reflecting revenues based on the requirement of the new standard IFRS 15 Revenue from contracts from customer.

2.2. Expense

The expense recognition guidance states which expenses must be recognized in the same period as the revenues to that they relate. If this is not the case, expenses would highly be recognized as occured, which might precede or follow the period in that the connected amount of revenue is recognized.

For instance, a business pays $200,000 for distributor,that it sells in the next month for $250,000. In expense recognition framework, the $200,000 cost must not be recognized until the next month, when the connected revenue is also recognized. In another way, expenses will be overestimate by $250,000 in the current month, and underestimate by $200,000 in the next month.

That also has an effect on income taxes. In the sample, income taxes will be underpaid in the this month, since expenses are too great , and overpaid in the next month, when expenses are too below.

Some expenses are difficult to relate with revenue, for instance administrative salary, rent and utilities expenses. These expenses are set as period expense and it is calculated as incurred expense in the during period.

The expense recognition guidance is a main element of the accrual basis of accounting, which keeps which revenues are recognized when earned and expenses when consumed. If an entity were instead of recognizing expenses when it pays to suppliers, this is determined as the cash basis of accounting.

If an entity wants to audit its financial statements, it should use the expense recognition rule when recording business transactions. In another way, the auditors will reject to render an idea on the financial statements.

2.2.1. Contract costs

If an entity want to recover these costs, an incremental cost of obtaining should be recognized as an asset. However, these incremental costs are limited to the costs that the operator (the "success fee" paid on behalf of the agency) can not afford if the contract is not successfully achieved. If the relevant depreciation period is 12 months or less, a practical objective may be used as appropriate to allow for the elimination of the increased costs of obtaining a contract.

Costs incurred to perform a contract are recognized as an asset only when the following terms are met:

- the costs belong directly to a contract (or a certain expected contract);
- the costs create or develope resources of the entity that to be used in the future performance obligations; and
- the costs are waited to be recovered.

These include costs, for example, as direct labour, direct materials, and the allocation of overheads which relating to the contract directly.

An asset is recognised for the costs of obtaining or fulfilling a contract is amortised systematically basis that is consistent with the transfer model of the goods or services to which the asset relates.

2.2.2. Obtention costs

They will be recognized as a qualifying asset for which recovery is expected and incremental to the contract. The incremental costs correspond to the costs incurred by making obtention of a contract as a sales commission.

It is interesting to note that each obtention cost of the IASB is accounted as asn expense. However, most respondents to both Exposure Drafts reserved which obtention cost may be relavant with the asset definition. In addition, IASB also requires that other standarts requires what they include obtention costs at the carrying amount of the assets recognized firstly. At the same time, accounting for all obtention expenses as an expense would be contrary to the projects relating to the IASB's lease agreements and insurance contracts.

2.2.3. Fulfillment costs

Assuming the fulfillment costs do not fall within the scope of other standards, it is considered that an asset will be accounted for the extent that it meets all of the following terms:

- There is a direct relationship between costs and an existing or foreseeable specifically identifiable contract
- With this costs, resources are producted or increased. In addition, organizations will use those resources to fulfill their future performance obligations.
- Organizations await recovery those costs.

For example, direct labour and materials cost would be capitalized in IFRS 15 while general and administrative costs can always be expensed when incurred.

Based on the results, the IASB has stated that those cost requirements are aimed at developing existing applications, which are considered to be a wide range as well as others. However, KPMG has stated that "First Impressions: Revenue from contracts with customers" (2014) may be difficult for businesses to understand some of the requirements of the cost of fulfillment.

2.3. Aditional useful implementation rule in relate to applying IFRS 15

These topics include:

- Performance obligations met over time
- Methods to measure progress toward full satisfaction of a performance obligation
- Sale with a right of return
- Warranties
- Principal versus agent considerations
- Customer options for additional products or services
- Unusual rights of Customers
- Non-refundable prepayments fees
- Licensing

- Arrangements of repurchase
- Arrangements of consignment
- Bill-and-hold arrangements
- Acceptance of Customer
- Disclosures(explanations) of disaggregation of revenue

When IFRS 15 is applied, these issues should be considered carefully.

2.4. Presentation of revenue and expense in financial statements

Contracts with customers will be shown in an organization's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the organization's performance and the customer's payment.

A contract liability is shown in the financial position where a customer has paid an amount of consideration prior to the transaction by transferring the related good or service to the customer.

If an entity has transferred a product or service to the buyer but buyer entity hasn't yet paid money or other alternative consideration, a contract asset or a receivable is shown in the financial statements. Also it depend on condition of the organization's right to consideration.

A contract asset is recognized when it is conditional on something other than time passage, such as the owner's right to own, for example, the future performance of the entity. A receivable is recognised when the right of entity's consideration is unconditional exception of passage of time.

Contract assets and receivables are calculated for in accordance with IFRS 9. Any impairment made with contracts with customers must be measured, presented and disclosed in accordance with IFRS 9. Any difference between the initial recognition of a receivable (consideration) and the corresponding income recognized must be presented as an expense, for example, an impairment loss.

2.5. Disclosures

The intent explained in IFRS 15 is to disclose sufficient information to enable the financial statement users to understand the nature, amount, timing and uncertainty of the income and cash flows arising from contracts made with customers.

For this reason, an organization must disclose qualitative and quantitative information about all of the following:

- Customers' contracts
- the significant judgments, and changes of judgments, made in applying the rule to these contracts
- any assets recognized of the costs to obtain or fulfill a contract with a customer.

Businesses will need to take into account the level of detail required to meet the disclosure objective and how much attention will be given to each requirement. An entity needs to unify or decompose explanations so that useful information is not hidden. According to achieve the objective of disclosure above stated purpose, the standard sets out the necessity of a new set of disclosures.

2.6. Effective date and transition

The standard must be applied in an organization's IFRS financial statements for annual reporting periods starting on or after January 1, 2018. Earlier application is allowed.An organization that adopt IFRS 15 before 1 January 2018 must disclose this case in the relevant financial statements.

When applying IFRS 15 for the first time, entities must fully apply the standard for the current period, including retrospective application to all contracts that have not yet been completed at the starting of that period.

With regard to the past periods, transition rule is based on the assumption of organizations.

- IFRS 15 applies up to prior periods (provided that certain limited practical benefits exist);
- Keep previous period figures which reported in previous standards,
- Apply IFRS 15 as an adjustment to the equity opening balance, such as at the initial filing date (at the beginning of the current reporting period).

3. Cash and accrual basis accounting

There are two different methods of accounting based on cash flows and accrual accounting used in accounting records. The main difference between the two methods is the timing of the operation logs. Over time, the results of both methods are almost similiar. A brief description of each method is as follows:

• Cash Base. Costs are incurred when making a cash withdrawal from customers and making cash payments to sellers and employees.

• Accrual Basis of accounting. Expenses are recorded when earnings and consumption.

Comparative presentation of two accounting models

Accrual basis	Cash basis
Recognition of income and expenses independently of cash movements	Recognition of income and expenses only when receipt or payment is made
any basic creation of income and expenditure must be recorded	lack of cash movements afffect accounting records lack
Expenditures and income are grouped as exploitative, financial and extraordinary.	There is a distinction between operating activities, investing and financing
The annual financial statements are prepared in a comprehensive set of logical steps in accordance with the legal provisions.	It is necessary for the correction of financial statements.
It gives information about receipts and payments of cash and cash	provide information only about receipts and payments of cash and

equivalents.	cash equivalents
Provides information about profit to users	Allows users to recognize the difference between net profit and net cash

The difference between the two methods is that the payment of the customer's cash to the company may be delayed by cash in Profit and Loss statement. Similarly, recognition of costs based on cash should be postponed after payment of the supplier bill. There are several examples of these concepts:

Recognition of revenue. One company sends an invoice to a customer who sells AZN 2500 in September. The customer pays the invoice in December. When cash is taken, the seller accepts the sale on the basis of the cash register in December. Accrual Based on the calculation, the seller accepts the sale of the invoice issued in September.

Recognition of expenses. One company receives AZN 425 office equipment that was paid in February. If company pay a customer invoice on a cash basis, company will recognize it in February. But under accrual method company record and recognize purchase in January even payment don`t occurs.

Cash flow basis can only be used if a company do not sell more than $ 1 million in just one year (according to the IRS). It does not require complex accounting operations like computing(accrual) and postponing(deferral), because it's the easiest way to settle for cash-based transactions. Taking into account the convenience of use, this is widely used in small businesses in money supply. However, cash flows and costs mean relatively random time-shifting results between unusually high and low profits.

Accrual base are used by all great companies for a variety of reasons. In the past, sales should be used for tax reporting when it reaches $ 5 million. Additionally, a company's financial statements can be audited only if it is based on a accrual calculation. In addition, the financial results of a reporting entity with accrual base are likely to match within the same reporting period to profit and expense, as the real profitability of the entity should be recognized. However, in the absence of a statement of cash flows in the financial statements, this approach does not imply the entity's cash-generating ability.

3.1. Accrual basis accounting

Under accrual base, expense and expenses are calculated as follows:

• Revenue recognition: Revenue is recognized on each of the following conditions:

- income is generated.

- Collateral income is realized and implemented.

• Revenue is generated when product revenue is provided or services are rendered.

Realized cash sources are taken. It is possible to understand that in the future you will have to wait for these money.

Expenses are recognized when the related income is recognized.

3.2. Cash basis accounting

In Cash flow accounting, expense and revenue are recognized as followings:

• Expense recognition: Costs are recognized when cash is paid.

• Revenue recognition: income is recognized when cash flows to entity are recognized.

3.3. SWOT analysis of Cash flow basis and accrual basis accounting

	Strengths	Weakness
Accrual basis	• To provide correct estimation of the business activity by emphasizing the future income and liabilities to be received • To provide information about the company's full activity • Present economic activities of the business fairly	• The results of acitivity, even if is fairly presented it is not actually received and does not imply the physical existence of money at the moment into the company
Cash basis	• provide information about the entity's activity through the prism of treasury • Actual results actually taken	• Does not provide information regarding the entity's activity in the future by non-disclosure of claims and liabilities

3.4. Timing differences in recognizing for income and expenses

Between accrual and cash flow base accounting, there are high differences for income and expense recognition.

Four Different Time Differences:

I. Accrual revenue: Cash is recognized after receipt of cash.

II. Accrual Expenses: Cash is paid and expense is recognized.

III. Deferred income: Income received prior to acquisition.

IV. Deferred expense: Cash is paid before the recognition of the costs

Example of calculated income:

For example, in June 2018 office equipment will be sold at AZN 24000 and cash will be received by July 2018

June, 2018	Jule, 2018
Revenue is recognized.	cash is collected.

Double entry for Journal on June, 2018

	Debit	Credit
Account receivable	24000	
Sales		24000

Double entry for journal on Jule, 2018

	Debit	Credit
Cash	24000	
Account receivable		24000

Sample for Accrued expense:

For example, E & SH has borrowed $ 270,000 from Pasha Bank on November 1, 2018 and has decided to pay 10% interest at the end of each quarter.

November 31, 2017	December 31, 2017
The interest expenditure was accepted for the month of May.	Cash is paid at the end of the quarter.

Double entry for Journal on November 1, 2017

	Debit	Credit
Cash	270000	
Borrowing from Bank		270000

Double entry for Journal on November 31, 2017

	Debit	Credit
Interest expense	2250	
Interest payable (liability)		2250

Interest payable is liability element.

Interest amount=270000*10%*$\frac{1}{12}$=2250 AZN for each month

Interest liability represents an increase in a credit (right) side.

Double entry for Journal on December 31, 2017

	Debit	Credit
Interest expense	2250	
Interest payable		2250

E&SH Company pays AZN 2250 as interest expenses for November and December.

	Debit	Credit
Interest payable	2250	
Cash		2250

Interest payable(liability) shows a decrease in a debit side (left right).

Sample of deferred Revenue

For example: SH&E Company signed a new contract with the tenant on August 1, 2017, and received AZN 27000 in order to two-month rent.

August 1, 2017	August 31, 2017 and September 30,2017
Cash is received	Revenue is recognized at the end of August and September.

When SH&E Company provides services, Revenue is recognized. In this task, the service is provided time passes.

Double entry for Journal, August 1, 2017.

	Debit	Credit
Cash	13500	
Unearned rent revenue		13500

Unearned rent revenue is liability(right or credit) account.

Unearned rent revenue (a liability account) indicate as an increase in a liability (Credit) side.

"Unearned revenue" accounts indicates that the amount of cash received prior to the submission of services. If services is not provided in the next periods, money must be paid to the back. So it can not be revenue.

"Unearned revenue" accounts are obligations of the company because if they are not serviced in the future they will have to be repaid to the other party.

Double entry for Journal on August 31, 2017

	Debit	Credit
Unearned rent revenue	13500	
Rent revenue		13500

Unearned rent revenue (a liability account) shows a decrease in a debit side. Right side (credit side) of rent revenue shows an decrease.

	Debit	Credit
Unearned rent revenue	13500	
Rent revenue		13500

Unearned rent income (liability account) shows a decrease in the debt side.

The rental income represents an increase in the credit side (revenue account).

Sample for Deferred Expense

For example: Company E&SH purchased webpage secure service for a period from November 1, 2017 to January 31, 2018, and paid AZN 60000 in cash for the quarterly.

November 1, 2017	November 31, December 31, 2017 and January 31, 2018
Cash is paid.	Expense is recognized at the end of November, December and January

Double entry of Journal on November 1, 2017

	Debit	Credit
Prepaid expense	60000	
Cash		60000

Prepaid webpage secure package expense is an asset account. Prepaid expense shows an increase in debit side.

Double entry for Journal on November 31, 2017

	Debit	Credit
Webpage secure expense	20000	
Prepaid expense		20000

Prepaid webpage secure package expense represents a decrease in credit side.

Double entry of Journal on December 31, 2017

	Debit	Credit
Webpage secure expense	20000	
Prepaid expense		20000

Double entry for Journal on January 31, 2018

	Debit	Credit
Webpage secure expense	20000	
Prepaid expense		20000

Prepaid webpage secure expense account represents a decrease in credit side.

4. Practical Cases

IFRS 15 Examples: How IFRS 15 Affects Your Company

IFRS 15 Contracts for Clients has been a great change for a company and has created a very difficult problem. After exploring the theoretical part of IFRS 15, I discussed with CFOs or auditors and then explored İFRS 15 practice in various business segments. I have also written this article to give you a few examples and instructions of the IFRS 15.

It is interesting for me which industry will be most affected. The impact of new rules on revenue recognition for some companies will be minimal, and they will continue to recognize revenue just as before. However, some companies may face difficulties in applying new rules. The major difficulties will generally be in the areas that are not specifically identified by IAS 18 and other relating standards. Contrary to previous guidance, IFRS 15 allocates less space to our reporting decisions and more information.

The biggest impact areas are:

a) Is revenue recognized over time (spread over the period during the contract period) or at time point (after completion)?
b) How should company evaluate the progress towards completion when the revenue is recognized over time (before the "completion phase")
c) How do companies calculate revenues from bundled offers (with several products)? Should they divide the contract into several components?
d) How does the company deal with contract changes?
e) How do companies evaluate their contractual costs, including the costs of obtaining the contract? Does it involve profit or loss, or capitalization and defer?

f) Does the contract contain funding components? Yes, how can you deal with the value of money?
g) Which disclosures should companies do? Are all relevant and appropriate information?

Different fields or industries are affected by a 5-step model differently. Here I choose four major industries that are likely to face the biggest problems:

1. Telecommunications (eg determination of individual performance obligations and transaction costs)
2. Manufacturers (example includs: modifications of contract)
3. Real estate and property development (example includs: recognition revenue over time or point of time)
4. Software development and technology (example includs: division of the contract into two separate 0bligations)

4.1. Telecommunications

The telecoms industry is typical with many customers, types of contracts, and various multiple offers. For this reason, the major challenge will be to divide packaged bids into individual performance obligations and distinguish the transaction price.

In addition, individual performance obligations can be recognized over time (eg, a two year subscription plan) or at a time point (for example, despatch of a handset).

A brief example of a similar situation:

a) In IAS 18, many telecommunication operators provide free handsets to customers and evaluate them as "marketing costs" or as costs for customer acquisition.
b) Under IFRS 15, it is permitted that IFRS 15 requires that the transaction price be separated into individual performance commitments.

c) In this issue, telecommunication operators should allocate the total contract price between the revenue from sale of the handset and the sale of the monthly plan.

Consequently, the timing of the recognition of the revenue varies, in IFRS 15, revenue is accounted at an earlier date than IAS 18.

Another reason of this treatment is that the recognition of income does not match the monthly invoicing of the clients, since there are some deferred accounts.

It is really difficult because the application will require substantial changes in IT systems so that IT systems can automatically calculate the amount of revenue recognized each month.

Other challenges in the telecom industry include:

Modifications of contract:

a. What happens if customers change their contracts with operators, such as changing the amount of prepayment minutes or adding new services?

In this case, whether such a change should be considered retrospectively (one-time adjustment) or prospectively (as a "catch-up" adjustment for future revenues) or a separate contract. IFRS 15 has more precise rules than IAS 18 that can lead to changes in accounting systems.

b. Discounting and Time value of money:

IFRS 15 defines the "component of financing" precisely and requires that the component be separated from revenue. Consequently, perhaps you need to include the time value of money in some long-term advances received or paid, or in agreements concluded after a period of 12 months.

For example: IAS 18 and IFRS 15

E&SH Company enters a 12-month telecommunications plan with M&C Company, a local mobile operator. The terms of the plan are:

E&SH monthly fixed fee is AZN 250.

E&SH gets a free phone at the start of the plan.

M&C sells the same phones for the AZN 750 and the same prepayments plans without mobile monthly AZN 200.

How does M&C recognize revenue from this plan in accordance with IAS 18 and IFRS 15?

Let's look at these two things.

Revenue on IAS 18

The current rules of IAS 18 state that the M&C will apply the recognition criteria to separately identifiable components of a single transaction (where: telephone + monthly plan).

Nevertheless, IAS 18 does not provide guidance on how to identify these components and how to distribute the selling price, and there are various practices that ultimately apply.

For example, telecom companies earned full profit from the sale of monthly plans and no revenue for phone –they recognize cost of the phone as the cost of acquiring customer. Some companies have described these components, but then restricted the sales of the phone to the amount (in this case zero) from the customer. This is a definite form of residual method (based on US GAAP's remittance method).

For simplicity, let's accept that the M&C phone did not generate any revenue, because M&C gives it free. Costs of the phone are recognized as profit or loss and are effectively recognized by M&C as the cost of acquiring a new customer.

Monthly revenues are recognized on a monthly basis. In the journal will be debit of receivable or cash and credit of revenue money at 250 AZN.

Revenue on IAS 15

Under new rules in IFRS 15, the M&C must first define a contract (Step 1), with E&C having a clear 12-month plan.

M&C must identify all of E&SH's obligations under the contract (step 2 step 5):

1. The obligation to deliver the phone

2. Obligation to deliver network services within 1 year

The transaction price (step 3) is AZN 1 3000, monthly payment is 250 AZN 12 months.

Now the E&SH must allocate 1,3000 AZN per transaction based on
The transaction price (step 3***)*** (or their estimates) to individual contractual obligations - this is fourTH steps.

Here's a really simplified for you, so let's do the following table:

Performance obligation	Stand-alone selling price	% on total	Revenue (=relative selling price = 1 200*%)
Phone	750	23.8	714
Network services	2400	76.2	2286
Total	3150	100	3000

Step 5 is to recognize revenues when the ABC fulfills its performance obligations. So:

a. M&C should recognize revenue of 714 AZN while giving a call to E&SH;

b. M&C should recognize the total revenue of 2286 AZN while providing E&SH with network services. It's practical to do this once a month for billing to occur.

Magazine entries are listed in the following table:

Description	Amount	Debit	Credit	When
Network services	714	FB-Unbilled revenue	P/L- Revenue from sale of goods	When mobile phone is given to E&SH
Network services	250 monthly billing to E&SH	FB-Receivable to E&SH		When network services are provided; on a monthly basis according to contract with E&SH
Network services	190.5 (2285/12)		P/L- Revenue from network services	When network services are provided; on a monthly basis according to contract with E&SH
Network services	59.5 (715/12)		FB-Unbilled revenue	When network services are

				provided; on a monthly basis according to contract with E&SH

What are the effects of IFRS 15?

The greatest impact of the new standard will be to differentiate profits of firms and profit reporting patterns will change.

In our telecommunications example, M&C has reported firm's initial loss and then fixed profits in accordance with IAS 18, because the revenue was accounted for in the billing direction for the client. In IFRS 15, the benefits reported by ABC are generally same, but their example is different from time to time.

Why is it important?

Yes, some contracts are better than one reporting period. Long-term reporting and incorrect reporting periods may result in incorrect tax, miscellaneous reporting for the stock market, and more. So, Just look at M&C. Undoubtedly, the contract began on July 1, 20X1 and the end of the M&C financial year is December 20X1. Only in 20X1, consider whether the M&C benefits from the same contract with E&SH under IAS 18 and IFRS 15:

Performance obligation	In IFRS 18	In IFRS 15
Mobile	0	714
Network services	1500	1143
Total	1500	1857

4.2. Manufacturers

There are a wide range of products that can be produced and manufacturers can enter into contracts. If you produce similar products in large quantities, it is typically described as being typically not very specific, but you can still be impressed by IFRS 15 - just see the example below. However, in general, some equipment or manufacturers with a long production period of manufacturers may suffer acutely.

Things to watch out for:

a. Should we recognize revenue over time or point of time? As time goes on, how will you measure progress towards progress?
b. How should you consider contract amendments, for example. to deliver additional goods?
c. Do you provide discounts after delivery? Volume reductions? Are the year-end bonuses earned by the customers according to the total volume ordered during the year? Then you will probably be affected by IFRS 15.
d. Should you divide your commitments to fulfill the contract? This is the case if you provide some warranty periods for your products - should the warranty be accounted for separately? Do you provide other services for your products?
e. Do you endure certain costs to get a contract like a bonus to your sales team? Maybe you should do them in big letters and not spend them like you did before.

To demonstrate the potential effect of IFRS 15, give an example of a change in the arrangement. In this case, we will look at the next order for the same goods as the same customer.

For example : Manufacturers and contract changes

E&SH company, a computer manufacturer, contracts with UNEC, sends 300 computers (AZN 5000 per computer) to the total cost of 1500,000 AZN. In order to the necessary preparing work, UNEC accepts that it will provide a computer within three months of delivery (100 computers per delivery). UNEC monitors delivery of computers. After the first delivery, UNEC and E&SH changes contract. E&SH will provide 200 additional computers (total 500).

How E&SH account should be for the revenue from this contract for the year ended 31 December 2018:

Case 1: The price of an additional 200 computers has been agreed on 970,000 AZN and amounts to 4850 AZN per computer. E&SH Company provided a 3% discount for additional delivery that reflects the normal amount of discounts shown in similar contracts with other customers.

Case 2: The price for an additional 200 computers has been agreed at 700,000 AZN and is 3500 AZN per computer. E&SH hopes for further cooperation with UNEC because it provides a 30% discount for additional delivery.

From December 31, 2018, E&SH company despatched 400 computers (300 computers is previously agreed and 100 under the contract amendment).

Revenue in previous rules (IAS 18)

Well, there's not much to say here. By definition of income in accordance with IAS 18, the revenue of delivery is simply recognized at the fair value of the consideration received for the computers

Revenue under previous rules (IAS 18)

Well, here, nothing much to say. By definition of revenue in line with IAS 18, the revenue for the delivery is simply accounted at the time of delivery, in the fair value of consideration received for the computers – Whatever under two scenarios.

It is not required by IAS 18 to verify that this additional delivery does not reflect stand-alone selling prices. Also, if we do not complicate issues such as "commercial substance", "transfer prices", "breeding prices" - this is simply an example.

31 December 2018 december for the year ended:

Case 1: AZN 1 500 000 (the first 300 computers) + AZN 485 000 (additional 100 computers delivered) = AZN 1985 000 (for all 400 computers already despatched).

Case 2: AZN 1 500 000 (the first 300 computers) + AZN 350 000 (additional 100 computers) = AZN 1 850 000 (for all 400 computers already despatched)

It is not the same in IFRS 15 with IAS 18

Revenue in IFRS 15

Here, the supplementary contract represents the typical contractual change as the amount of computers changes and the total transaction price varies.

IFRS 15 specifies how the contract amendments are to be accounted for in accordance with the terms of the amendment. There are 2 basic types of contractual changes:

IFRS 15 Contract modifications

Contract modification is a separate agreement

Changing the contract is for a separate agreement (remains the same as the original contract) when two criteria are met:

a. Additional goods and services in the modification must differ from the goods and services in the original contract. Because the additional computers are quite different from the original computers, this is guaranteed in both scenarios
b. The amount required for additional goods / services should reflect the independent sales price of these products / services.

Contract moodification is not a separate agreement

If the above-mentioned criteria are not met (or if one of them is not fulfilled), the change of the contract is not a separate contract and is related to further accounting. Let's look at our situation. As far as the additional goods is different, the key question will whether to reflect the stand alone price of an additional assessment.

Case 1: 3% discount agreed with additional delivery

E&SH company typically offers a 3% discount, because the price for additional computers actually reflects direct sales prices.

Therefore, the change of this agreement is calculated as a separate contract and the income for 20X1 (400 pieces of computer) is as follows:

1 500,000 AZN from the original contract for 300 computers;

485 000 AZN will be transferred to additional 100 computers.

Therefore, the revenue 20X1 is AZN 1 985000 - exactly in accordance with IAS 18.

Case 2: 30% discount with additional delivery

It is clear that the price for additional computers does not reflect direct sales prices because it is subject to a general contract with UNEC, excluding a 30% discount.

That is, the second criterion is not met. As a result, changing the contract is not a separate agreement, but is bundled by the original contract. We must cancel the original contract and start up a new start. Because additional goods are distinct.

Under the original agreement, you only recognize the revenue delivering the contract before changing the contract.

For rest of goods from the original contract and additional goods, total revenues are recognized:

Consideration part of the original contract that has not yet been recognized as revenue (in other words, the price for the goods to be delivered yet); PLUS

Transferring will be agreed in the contract modification.

You must allocate this amount to individual performance obligations or, in this case, to individual computers.

In case 2, the change of the contract was given after the first delivery, so E&SH should recognize revenue for the first 100 computers in accordance with the first contract:

100 computers x AZN 5 000 per PC = 500 000 AZN

After the contract modification, total transaction price to allocate:

a. AZN 1 000 000 is amount of original consideration which is undelivered 200 computers. (100 units on contract, less 100 delivered, times 2,000 units per contract);
b. Additional 700,000 AZN is total consideration for additional 200 computers;

Total: 1 700 000 AZN

In total we need to allocate 1 700 000 AZN to 400 computers (200 not delivered before + 200 additional computers), which means that E&SH has allocated AZN 4250 to a computer (1700 000/400).

So, when 400 computers are delivered, what is the total revenue recognized in the 20X1? Calculate:

For 100 computers delivered prior to contract replacement: 500,000 AZN (5,000 AZN / PC)

For the 300 computers delivered after the change of contract: AZN 1 275 000 (4250 AZN / computer);

Total: AZN 1 775 000.

Here's the second scenario (30% discount):

According to IAS 18, the income for 20X1 is AZN 1 850 000.

There are more than 100 computers in the future to be recognized at 3500 = 350,000 AZN; on the contract, gives us AZN 2 200 000 in revenue.

In IFRS 15, income for 20X1 is AZN 1 775 000.

The expected revenue for the future will amount to 100 computers at the AZN 4250 = 425 000 AZN; gives us a total AZN 22 000 000 per contract.

4.3. Real Estate – Property Developers and Construction Companies

Property developers and construction companies are typical for their contracts with customers of a long-term nature.

The biggest problem is to decide whether the company must recognize revenue over time (individual annual construction period) or at point of time (one-time a contract is over). IFRS 15 describes the three situations in which the entity expects revenue from time to time: When to recognize revenue?

a. The customer accepts / consume the same thing as the entity does
b. The entity generate/enhances customer monitor and an asset over this process
c. The entity does not have an alternative use for business +. The operator has the right to pay for performance until now.

If yes, Revenue is recognized over time(based on progress). If no, Revenue is recognized at the point of time(when control is transferred)

Especially for property developers and construction companies, a situation is very important:

If the entity's performance does not create an asset that has an alternative use for the entity and the entity has a payable right for performance that has been completed to date, then the revenue is recognized over time.

For instance, when a company builds or develops such a private entity, it can be very expensive or can not be transferred to another customer (for example, a building with a highly customized specification). At the same time, the client is obliged to pay reasonable amount for completed work up to now.

Alternatively, "alternative use" can not be achieved by contract, ie contractual asset directs to another customer.

In real estate entity it is important to assess whether the property developer has the right to pay for completed performance to date.

This is not the only criterion for decision-making, but it prevails over real estate.

If a specific contract does not meet this criterion (and the other two), revenue is recognized for the purpose of revenue; ie, when an assets is depatched to customer.

There are slight change in the provision of specific contract may cause

Only slight change in the provisions of the specific contract may cause the need yo account for revenue at the point of time rather than over time or vice versa.

Let’s a look at the example that shows exactly this point.

Example: Property developer and income over time/ point in time

E&SH Construct, property developer, is building a residential complex consisting of 50 apartments. The apartments have similar proportions and proportions, but can be customized according to the needs of the customers.

E&SH Construct enters two contracts with two different clients (x and y). Both customers want to buy almost the same apartment and agree to the total price of 250,000 AZN. Schedule of Payment is as follows:

Upon signing a contract, customers pay deposit of AZN 25 000 each.

Milestone: One year prior planned completion, E&SH Construct will deliver 50,000 each and Clients need to pay 125 000 AZN

Completion: Upon completion of the construction, the legal ownership of the apartments remain 100 000 AZN

Contracts with X and Y customers are not the same. Additional contract terms indicate:

Contractor A has no other special terms.

The contract with customer Y indicates that E&SH Construct's apartments can not be transferred to another customer or can not be diverted, and Y's customer can not cancel the contract.

E&SH Construct has a contractual right to pre-negotiate a contractual obligation before the contract is completed (in other words, if there are no payments under the table), and E&SH Construct decides to complete the contract.

What's the difference?- In the case of the customer X, the revenue will be recognized at the point of time and revenue from agreements Y upon time.

Why?-We must evaluate three criteria for revenue recognition over time. As mentioned above, we will not be opposed to the first 2 (eg, not met), but pay attention to the third criterion (can not be used for alternative use and payment).

Revenue from agreements with client X –point of time

The contract with customer X does NOT meet the 3rd criterion.

E&SH Construct, by default, sets up an apartment that it can easily be sold or transferred to another customer. Even in cases where this can be avoided (especially in writing on the contract), E&SH Construct has no right to pay for performance so far.RE Construct will only continue to make progress payments in the default status of the customer and can not cover the cost of the business for the completed business. Consequently, the RE Construct comes from the point of view of revenue - for example, the apartment is transmitted to A client (after the end of Year 2).

Revenue from contracting with customer Y - within time

Contract with customer Y fulfills the third criterion.

The reason for this is that the RE Construct does not allow the asset to be prepared for alternative use because the contract with B does not allow the transfer of the apartment to another customer.

In addition, E&SH Construct has the right to pay for up to date completed performance. For this reason, E&SH Construct is the definition of revenue over time - that is, a 2-year apartment building based on some output or input methods. To simplify this, we can say that one year ago E&SH Construct met 45% of the total cost of building an apartment and 55% in the second year of construction.

As consequently, E&SH Construction recognizes an income:

1st year: 112 500 AZN (45% from 250 000 AZN),

1nd year: 137 500 AZN (55% from 250,000 AZN),

This example shows how the change in contract terms can affect the company's revenue.

Under IFRS 15, comparison of contract X and contract Y income profiles for are included in the following table:

When	Revenue for contract X	Revenue for contract Y
1st year	0	112 500
2nd year	250 000	137 500
3rd year	250 000	250 000

Why is it important?- Timing of incomes matters in order to your Income schedule, tax payments, dividends, financial ratios, etc. It should also be noted that, based on IAS 11, you will not count on contractual arrangements (see B) and IFRS 15.

4.4. Technology and Software development

The technology industry is renowned for its diversity of activities and long term contracts, especially for companies that sell software development, software licenses and offer a variety of related services.

The major difficulties for this reason:

a. Determining individual performance obligations (eg license sales + personalization + post-delivery support) and allocating transaction costs
b. Evaluation of the progress to fulfill the contract
c. Evaluation of licenses for software sold by software vendors or programmers.

IFRS 15 recognizes 2 types of licenses: a license to use and an access license. The accounting treatment is differ for each and you need to be able to determine which license is the subject.For each industry, there are other challenges in common areas: how to deal with contract changes, how to calculate contract costs (eg commissions for obtaining a customer), etc.

Let's look at an example what the software company has to deal with the contractual partition and performance obligations separately.

Example: Splitting software development and contract into two separate obligations

E&SH is a software company that signed a contract with a customer UNEC on July 1, 20X1. According to the contract, E&SH are obligatory:

A. Supply professional services that include the implementation, adaptation and testing of the software. Customer UNEC has received a third-party software license.
B. Suppy post-implementation support f0r one after cust0mized software are transferred.

The total price OF contract is AZN 137 500.

E&SH evaluated the total cost of the contract as follows:

Developers and consultants costs for the application and testing of existing software: 107 500 AZN;

Consultants Cost of post-advisory support: AZN 5,000;

The total cost of the contract is approximately AZN 112 500.

From 31 December 2018, E&SH has paid the following costs to fulfill the contract:

Costs for developers and consultants to develop, application and test customized modules: AZN 32 500.

How should E&SH consider the income from this contract under IAS 18 and IFRS 15?

Revenue earlier rules (IAS 18)

Here, E&SH expressly supply professional services and related income falls in IAS 18. IAS 18 requires revenue from similar services using the completion phase, including after-delivery services. This means that E&SH treats software development and after-sales services as a major service for revenue recognition purposes.

Assume that E&SH calculates the completion stage depending on the costs incurred in fulfilling the contract.

At the end of 2018 the total cost was AZN 28 125 and 25% of the total cost was AZN 112 500.

For this reason, in accordance with IAS 18, E&SH income from this contract in 20X1 is 25% (completion stage) x AZN 137 500 (total contractual price) = AZN 34 375.

Is it the same as IFRS 15?

For this reason, in accordance with IAS 18, E&SH income from this contract in 20X1 is 25% (completion stage) x AZN 137 500 (total contractual price) = AZN 34 375.

Is it the same as IFRS 15?

Comes in accordance with the new rules (IFRS 15)

IFRS 15 provides a very precise and detailed guidance as to whether the goods or services promised within the contract are different and whether they will be treated as separate performance obligations.

However, note that software customization services and post-delivery support meet the definition of different performance commitments and ultimately treat them separately.

How? We should treat them as separate components and we have to allocate the total transaction price of AZN 137 500 based on their relative independent selling prices (stand-alone selling prices).

Note: the contract price is not importantly the same as the transaction price, but now it does not complicate. Regardless of whether it is a "bundle", many ready-made licenses, or customized software, let's assume that the normal price for the support services of E&SH is 10% of the package price.

This means that the relative split between the personalization service and the post delivery service means that it's 100: 10:

AZN 125 000 for software development or personalization services (AZN 137 500 / (100 + 10) * 100)

Post-delivery support for AZN 12 500 (12 500 / (100 + 10) * 10).

Again, this is just one example, and a number of different approaches can better suit your own situation.

In 20X1, E&SH evaluates performance progress towards completing a performance commitment separately based on receipts (input-in this case, expense) for contract performance.

Internal cost estimations show that E&SH estimated total cost for the contract of AZN 112 500, thereof AZN 107 500 for the salaries of software developers and AZN 5 000 for the salaries of consultants providing post-delivery support (based on man-days).

Let's measure the progress towards the completion of both individual performance obligations as of 31 December 2018:

From the 31st of December 2018, we will look at progress towards completing individual performance commitments:

Software development services: AZN 32 500 (estimated expenditure) / AZN 112 500 (total estimated cost) = 30%

Post-delivery services: AZN 0 (deductible expense) / AZN 5 000 (total estimated cost) = 0%

As a consequently, revenue from this contract in 2018 is:

Software development services: 30% (development%) * AZN 125 000 (revenue for program development) = 37 500 AZN;

Post-delivery services: 0% (progress%) * 12 500 AZN (post-delivery service) = AZN 0.

Total revenue in IFRS 15: AZN 37 500.

For simplicity, we can keep on the following table calculations:

Performance obligation	Estimated total cost	Incurred cost to 31 december	Progress %C=B/A	Allocated transaction	Revenue recognition

	A	20x1 B		cost D	in 2018 D*C
Professional services	112 500	32 500	30	125 000	37 500
Post delivery supply	5 00	0	0	12 500	
Total	112 500	32 500	N/A	137 500	37 500

As well as other companies that implement long-term contracts at the same time, this is just one way how the new IFRS 15 could affect software developers.

Additionally, customized calculations will depend heavily on how your own contracts and your own calculations, systems, and estimates work. There is no solution for everyone.

5. Conclusion

My research is aimed at testing how the difficulties theoretically determined for companies in certain entities correspond to the difficulties faced by these institutions in practice.

The main management of IFRS 15 is that the entity recognizes revenue to recognize the transfer of agreed goods or services to its customers, given that fact that businesses are expected to change in exchange for such goods or services. This basic guide is sent in the five-step rule of the model:

Firstly Determining contract (s) with the customer, then Determining performance performance obligations and Set transaction price, after these three steps we Allocate the transaction price to the performance obligation in the transaction and Recognize their income when (or together) they fulfill a performance obligation.

The Guide to Recognition of Expenditures is the main element of the accrual accounting system, which takes into account what revenues are recognized in the offset, as well as the costs when using them. If an enterprise instead of recognizing expenses, when it pays suppliers, this is defined as the monetary basis of accounting. Obtention costs-These costs will be recognized as a qualifying asset, for which capitalized is expectation and increase under the contract is expected. Additional costs correspond to the costs associated with obtaining the contract as a sales commission. **Fulfillment costs-**Assuming that the costs of implementation are not subject to other standards, it is considered that the asset will be accounted for to the extent that it meets all of the following conditions: Once, There is a direct relationship between costs and an existing or predictable, specifically identifiable contract. Secondly, given these costs, resources are produced or increased. In addition, organizations will use these resources to fulfill their future implementation obligations. Thirldy, Organizations are waiting for the recovery of these costs.

Also IFRS 15 require any disclosures:

The goal explained in IFRS 15 is the disclosure of sufficient information to enable users of financial statements to understand the nature, quantity, timing and uncertainty of income and cash flows arising from contracts concluded with customers. For this reason, the organization should disclose qualitative and quantitative information about all the following cases: Firstly Customer contracts, then significant judgments and changes in judgments made when applying the rule to these contracts, at last any assets recognized for the costs of obtaining or executing a contract with the client.

There are two different ways: accounting transactions based on cash and accruals used to register accounting transactions. The main difference between the two methods is the transaction recording time. When collecting over time, the results of both methods are almost identical. A brief description of each method is as follows: First method is Cash based. This method objective is that Revenue is accounted when cash is got from customers, and costs are accounted when cash payments are made to sellers and employees. Second method is accrual principal. Objective of this method that Revenue is accounted when it is earned and costs are

IFRS 15, "Contracts for customers" has become an excellent change for the company and has created a very complex problem. After reviewing the theoretical part of IFRS 15, I reviewed with the financial managers or auditors and examined the IFRS 15 application in various business lines. I also wrote this article to give you some examples of IFRS 15 and its instructions. I wonder which industry is the most affected. The impact of new rules on revenue recognition for some companies will be minimal and income will continue to be recognized in the same way as before. However, some companies may encounter difficulties in implementing the new rules. The main challenges often relate to areas that are not specifically defined in accordance with IAS 18 and other relevant standards. Unlike the previous guidance, IFRS 15 allocates less funding for the adoption of accounting decisions and additional information.

There are some effect new IFRS 15, So, the biggest impact of the new standard will be to differentiate profits of firms and change models of profit reporting. In our telecommunications example, M & C reported the company's initial loss and then a steady profit according to IAS 18; because revenue was accounted for based on the customer's billing. In IFRS 15, the benefits reported by ABC are generally the same, but examples vary from time to time.

To update revenue recognition is important, so some contracts are better than a reporting period. Long-term reporting and misreporting periods can result in incorrect tax, various reporting for the stock exchange, and more. I mean, just look at the M & C. Undoubtedly, the contract began on 1 July 20X1 and the end of the M & C fiscal year was 20X1. Just in 20X1, consider whether M & C benefits from the same contract with E & SH within IAS 18 and IFRS 15.

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