ONE OF THE KEY ITEMS OF THE FINANCIAL STATEMENTS- REVENUE ADJUSTMANT

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Abstract:
Revenue is an income arising in the course of entity's ordinary activities. Revenue, together with income, is an indicator estimating the financial performance and financial position of an entity and is important in this regard for the users of financial statements. IFRS 15, as the standard regulating recognition, measurement and presentation of revenue, establishes the principles which ensure preparation of the information based on the economic content of contracts with customers, the terms of recognition and the credibility of the revenues. From the existing principles of income recognition, the standard has ignored inconsistencies and weaknesses and has provided recognition of the income with a more reasonable structure. The standard provides the five-step model framework of recognition of the revenue which specifies the main actions to be implemented by an entity for the purpose of simplification of the financial reporting preparation procedures and improvement of the economic content of the information. The regulations of this standard will contribute to delivery of useful information to its users.

Keywords: Revenue; Contractual asset; Contractual obligation; Price of deal; receivable and creditors' debt ; Method;

JEL Classification: M4

I. INTRODUCTION

For the purpose of improving the recognition, valuation, accounting and financial reporting of returns, IASB and FASB has been developed the international financial reporting standard (IFRS) 15 ,, Revenue from Contracts with Customers ’’. It is a joint standard for IFRS and US GAAP. This was due to the fact that the pre-existing rule of accounting often failed to provide effective and detailed recommendations in areas where practice was required. However, US GAAP and IFRS accounting regulations contradict each other, which poses serious obstacles to the approximation of these systems. The approaches developed in the new model of payoff recognition are far more comprehensive and universal than the existing ones. The idea embodied in it involves recognizing the amount of money an enterprise receives in exchange for goods and services delivered to consumers.

IFRS 15 replaced two applicable standards and their three interpretations.

Specifically: Standards - Remuneration (IAS 18) and Construction Contracts (IAS 11) and Interpretations - Real Estate Construction Contracts (IFRIC 15); Acquiring Assets from the Customer (IFRIC 18) and Revenue from Barter Transactions Including Advertising Services (SIC 31). An enterprise must apply IFRS 15 in respect of all contracts with customers, except for leases, insurance, financial instrument transactions, and non-cash exchange transactions between enterprises in the same industry.(Sreseli 2019, pp.95)

II. RESEARCH METHODOLOGY

IFRS 15 - Requires more transparency of revenue information and its use for financial information users.

For this standard, enterprises should use a five-stage income recognition model:(IFRS 15. Revenue from Contracts with Customers. 2019 pp.1-2)

1) Identify the contract with the customer.
   IFRS 15 defines a contract as an agreement between two or more sides.
2) To determine the costs (obligations) it is required to indetify the contract.
3) Determine the transaction price. Transaction price is the specified amount, that the entity is entitled to receive in the event of the supply or delivery of goods to a customer of the enterprise in which the third side does not participate.
4) Distribution of the transaction price on the fulfillment of the obligations under the contract.
5) Recognition of income when (or as soon as) the enterprise fulfills its transaction obligation.

For the purpose of recognition of the gain, the standard established the criteria for “separation” as separate obligations under the contract.The obligation to fulfill is the promise of delivering specific goods or services to the customer. That is, the specific obligations under the contract are a source of revenue.

There fore, the enterprise should immediately identify each commitment (promise) to the customer at the time of the transaction or contract, and at the same time evaluate:

difference of goods or services (or their packages) to be delivered to the customer; Or a series of difference goods or services that are basically the same and are delivered to users in the same scheme.

International financial reporting standard (IFRS) 15 (",,Revenue from Contracts with Customers "). The content of the contract includes: the extract recognization and evaluating. Contract as an agreement between two or more side, this contract creates legal rights and obligations, so it must be writing or verbally. IFRS 15 sets out the rules for accounting for individual contracts with the customer and it is expected that the consideration will be paid to the enterprise for the goods / services supplied. Only individual customer agreements contracts is allowed, which satisfy the criteria set by the standards:(IFRS 15. Revenue from Contracts with Customers. 2019 pp 5-12)

1) The contract is signed and the sides will fulfill the contractual terms;
2) It is possible to identify the rights and payment terms of the sides;
3) The contract has commercial content;

However, the standard may also apply to a portfolio of contracts of similar characteristics if at least one of the following criteria is satisfied:

Contracts are negotiated as a single commercial purpose package;

One agreement’s remuneration for the performance of one contract depends on the price or performance of the other contract;

Also IFRS 15 provides notions of contractual asset and contractual obligations. Both a contractual asset and a contractual obligation are analogues of accounts receivable and creditors' debt, but unlike the fact that accounts and credit receivable are unconditional payment claims and there is no unconditional right to demand payment in a contractual asset and a contractual obligation.

Practical part: A car dealer buys cars from a manufacturer. Under the contract, if the dealer sells 200 cars within three months for $ 20,000 each, the manufacturer will give the company a 5% discount. The contract was concluded on the december first. At the time of forming the annual report, the manufacturer assesses the probability of applying the discount based on reasonable judgment. It is reasonable to assume that if 150 trucks were purchased in december, the probability of purchasing 50 vehicles in the next 2 months is significantly higher and the consumer is likely to benefit from the enterprise offer.

Accordingly, the expected discount rate should be taken into account in the income statement for the current period and the annualized statement of profit or loss should be accounted for by discounting 5% of the transaction price, so, in december the amount of $ 2 850,000 [3,000,000 (20,000 * 150) - 150,000 (20,000 * 150) * 5%] should be recognized as an extracts, the expected discount of $ 150,000 ($ 20,000 * 150) * 5%],(Sreseli. 2019 pp.101) that the enterprise will have to repay to customers is recorded as a contractual obligation and will be performed as following accounting:

Debit-1410 (delivery requirements) - 3,000,000
Credit-6110 (extracts from the sales) -2 850,000
Credit-3112 (contractual obligation) -150,000

III. RESEARCH RESULTS

The terms and conditions for the performance of a specific price transaction obligations at IFRS 15 are different. The standard transaction price should be allocated to each of the obligations identified in the contract and should be focused on the price of each item or service sold separately. If such prices do not exist, the standard permits them to be evaluated. Thus, the distribution of the total transaction price is fair in proportion to the sale price by separating the obligations to be executed. A company manufactures and sells machinery at a price of $ 90,000. Also provides their installation services. The sale price of the service is $ 8,000. The cost of simultaneous delivery of the machine and service is $ 95,000. At the same time, the transaction price of $ 95,000 should be distributed proportionally on the basis of the sale prices separately. As the result, the cost of delivery is $ 87,245 (90,000 / 98,000 * 95,000) and the price of the service is $ 7,755.(Sreseli. 2019 pp.102)

Accordingly, the extracts will be recognized in the performance of the obligation in the contract it must be specified, how the enterprise intends to perform the obligation:

1) for some exact time;
2) over time (over a period).

If an enterprise fails to fulfill its obligations over first period of time, it is considered that it will fulfill its obligation for other period of time. Which means the exact moment has come,when:

1) the constumer has the right to control the asset and

2) the obligations to be performed are covered by the enterprise.

Accordingly, the proceeds will be recognized at a given point in time if the enterprise's obligation is done and control over the promised asset is transferred to the customer. The quality of the performance of the obligation to be fulfilled over time and the recognition of the benefit are recognized by the following methods: „outputmethod“ or„inputmethod“. (Kvatashidze and Gogrichiani 2016 pp 295.)

Here are some important methods of results that consist of:

1) Evaluation of completed works by this date
2) Evaluation of important completed stages;

At the valuation stage, that is, in the process of determining the transaction price, together with the terms of the agreements and the practical side of the business, the enterprise should consider:

- Variable pay
- The existence of an important component of financing in the contract;

Depending on the valuation, the contract may have both fixed and variable prices (discounts, incentives, bonuses, penalties) prices, or both, fixed and variable prices together. Thus, in order to determine the transaction price, the enterprise must take into account the contract price in terms of discount.

But, how to use the discount offered to the customer by the enterprise when it is not yet known how much the customer will fulfill the discount conditions.To account for these circumstances, the standard describes the methods of assessment of remuneration.(Kvatashidze and Gogrichiani 2016 pp 296.)

- Expected amount method and
- The most expected amount method.

What is the expected amount? The expected amount is the sum of possible remuneration. And its reliability can be measured when the enterprise has many contracts.

And what is the most expected amount? It is the largest amount of expected pay.

It can be evaluated when the contract has two results. The enterprise may receive a bonus, or it might not.

IV. CONCLUSIONS

IFRS 15 has made significant adjustments to the recognition principles and has specified that:

1) Extracts must be recognized for control of the asset at the time of transfer and recognized at the amount of the sum that is expected to receive in exchange for the transfer of goods and services;

2) The principles set out in IFRS 15 „ Revenue from Contracts with Customers’’ and their application in practice provide for disclosure in the financial;

3) The Standard clarifies that recognition of a gain in respect of a obligation over time is permissible where a reasonable assessment of the degree of fulfillment of the obligation is possible. However, if the enterprise fails to do so, the enterprise must be recognized by the cost and maintain this approach until it is providen a reasonable estimate of the quality of the obligations to be performed.

4) Although, the introduction of IFRS 15 is a complex and time-consuming process, as the financial experts say, this standard will make significant changes in all areas. It is also worth noting, that this is the most effective way of standardizing the financial process that ensures transparent, comparable, consistent and efficient processes in the enterprise.

Acknowledgment

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