

What Is Revenue Recognition Under IFRS 15?

Worksheet

Under IFRS 15, revenue is recognized when (or as) a company transfers control of promised goods or services to a customer, in an amount that reflects the consideration the company expects to be entitled to, following a five-step model.

Questions

1. A bundle includes Item A (standalone \$60,000) and Item B (standalone \$20,000), sold together for \$80,000. How much is allocated to Item A?

- A) \$60,000
- B) \$20,000
- C) \$40,000
- D) \$80,000

2. Revenue is recognized 'over time' when:

- A) The customer pays in installments
- B) The customer simultaneously receives and consumes the benefits as the seller performs
- C) The contract is signed
- D) The seller has already built the goods, unrelated to control transfer

3. What is the first step of the IFRS 15 model?

- A) Recognize revenue
- B) Allocate the transaction price
- C) Identify the contract with a customer
- D) Determine the transaction price

4. A retailer expects 5% of \$1,000 in sales to be returned. What revenue is recognized?

- A) \$1,000
- B) \$950
- C) \$50
- D) \$1,050

5. A software company sells a bundle of a license (\$80,000 standalone) and one year of support (\$40,000 standalone) for a total price of \$120,000. Allocate the price to each obligation.

6. A construction company has a \$2,000,000 contract to build a custom warehouse, transferring control over time as work progresses. At year-end, 40% of the work is complete. How much revenue should be recognized?

7. A retailer sells a product for \$1,000 with a right of return. Based on history, 5% of similar sales are returned. How much revenue should be recognized at the point of sale?

8. Define: What are the five steps of IFRS 15?

9. Define: When is revenue recognized over time vs. at a point in time?

10. Define: How is the transaction price allocated across obligations?

Answer Key

1. A) $\$60,000 - \$80,000 (\$60,000/\$80,000) = \$60,000$.
2. B) The customer simultaneously receives and consumes the benefits as the seller performs - Over-time recognition applies when the customer consumes benefits as the seller performs, among other criteria.
3. C) Identify the contract with a customer - The model begins by identifying the contract.
4. B) $\$950 - \$1,000 (\$1,000 5\%) = \950 , with the \$50 recorded as a refund liability.
5. Total standalone = $\$80,000 + \$40,000 = \$120,000$ License allocation = $\$120,000 (\$80,000/\$120,000) = \$80,000$ Support allocation = $\$120,000 (\$40,000/\$120,000) = \$40,000$
6. Revenue recognized = $\$2,000,000 40\% = \$800,000$ (over-time recognition based on percentage of completion)
7. Expected returns = $\$1,000 5\% = \50 Revenue recognized = $\$1,000 - \$50 = \$950$ (a \$50 refund liability is also recorded)
8. 1) Identify the contract, 2) Identify performance obligations, 3) Determine the transaction price, 4) Allocate the price, 5) Recognize revenue.
9. Over time if the customer simultaneously receives and consumes benefits (or the asset has no alternative use and the seller has a right to payment); otherwise, at the point control transfers.
10. In proportion to each obligation's standalone selling price.

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