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INTERPRETATIONS OF IFRS 15 "REVENUE FROM CONTRACTS WITH CUSTOMERS"

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Abstract: The reporting of revenue generated by organizations involves two key issues: when to recognize revenue from sales and how to measure it. The presentation of revenue by an organization in the published financial statements plays a decisive role in the decision-making of external users of accounting information, and in this regard, IFRS 15 "Revenue from Contracts with Customers" has been implemented, the purpose of which is to establish principles that an organization should apply to provide users of financial statements with useful information about revenue and the description, timing and uncertainties of the cash flows arising from contracts with customers. Therefore, the interpretations of IFRS 15 are important from the perspective of practical applicability.

Keywords: revenue recognition, financial reporting, IFRS 15, sales contracts, decision-making.

JEL code: M41

Research aims: to present the principles of revenue recognition by organizations in accordance with the requirements of international financial reporting standards.

Research novelty: are proposed practical ways of recognizing and measuring revenue from contracts with customers, according to the requirements of IFRS 15.

Introduction

The issues of revenue recognition and measurement are still a subject of discussion in the professional literature. External users of financial information must be confident, that the presentation of revenue from the sale of goods (products) or the provision of services, in published accounting reports is reliable (Usurelu et al., 2021). The reliability of this indicator depends on the adoption of correct investment decisions, the diagnosis of the financial situation of the organization, and the assessment of competitive positions in the market (Tshughuryan et al., 2026).

Although the IFRS 15, which currently has been put into effect and offers its regulations in the field of revenue recognition and measurement, nevertheless, some problems still await their practical solutions, such as the identification of contracts with buyers, contract modifications, assessments of contract performance progress, and the acknowledgment of contract generation costs as assets (Onie et al., 2022). Research in these areas becomes even more important, when it moves from a theoretical nature to presentations with practical results.

Research results

The application of IFRS 15 is carried out in a certain step-by-step manner (see Figure 1.).

According to IFRS 15, an entity shall recognize a contract with a customer, only if all of the following criteria are met:

a) the parties are committed to performing their contractual obligations,

b) the entity can determine the rights of each party to the goods or services to be transferred,

c) the entity can determine the terms of payment for the goods or services to be exchanged,

d) the contract is commercial in nature, that is, it may give rise to risky consequences in terms of the amount and timing of future cash flows,

e) it is probable that the entity will receive the consideration agreed upon with the customer (Bubnovskaya et al., 2022).

Revenue recognition

The most important issue in recognizing revenue is determining the timing and amount of its identification. Revenue is recognized when it is probable, that future economic benefits will flow to the entity and those benefits can be measured reliably (Jieri, 2023). According to IFRS 15, an entity should recognize revenue, when it satisfies a performance obligation under a contract by transferring the promised good or service to the buyer. An asset is considered transferred when the buyer obtains control over it.

Thus, on September 15, 2026, the "Electron" plant, having received a down payment in full for an order for the manufacture and installation of satellite antennas for value 10 million AMD, on October 1, supplied 25 antennas, each with a selling price of 400 thousand AMD, and an actual cost price of 250 AMD thousand, without sold satellite antennas operating adjustments.

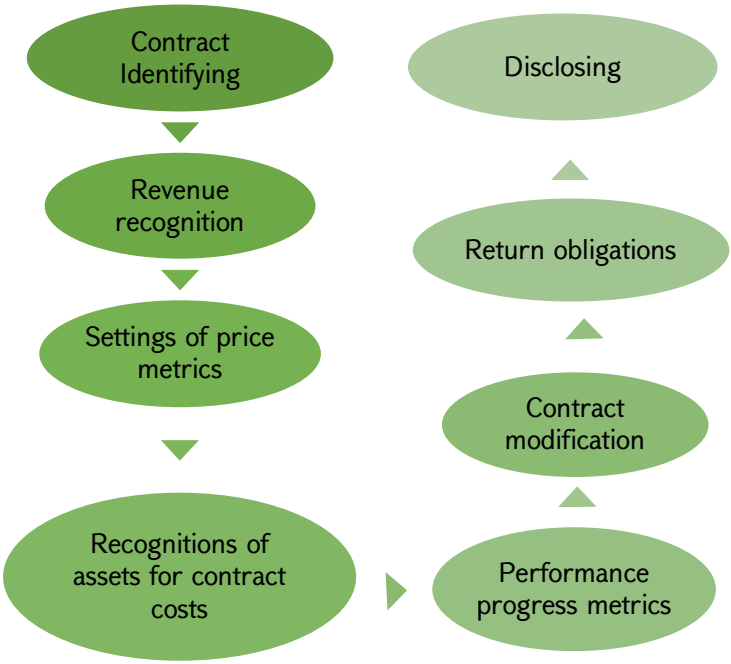


Figure 1. Disclosing steps required by IFRS 15 Identification of a contract

Source: *Author's own work.*

On December 1, the factory installed 15 antennas, and the next 10 were installed on December 31. Finally, the 25 antennas entered by the buyer received operational adjustments from the "Electron" factory on January 25 of the following year.

In relation to the antennas delivered processing to the buyer by the "Electron" factory:

- ✓ on September 15, revenue will not be recognized, since the risks associated with the ownership of the goods have not yet

been transferred to the buyer. For this reason, an accounting correspondence will be formed when the advance payment for the purchase is received.

Dr 252 *"Cash"….10 million (25x400 thousand)*

Cr 523 *"Prepayments received" ….10 million*

- ✓ On October 1, that is, at the time of delivery, the amount will not be recognized in financial accounting, since the purchasing organization does not provide the participation in the acquired management to the extent that arises from the right of ownership. Therefore, by not repaying the received prepayment, a receivable and deferred income will be formed instead.

Dr 221 *"Trade receivables……..10 million*

Cr 215 *"Production"6,250 million (250 thousand x 25)*

Cr 429 *"Deferred income"…3,750 (10 – 6, 250)*

- ✓ On December 31, despite the full installation of the antennas and the end of the financial year, the revenue will also not be recognized, since the company has not yet made any adjustments to the operation of the antennas at the buyer.
- ✓ Only on January 15 for the next year will the "Electron" company recognize the actual revenue with the following accounting correspondences:

Dr 523 *"Prepayments received"…….10*

Cr 221 *"Trade receivables……..10*

Dr 429 *"Deferred income"…….. 3,750*

Dr 711 *"Cost of goods sold"……. 6,250*

Cr 611 *"Revenue from sales of goods"……..10*

Only starting from January 15, 2027, the buyer obtains control over the acquired asset, which allows the supplier to recognize the sales revenue at that time.

Contract Modification

A contract modification is a change in the scope of contractual obligations or price, which is agreed upon by the parties to the contract (see Figure 1). The effect of the contract modification on the transaction price, as well as the scope of the performance obligation, is recognized as an adjustment to revenue (an increase or decrease in revenue) at the date of the contract modification (Boujelben & Kobbi-Fakhfakh, 2020).

Thus, Dry Cleaning CJSC has signed a one-year contract with Hotel LLC for the provision of linen washing services. By mutual agreement of the parties, each quarter, CJSC will supply the LLC with 5,000 kg of clean linen, at a price of 700 AMD per kilogram.

However, at the beginning of the second quarter, the contract was revised by mutual agreement, since Hotel LLC has introduced new requirements for the quality of linen cleanliness. In this case, using the latest technologies, the dry cleaning CJSC has set a new price for clean linen - 900 AMD and the provision of quarterly services by the end of the year has been set at 4,500 kg.

The transformation of the contract will have its impact on the revenue of the dry cleaning CJSC and adjustments to the

requirements of the IFRS 15 standard will be made from the moment of transformation:

I quarter	II quarter	III quarter	IV quarter
5000 x 700 = 3.5 million	4500 x 900 = 4.05 million	4500 x 900= 4.05 million	4,500 x 900= 4.05 million
15.65 million			

The annual revenue of the dry cleaning CJSC is 15.65 million AMD, which could be recorded at the end of the reporting period. However, starting from the second quarter, the formation of the contract account requires quarterly adjustments of 0.55 million drams in both time and amount. Thus, as a result of the contract transformation, the organization's financial ratios, the formation of tax liabilities, and financial results become more convincing.

Transaction price

When determining the transaction price, the organization should consider the terms of the contract in usual business practices. The transaction price is the amount of consideration that the organization expects to receive in exchange for transferring the promised goods or services to the buyer. The consideration promised in the contract with the buyer may include fixed or variable amounts, or both. The nature, timing, and amount of the consideration affect the formation of the transaction price (Grosu et al., 2022). The amount of compensation may change as a result of discounts, price reductions, payment term extensions, price concessions, performance bonuses, fines, or other items.

Thus, an organization makes a 10% discount in accordance with the contract concluded with the buyer if it sells an asset with a real value of 10 million AMD or more at the time of delivery. In this case, an accounting document is drawn up for the valuation and recording of revenue.

Dr 252 *"Cash"* ……*9*
Dr 613 *"Reduction in prices of products sold"….1*
Cr 611 *"Revenue from the sale of products"…….10*

whereby the price of the sales transaction is specified and presented at a reduced value.

Recognition of assets for contract costs

According to IFRS 15, an organization should recognize incremental costs of obtaining a contract with a customer as an asset if it expects to recover them. These are costs that the organization incurs in order to obtain a contract with a customer and that the organization would not otherwise have incurred if the contract had not been obtained (Kohler et al., 2021).

It is also important, that the costs relate directly to the contract and do not fall within the scope of other standards, such as "Inventories" IAS 2, "Property, Plant and Equipment" IAS 16, etc. IFRS 15 also sets out other criteria for recognizing costs as assets:

- ✓ contract costs create resources for the organization, that will be used to meet the contractual obligations in the future,
- ✓ it is expected that these costs will be recovered.

Thus, "Z" Agricultural LLC concluded a 3-year contract for agricultural services with a cooperative of horticultural farmers and paid a commission of 900,000 AMD to the sales agent, which would

not have arisen, if the contract had not been concluded. According to the interpretation of IFRS 15, this is an additional cost of obtaining the contract and should be capitalized as an asset, since it creates resources for the entity over a period of three years and has the possibility of being fully reimbursed during that period. In this case, the commission expenses for the execution of the contract will be capitalized using the following accounting correspondence:

Dr 154 *"Non-current assets for deferred expenses".....900 000*

Cr 252 *"Cash".....900 000*

And since the contractual duration of the agricultural service is three years, the annual amortization of capitalized expenses for the acquisition of the contract (900 000/3 years) will be formulated in the following accounting corresponddence:

Dr 712 *"Implementation expenses"..... 300 000*

Cr 155 *"Amortization of non-current assets for deferred expenses" 300 000*

As a result, after 3 years, at the end of the services provided, the assets recognized for the costs of concluding the contract will be repaid.

Measuring the progress of a performance obligation

For the fulfillment of a contractual obligation over time, an entity should recognize revenue by measuring the degree of progress of the obligation assumed, using a staged approach (Khachatryan et al., 2026).

Thus, a construction company has received an order from the municipality with a sales value of 20 million AMD for the

construction of a bridge. The construction will last four years and will be completed at a cost of 15 million AMD. By year, the municipality has made the following changes: year I - 3 million, year II - 5 million, year III - 4 million, year IV - 8 million drams and, accordingly, the builder has made the following expenses: year I - 6 million, year II - 1 million, year III - 3 million, year IV - 5 million AMD.

It is required to recognize the income from the construction organization's activities according to the "level of progress of the performance obligation" method and calculate the annual income tax liability at a rate of 20%.

According to the accrual principle, the actual monetary transfers made by the municipality to the builder cannot be considered as income from the construction contract, and will simply be considered as advance payments. In order to recognize the income from the construction by year, it is necessary to apply the construction performance method with the following calculations:

Revenue attributable to the unit cost stipulated by the construction contract =

contract revenue/contract cost = 20 : 15 = 1.33

The income of the construction organization for each year according to the level of progress of the estimated works.

Year I 1.33 x 6 = 8

Year II 1.33 x 1 = 1,330

Year III 1.33 x 3 = 4

Year IV 1.33 x 5 = 6,670

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Therefore, the calculation of the annual income and profit tax liability of the construction will be carried out not according to the actual annual cash inflows by the contractor, but based on the progress of the contractor in fulfilling the obligation assumed.

Years	Cash Flows	Income	Expenses	Income Tax
I	3	8	6	2 x 20% = 0, 400
II	5	1,330	1	0,330 x 20% = 0,066
III	4	4	3	1 x 20 % = 0,2
IV	8	6,670	5	1,670 x 20% = 0,334
	20	15	20	1

Returned Obligations

According to IFRS 15, an entity shall recognize a liability for returned when it receives consideration from a customer and expects to return some or all of that consideration to the customer. An entity shall include variable consideration in the transaction only to the extent that it is highly probable that the subsequent resolution of the uncertainty associated with the variable consideration will not result in a significant reversal of the cumulative revenue recognized (Marco et al., 2019).

Therefore, an entity shall consider both the probability and the magnitude of the reversal of revenue. This will enable it to apply the expected value method of variable consideration, according to which the expected value is the probability-weighted sum of the possible amounts of consideration. Moreover, the expected value may be an appropriate estimate of the amount of variable

consideration if the entity has a large number of contracts with similar characteristics (Napier & Stadler, 2020).

Thus, the "Electron" factory concluded several contracts for the sale of electrical equipment with buyers for the reporting period of 2026 and made the following deliveries:

- washing machines: 1200 pcs x 80 thousand drams = 96 million
- televisions: 2500 pcs x 350 thousand drams = 875 million
- vacuum cleaners: 3000 pcs x 25 thousand drams = 75 million
- refrigerators: 2000 pcs x 150 thousand drams = 300 million

1 billion 346 million

The factory has a contractual obligation, according to which it provides guarantees for up to 2 years from delivery in the event of a malfunction of electrical equipment to receive back the defective product from the buyer and provide a new one. Therefore, as of 01.01. 2027, there is still uncertainty regarding the recognition of revenue from the delivery. In such a situation, before the end of the warranty period, the factory cannot fully recognize revenue, since there is a probability of a return on sales.

In order to prevent a significant reversal in the amount of cumulative revenue in the future, a reasonable amount of revenue recognition is adjusted at the end of the reporting period, taking the probability of return on deliveries as a weighted average calculation approach.

According to statistical observations, the warranty return on electrical equipment delivered to buyers during 2020-2025 was:

- washing machine: 8%

- TV: 12%
- vacuum cleaner: 5%
- refrigerator: 7%

In this case, the weighted average amount of return on sales for 2026 (using the probability of warranty return as weights) will be:

[(96x8 + 875x12 + 75x5 + 300x7)] / (8+12+5+7) =

430 million AMD

Consequently, the factory's revenue for the 2026 reporting year will not be recognized as net, even if the buyers have paid in full for the delivery of the goods, but will be presented using the warranty period accounting approach, adjusting the revenue from sold products with the following accounting correspondence:

Dr *252 "Cash"..... 1 346*

Cr 612 *"Adjustment of revenue from returns of sold goods" 430*

Cr 611 *"Revenue from sales of products"....916*

During 2027, only when the warranty period for returns of electrical equipment expires, the enterprise will only adjust the value of revenue with the following accounting correspondence.

Dr 612 *"Adjustment of revenue from returns of sold goods.....430*

Cr *611 "Revenue from sales of products"....430*

Thus, the contractual obligation to return the goods will be settled and the revenue from the delivery will be fully recognized.

Conclusion

The presentation of revenue in published financial statements practically gives rise to additional interpretations. The previously

existing IAS 18 standard was replaced by IFRS 15, which was highlighted by the peculiarities of its application. It should be noted, that IAS18 is rule-based in nature, while IFRS-15 is mainly principle-based. And since as a result of the development of the global economy, it became necessary to make financial statements of different countries more comparable, transparent and reliable.

The peculiarity of IFRS 15 is mainly that it provides improved transparency. In particular, this standard requires more detailed disclosures in financial statements and more regulated presentation of information, which require new approaches in the practical field of revenue accounting.

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ՖՀՄ 15 «ՀԱՍՈՒՅԹ ԳՆՈՐԴՆԵՐԻ ՀԵՏ ԿՆՔՎԱԾ ՊԱՅՄԱՆԱԳՐԵՐԻՑ» ՍՏԱՆԴԱՐՏԻ ՄԵԿՆԱԲԱՆՈՒԹՅՈՒՆՆԵՐԸ

Արմեն Ճուղուրյան
Հայաստանի պետական տնտեսագիտական համալսարան
տնտեսագիտության դոկտոր, պրոֆեսոր

Բանալի բառեր - հասույթի ճանաչում, ֆինանսական հաշվետվողականություն, IFRS 15, վաճառքի պայմանագրեր, որոշումների կայացում:

Կազմակերպությունների կողմից ստացված հասույթի մասին հաշվետվությունը ներառում է երկու հիմնական հարց՝ ե՞րբ ճանաչել վաճառքից ստացված եկամուտը և ինչպե՞ս այն չափել: Կազմակերպության կողմից հրապարակված ֆինանսական հաշվետվություններում հասույթի ներկայացումը որոշիչ դեր է խաղում հեռահաղորդակցության տեղեկատվության արտաքին օգտագործողների որոշումների կայացման գործում, և այս առումով ներդրվել է «Հասույթ գնորդների հետ կնքված պայմանագրերից» ՖՀՄՍ 15-ը, որի նպատակն է սահմանել սկզբունքներ, որոնք կազմակերպությունը պետք է կիրառի՝ ֆինանսական հաշվետվությունների օգտագործողներին օգտակար տեղեկատվություն տրամադրելու համար եկամտի և հաճախորդների հետ կնքված պայմանագրերից բխող դրամական հոսքերի բնույթի, ժամկետների և անորոշությունների վերաբերյալ: Հետազոտությում տրվում են ՖՀՄՍ 15-ի կիրառման մեկնաբանություններ, որոնք կարևոր են գործնական կիրառելիության տեսանկյունից:

Ներկայացնվել են կազմակերպությունների կողմից հասույթի ճանաչման սկզբունքները՝ համաձայն ֆինանսական հաշվետվությունների միջազգային ստանդարտների պահանջների:

Նաև առաջարկվել են գնորդների հետ կնքված պայմանագրերից ստացվող հասույթի ճանաչման և գնահատման կիրառական ուղիներ, որոնք բխում են IFRS 15 պահանջներից:

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Conflicts of Interest:
The author declares no ethical issues or conflicts of interest in this research.