**Revenue from contracts with customers (IFRS 15)**

**Objective & definitions**

IFRS 15 establishes principles in the recognition, measurement, presentation and disclosure of revenue arising from contracts with customers (**r**eplaced IAS 18 *Revenue* andIAS 11 *Construction contracts* from 1.1.2018).

* Revenue is recognised based on transfer of control to the customer from the entity supplying the goods or services.
* **Revenue** isincome from an entity’s ordinary activities.
* **A contract** isan agreement between two or more parties that creates enforceable rights and obligations.
* **A customer** isa party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration.

### Scope

IFRS 15 applies to all contracts with customers except for:

* Lease contracts under IFRS 16 *Leases.*
* Insurance contracts under IFRS 17 *Insurance Contracts*
* Financial instruments and other contractual rights and obligations under IFRS 9 & IFRS 10.
* Non-monetary exchanges between entities in the same line of business (e.g. two oil companies exchanging fuel in order to meet demand from customers in different locations.

**Recognition of revenue**

Revenue is recognised using the five-step model:

Recognise revenue when (or as) each performance obligation is satisfied

Identify the contract with the customer

Determine the transaction price

Identify performance obligation(s) in the contract

Allocate the transaction price to performanceobligations

**Step 1: Identify the contract with the customer**

A contract (*written, verbal or implied*) with a customer is recognised when it meets all the following criteria:

* It is **approved** by the two parties and are committed to carrying it out.
* Each party’s **rights** to the goods or services to be transferred can be identified.
* **Payment terms** can be identified.
* It has **commercial substance** (*e.g. goods are transferred at market price*).
* It is probable the consideration will be **collected** (*evaluate the customer’s ability and intention to pay)****.***

**Step 2: Identify separate performance obligation(s) in the contract**

* A **performance obligation** is a promise to transfer **distinct** good(s) or service(s) to a customer.
* A good or service is distinct if:
* The customer can benefit from it on its own or together with other readily available resources.
* It can be sold separately e.g. a shop sells TV satellite dishes or it can sell and also install them.

**Step 3: Determine the transaction price**

* **Transaction price** is the amount to be received for transferring promised goods or services to a customer.
* When computing the price, consider variable consideration due to discounts etc.
* The price is the present value of the amount receivable a year and above due to the time value of money.
* Interest income is presented separately from revenue.

**Step 4: Allocate the transaction price to performance obligations**

* In proportion to the stand-alone selling prices at contract inception.
* **A stand-alone price** is the price for a separate good or service to a customer.

**Trouser 200,000**

**Shirt 100,000**

**Both 280,000**

**Step 5: Recognise revenue when (as each) performance obligation is satisfied**

* A performance obligation is satisfied when the entity **transfers** a promised good or service to a customer
* An asset is transferred when the customer obtains **control** of the asset.
* Control is the ability to **direct** the use of the asset and to obtain **substantially** all of the remaining benefits from the asset at one point in time or over a period of time.
* Revenue does not include VAT and other levies collected on behalf of third parties.
* Revenue is recognized for free goods given to customers that have purchased other goods (see Example 5). In the old standard (IAS 18), this was treated as business promotion expense.

Revenue is recognized at a point in time when (*among others*) the:

* Entity has a **present right** **to payment** for the asset.
* Customer has **legal title** to the asset.
* Entity has **transferred physical possession** of the asset.
* Customer has **significant risks and rewards** related to the ownership of the asset; and
* Customer has **accepted** the asset.

Revenue is recognized over time when one of the following three criteria is met:

* The customer receives and **consumes the benefits** as the performance takes place e.g. cleaning services.
* An entity creates or enhances an **asset controlled by the customer** e.g. a building under construction.
* The entity’s performance does not create an asset with an alternative use to the entity and the entity has an enforceable **right to payment** for the performance completed to date.

**Example 1**

Nina Ltd sells office furniture. A customer placed an order on 22 December 2023 for 10 office desks at a price of Shs 30,000,000 plus VAT at 18% of Shs 5,400,000. The 10 desks were delivered to the customer on 25 January 2024, who accepted the goods as satisfactory by signing the delivery note. Nina Ltd then invoiced the customer for the goods on 1 February 2024. The customer paid Shs 35,400,000 to Nina Ltd on 1 March 2024. Account for revenue in the financial statements of Nina Ltd.

Solution (Applying the five-step model)

1. Identify the contract(s) with a customer: A customer placed an order for 10 desks. This represents a contract to supply the 10 office desks.
2. Identify the performance obligations in the contract: There is one performance obligation, the delivery of satisfactory 10 office desks.
3. Determine the transaction price: This is the price agreed as per the order i.e. Shs 30m. VAT collected on behalf of URA is not included.
4. Allocate the transaction price to the performance obligations in the contract: There is one performance obligation, the full price is allocated to the performance of the obligation of the delivery of 10 desks.
5. Recognise revenue when (or as) the entity satisfies a performance obligation: Since the customer has signed a delivery note to confirm acceptance of the goods as satisfactory, this is evidence that Nina Ltd has fulfilled its performance obligation and can therefore recognise revenue of Shs 30m on 25 January 2024.

**Example 2 (***Volume discount incentive***)**

On 1 July 2023, Tiptop entered into a contract in which Trends was to purchase computers at Shs 500,000 per unit. If Trends purchases more than 500 computers in a year, the price per unit would be reduced retrospectively to Shs 450,000. Tiptop’s year end is 30 June 2024. As at 30 September 2023, Trends had bought 70 computers and Tiptop estimated that Trend’s purchases would not exceed 500 and therefore would not be entitled to the volume discount.

During the quarter ended 31 December 2023, Trends expanded rapidly due to exports to Southern Sudan and purchased an additional 250 computers from Tiptop. Tiptop then estimated that Trends purchases would exceed the threshold for the volume discount in the year ended 30 June 2024. Calculate the revenue Tiptop would recognize on 30 September 2023 and 31 December 2023.

Solution

30 September 2023: It is highly probable that the customer would not qualify for a volume discount.

Revenue recognized = Shs 500,000 x 70 = Shs 35m.

31 December 2023: It is highly probable that the customer would qualify for a volume discount, the price is

reduced to Shs 450,000.

Revenue = Shs 450,000 x 250 = Shs 112.5m less the discount on the earlier purchases

(Shs 50,000 x 70) = Shs 3.5m = Shs 109m.

**Example 3 (***Allocating the transaction price to performance obligations***)**

Bright Co offers a supply and installation service for an accounting software package at Shs 10 million and a separate two-year technical support service for Shs 5 million. It also offers a combined goods and services contract for both elements at Shs 12 million. Bright Co sold a combined contract on 1 January 2024 and received payment after installation. Account for the above transactions in the financial statements of Bright Co for the year ended 31 December 2024. Ignore discounting.

Solution

The contract has three performance obligations, supply, installation and technical support for two years.

The transaction price of Shs 12m is allocated to each obligation in the proportion to their stand-alone prices.

Supply and installation revenue = (10m/15m) x 12m = Shs 8m.

Technical support revenue per year = (5m/15m) x 12m = 4m/2 = Shs 2m.

1.1.2024 Supply and installation obligation is satisfied and revenue of Shs 8m is recognized.

Revenue related to servicing is deferred

31.12.2024 Shs 2m for servicing is recognised.

The balance of Shs 2m is deferred and recognized at the end of 2025.

Total revenue in SOPL = 8m + 2m = 10m

**Example 4 (***Significant financing component***)**

On 31 December 2023, Sure Ltd signed a contract to supply 100 computers at a price of Shs 4m per unit. 60 computers were delivered at that date, with the remainder to be delivered on 1 July 2024. Payment is to be received 12 months from the date of delivery. Sure’s cost of capital is 20%. Account for the above transactions in the financial statements of Sure Ltd for year ended 30 June 2024.

Solution

There are two performance obligations in the contract, supply of computers and collecting finance income.

31.12.2023: Control has only been transferred for 60 computers

As there is deferred payment for a year, revenue recognized is the present value of the cash price.

Revenue from computers = 60 computers x 4m x 1/1.20 = Shs 200m.

Dr Trade receivables Shs 200m

Cr Revenue – Computers Shs 200m

30.6.2024: Finance income = 200m x 20% x 6/12 = Shs 20m.

Dr Trade receivable Shs 20m

Cr Finance income (P/L) Shs 20m

Trade receivables (SOFP) = 200m + 20m = Shs 220m.

**Example 5 (***Allocating the transaction price to performance obligations, including free goods***)**

Biplous Co has a Christmas sale in 2024 where the company offers a free dressing table to customers who buy a sofa set at Shs 18m. The dressing table can be sold alone at Shs 2m. What revenue will be recognised for the above transaction in the financial statements of Biplous Co for the year ending 31 December 2024*.*

Solution

The contracthas two performance obligations:

* The obligation to deliver the free dressing table (as it can be sold separately).
* The obligation to sell the sofa set.

The transaction priceis allocated to performance obligations using stand-alone prices as follows:

Performance obligation Stand-alone price (Shs) Revenue recognized (Shs)

Sofa set 18m (18m/20m) x 18m = 16,200,000

Dressing table 2m (2m/20m) x 18m = 1,800,000

Total 20m 18,000,000

**Contract costs**

* **Incremental costs** of obtaining a contract (i.e. costs that would not be incurred if the contract had not been obtained such as a sales commission) are recognised as an asset if they are expected to be recovered.

Incremental costs are expensed if they are to be amortised in a period over of one year or less when incurred.

* Costs to obtain a contract that would **have been incurred** regardless of whether the contract was obtained (e.g. costs to prepare bid documents or to do due diligence) are recognised as an expense when incurred.
* Costs incurred in **fulfilling** a contract under IFRS 15 (that are not within the scope of another standard e.g. IAS 2, IAS 16 or IAS 38) are recognised as an asset if:
* Costs relate directly to an identifiable contract e.g. direct labour & materials, depreciation of plant used.
* Costs generate resources of the entity that will be used in satisfying future performance obligations.
* Costs are expected to be recovered.
* Contract costs recognized as assets are amortised on a systematic basis consistent with the pattern of transfer of goods or services to which the asset relates.
* **General and administrative costs** and the cost of **wasted materials** not incorporated into pricing the contract are recognized as an expense in profit or loss when incurred.

**Common types of transactions**

The standard gives guidance on areas like principal versus agent arrangements, consignment arrangements, bill-and-hold arrangements, warranties, repurchase agreements, a right of return, customer options for additional goods or services, non-refundable upfront fees and licensing. However, only a few are covered in this course.

**Principal versus agent** **arrangements**

* A principal controls the promised good or service before it is transferred to the customer.

When the performance obligation is satisfied, the principal’s revenue = gross amount of consideration.

* An agent’s obligation is to arrange for the provision of goods or services by another party.

When the performance obligation is satisfied, an agent’s revenue = fee or commission.

* Indicators that an entity is an agent rather than a principal include the following:
* **Another party** is primarily responsible for fulfilling the contract.
* The entity has no **inventory risk** after a customer’s order, during shipping or on return of goods.
* The entity does not have discretion in **establishing prices** for goods or services.
* The entity is not exposed to **credit risk** for the amount receivable from a customer.
* If an estate agent sells a house on behalf of a client for Shs 300m earning 5% commission, revenue of the principal is Shs 300m that for the agent is Shs 15m.

**Consignment arrangements (CA)**

A consignment arrangement is where a product is delivered by a vendor and a dealer has not obtained control.

Indicators of CA include the following:

* The product is **controlled** by the vendor until a sale is made or a specified period expires.
* The supplier can require the **return of the product** or transfer of the product to a third party.
* The dealer has no unconditional **obligation to pay** for the product even if is required to pay a deposit.
* The vendor does not recognise revenue on delivery of the product.
* Inventory is recognized in the SOFP of the vendor.
* Any deposit received is shown as a contract liability.

**Revenue quiz**

Reco company sells equipment and has prepared draft financial statements for the year ended 31 December 2024. Which of the following transactions have been correctly included in revenue according to IFRS 15?

1. Agency sales of Shs 25m on which Reco is entitled to a commission.
2. Sale proceeds of Shs 20m for a motor vehicle no longer required by Reco.
3. Sales of Shs 150m on 31.12.2024, the amount invoiced and received from the customer was Shs 180m, which included Shs 30m for ongoing servicing work to be done by Reco over the next two years.
4. Sales of Shs 200m on 1.1.2024 to an established customer which, (with the agreement of Reco), will be paid in full on 31.12.2025. Reco has a cost of capital of 10%.

**Presentation**

* **A contract liability** is recognized when payment is received before control over goods or services is transferred to the customer.
* **A contract asset** isrecognized whenan entity transfers goods or services to the customer before payment is received but the entity's right to consideration is conditional on something other than the passage of time, for instance, future performance.
* **A receivable** is recognised when the entity's right to consideration is unconditional except for the passage of time.

A contract asset/contract liability is computed as follows:

Shs Shs Shs

Revenue recognised to date x 100m 100m

Less: Invoices issued to date x (80m) (130m)

Contract asset/(Contract liability) x(x) 20m (30m)

**Accounting for performance obligations satisfied over time**

* Contracts where performance obligations are satisfied over time are common in the construction industry.
* If the outcome can be estimated reliably, recognise contract revenue and contract costs by reference to amount of performance obligation satisfied.
* An entity determines the performance obligation satisfied in each accounting period using:
* **Input methods** (such as labour hours or costs incurred)
* **Output methods** (such as surveys of work completed)
* Contract revenue and costs to be recognized in profit or loss is computed using the stage of completion.

Input methods: Stage of completion = Costs incurred to date

Total contract costs

Output methods: Stage of completion = Work certified

Contract price

* SOPL shows contract revenue and costs recognized as the contract progresses:
* Contract revenue = Contract price x Stage of completion (*for a profitable contract*).
* Contract expenses = Total contract costs x Stage of completion.
* Profit recognised takes into account any known inequalities in profitability in various stages of a contract.

**Example 6**

**Accounting for performance obligations over time**

Roko Ltd signed a contract with Mugabe for the construction of a house at Shs 500m on 2 January 2024. The following costs were incurred during the year.

Costs incurred to date: Materials 100m

Labour 60m

Total materials & labour cost to be incurred 240m

Invoices issued to date 180m

Payments received to date 130m

Account for the above contract in the financial statements of Roko Ltd for the year ended 31 December 2024.

Show the necessary journal entries.

*Solution*

Journal entries:

To record purchase of materials: Dr Inventories/Purchases 100m

Cr Bank 100m

To record payment of contract labour: Dr Salary expenses 60m

Cr Bank 60m

To record contract costs: Dr Contract costs 160m

Cr Inventories/Purchases 100m

Cr Salary expense 60m

Expected profit = 500m – 400m = 100m

Percentage of completion using input method = 160m/400m = 40%

To record revenue: Dr Contract asset 200m

Cr Revenue (500m x 40%) 200m

To record invoices issued to date: Dr Trade receivable 180m

Cr Contract asset 180m

To record payments received to date: Dr Bank 130m

Cr Trade receivable 130m

SOPL for the year ended 31 December 2024

Revenue (500m x 40%) 200m

Contract costs (400m x 40%) (160m)

Profit 40m

SOFP as at 31 December 2024

Contract asset (200m – 180m) 20m

Trade receivables (180m – 150m) 30m

* Contract revenue and costs are cumulative, amounts recognized in the **previous periods** are deducted to arrive at those for the current period.

**Example 7**

Victoria Ltd is to construct a factory that is expected to be completed after three years. The company measures the performance obligation satisfied over time using costs to date as a percentage of estimated total to complete the contract. Below is information on the contract at 31 December.

2023 2024

Shs 000 Shs 000

Total contract price 120,000 120,000

Costs incurred to date 60,000 80,000

Estimated costs to complete 40,000 20,000

Invoices issued to the customer 50,000 56,000

Payment by the customer 30,000 45,000

Account for the contract in the financial statements of Victoria Ltd for years ended 31 December 2023 & 2024*.*

Solution

31 December 2023

1. Expected outcome

Shs 000

Final contract price 120,000

Less: Cost to date (60,000)

Estimated costs to complete (40,000)

Estimated profit 20,000

ii) Percentage complete = Costs incurred to date x 100 = 60m = 60%

Total contract costs 100m

iii) Statement of profit or loss for the period ended 31 December 2023 Shs 000

Revenue (120m x 60%) 72,000

Cost of sales ((60m + 40m) x 60%) (60,000)

Profit 12,000

* Revenue is added to other revenue and cost of sales is added to the overall cost of sales of the company.

iv) Statement of financial position as at 31 December 2023

Shs 000

Revenue recognised to date 72,000

Less: Invoices issued to date (50,000)

Contract asset 22,000

Receivables = (50m – 30m) = Shs 20m

* Contract asset and receivable are included as current assets.

31 December 2024

1. Expected outcome

Shs 000

Final contract price 120,000

Less: Cost to date (80,000)

Estimated costs to complete (20,000)

Estimated profit 20,000

ii) Stage of completion = Costs incurred to date x 100 = 80m = 80%

Total contract costs 100m

iii) Statement of profit or loss for the period ended 31 December 2024

Shs 000

Revenue (120m x 80%) – 72m) 24,000

Cost of sales ((80m + 20m) x 80%) – 60m) (20,000)

Profit 4,000

Statement of financial position as at 31 December 2024

Shs 000

Revenue recognised to date (120m x 80%) 96,000

Less: Invoices issued to date (50m + 56m) (106,000)

Contract liability (10,000)

Receivables = (50m + 56m) – (30m + 45m) 31,000

* **Materials** **at site** are deducted when computing cost of sales and are shown as current assets in the SOFP.

For example: Costs incurred to date = Shs 500m

Estimated costs to completion (excluding materials at site) = Shs 300m

Materials at site = Shs 50m

Total contract costs = 500m + 300m – 50m = 750m.

* If the outcome is expected to be a loss, all the loss should be recognised as an expense immediately.
* Where the outcome cannot be estimated reliably (as in the early stages of construction), recognise revenue only to the extent of contract costs incurred that are expected to be recovered and no profit is recognized.

**Example 8**

Trump Ltd undertakes major construction projects and during the year ended 31 December 2024, the company had three separate contracts. The contract price for each was Shs 1 billion. These are contracts where performance obligations are satisfied over time and Trump Ltd has an enforceable right to payment for performance completed to date. There is uncertainty about the outcome of Delta contract. The following information relates to the contracts at 31 December 2024.

Alpha Beta Delta

Shs million Shs million Shs million

Costs incurred to date 500 550 320

Estimated costs to complete the contract 300 550 580

Invoices issued to customer 540 525 300

Invoices paid by customer 540 400 200

Estimated percentage of obligations satisfied 60% 50% 35%

Account for the three contracts in the financial statements of Trump Ltd for the period ended 31 December 2024.

Solution

i) Expected outcome

Alpha Beta Delta

Shs million Shs million Shs million

Contract price 1,000 1,000 1,000

Costs incurred to date (500) (550) (320)

Estimated costs to complete the contract (300) (550) (580)

Estimated profit/loss 200 (100) -

ii) Stage of completion 60% 50% 35%

iii) Statement of profit or loss for the year ended 31 December 2024

Alpha Beta Delta Total

Shs million Shs million Shs million Shs million

Revenue (60% x 1,000m) 600

(50% x 1,000m) 500

(Costs incurred to date) 320 1,420

Cost of sales (60% x 800m) (480)

(Balancing figure) (600)

(Costs incurred to date) (320) (1,400)

Gross profit/(Loss) 120 (100) - 20

iv) Statement of financial position at 31 December 2024:

Alpha Beta Delta Total

Shs million Shs million Shs million Shs million

Revenue recognized to date 600 500 320

Less: Invoices issued to date (540) (525) (300)

Contract assets 60 20 80

Contract liabilities (25) (25)

Receivables (540m – 540m) 0

(525m – 400m) 125

(300m – 200m) 100 225

**Disclosure**

* Revenue recognised from contracts with customers, disclosed separately from other sources of revenue.
* Any impairment losses recognised (in accordance with IFRS 9) on any receivables or contract assets arising from an entity's contracts with customers, disclosed separately from other impairment losses.
* The opening and closing balances of receivables, contract assets and contract liabilities from contracts with customers.
* Revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period.
* Revenue recognised in the reporting period from performance obligations satisfied in previous periods (such as changes in transaction price).
* An explanation of significant changes in the contract asset and liability balances during the reporting period.
* Information regarding the entity's performance obligations:
* When they are typically satisfied (upon delivery, upon shipment, as services are rendered etc).
* Significant payment terms (such as when payment is typically due)
* Details of any agency transactions, obligations for returns or refunds and warranties granted.
* The aggregate amount of the transaction price allocated to the performance obligations that are not fully satisfied at the end of the reporting period and an explanation of when the entity expects to recognise these amounts as revenue.
* Judgements, and changes in judgements, made in applying the standard that significantly affect the determination of the amount and timing of revenue from contracts with customers.

**Discussion questions**

1. Explain the five-step model used in the recognition of revenue in IFRS 15 *Recognition of revenue from contracts with customers.*
2. Gift Ltd entered into a contract with a customer on 1 December 2023 to supply, install and service computers. The agreed price was Shs 21 million, including a two-year service contract. At 31 December 2023 Gift had supplied all the computers but had not yet installed any. Payment was done after installation in January 2024. Directors of Gift estimated the stand-alone prices are Shs 16 million for computers, Shs 2 million for installation and Shs 6 million for two-year service contract. (Ignore discounting)
3. Dembe Construction Ltd (DCL) signed a contract to construct a factory to be completed in two years. The company measures the performance obligation satisfied over time is using the value of work certified by a surveyor as a percentage of the contract price. Account for the contract in the financial statements of DCL for the year ended 31 December 2021 using the information below.

Shs 000

Total contract price 290,000

Costs incurred to date 210,000

Estimated costs to completion 22,000

Value of work certified to date 232,000

Invoices issued 200,000

Payment received from customer 194,000

1. Account for the contract in the financial statements of Construction Ltd for year ended 31 December 2021.

Shs 000

Total contract price 300,000

Costs incurred to date 150,000

Estimated costs to complete 225,000

Progress payments invoiced and received 116,000

Percentage complete at 31 December 2017 40%

1. China Bridges Ltd (CBL) signed a two-year Shs 500 million contract on 1 April 2020 to upgrade the Kibuye to Busega road to four lanes. Performance obligations satisfied over time are measured according to work completed as certified by a surveyor. In 2021 the contract price was revised upwards by Shs 100 billion by UNRA due to heavy rains and change in the road design. Contract details were as follows:

Year ended 31 December 2020 2021

Shs 000 Shs 000

Final contract price 500,000 600,000

Costs to date 230,000 360,000

Estimated costs to completion 210,000 120,000

Work invoiced to date 200,000 300,000

Cash received to date 150,000 240,000

% certified complete 40% 75%

Account for the contract in the financial statements of CBL for the years ended 31.12.2020 and 2021*.*

Solutions

b)

Gift Ltd has a contract with three performance obligations, delivery of computers, installation and service for two years. The price of Shs 21m is allocated to each obligation in the ratio of their stand-alone prices:

Computers = 21m x (16m/24m) = Shs 14,000,000.

Installation = 21m x (2m/24m) = Shs 1,750,000.

Servicing = 21m x (6m/24m) = Shs 5,250,000.

Revenue is recognized as each performance is satisfied.

Recognition of revenue from the sale of computers delivered on credit in December 2023:

Dr Trade receivables 14,000,000

Cr Revenue – Computers 14,000,000

Recognition of revenue of Shs 1,750,000 for installation is in January 2024:

Dr Cash 21,000,000

Cr Trade receivables 14,000,000

Cr Revenue – installation 1,750,000

Cr Contract liability – Service 5,250,000

Shs 5,250,000 for servicing is recognised over two years.

Shs 2,625,000 is recognised in 2024 and the balance is deferred and recognised in 2025.

31 December 2024: Dr Contract liability – Service 2,625,000

Cr Revenue – Service 2,625,000

Contract liability – Service of Shs 2,625,000 is a current liability at 31 December 2024.

**c)**

(i) Expected outcome

Shs 000

Final contract price 290,000

Less: Cost to date (210,000)

Estimated future costs to completion (22,000)

Estimated profit 58,000

ii) Percentage complete = Work certified x 100 = 232m = 80%

Contract price 290m

1. SOPL Shs 000

Revenue (290m x 80%) 232,000

Cost of sales ((210m + 22m) x 80%) (185,600)

Profit (58m x 80%) 46,400

iv) SOFP

Revenue recognised to date 232,000

Less: Invoices issued to date (200,000)

Contract asset 32,000

1. Receivable = 200m – 194m = 6m.

**d)**

i) Expected outcome Shs 000

Total contract price 300,000

Costs to date (150,000)

Costs to complete (225,000)

Foreseeable losses (75,000)

Under IFRS 15 the loss of Shs 75m on the contract as a whole must be recognised in full immediately.

ii) Statement of profit or loss Shs 000

Revenue (300,000 x 40%) 120,000

Cost of sales (*balancing figure*)\* (195,000)

Foreseeable losses (75,000)

Revenue recognised to date 120,000

Progress invoices (116,000)

Contract asset 4,000

**e)**

i) Expected outcome 2020 2021

Shs 000 Shs 000

Final contract price 500,000 600,000

Less: Cost to date (230,000) (360,000)

Estimated costs to complete (210,000) (120,000)

Estimated profit 60,000 120,000

ii) Percentage complete: 40% 80%

iii) SOPL

Revenue (500mn x 40%) 200,000 (600mn x 80%) – 200bn) 280,000

Cost of sales (230mn + 210bn) x 40%) (176,000) (360mn + 120mn) x 80%) – 176mn (208,000)

Profit (60bn x 40%) 24,000 (600mn – 480mn) x 80%) – 24mn 72,000

iv) SOFP

Revenue to date 200,000 (600mn x 80%) 480,000

Less: Invoices issued to date (200,000) (200m + 300m) (500,000)

Contract liability (20,000)

Receivable (200m – 150m) 50,000 (200m + 300m) – (240m + 150m) 110,000