PHILIPPINE INTERPRETATIONS COMMITTEE (PIC)
QUESTIONS AND ANSWERS (Q&As)

Q&A No. 2020-03

Q&A No. 2018-12-D: STEP 3 – On the accounting of the difference when the percentage of completion is ahead of the buyer's payment

Issue

What is the accounting for the difference between the percentage of completion (POC) and the buyer's payment with the POC being ahead?

Background

Company A enters into a contract with a customer in June 2020 for the construction of condominium units. The scheduled completion and delivery date is June 1, 2022. Revenue is recognized over time. The transaction price (TP) is CU1,000 and, as at 31 December 2020, the contract is 30% complete. The financial reporting date of Company A is every December 31.

As of December 31, 2020, Company A recognizes revenue of 30% at CU300. Below are the payment terms, which indicate that the first instalment is due on January 1,2021.

- 30% (10% of TP every month) from January 1,2021 to March 1,2021
- 70% of TP in June 1, 2022

If Company A fails to complete and deliver the asset, the customer will be entitled to a refund of any consideration paid.

Conclusion and Discussion

View 1

Company A recognizes a contract asset. PFRS 15.107 states that a contract asset is recognized if an entity has the right to consideration in exchange for goods or services that the entity has transferred to a customer. Company A recognizes a contract asset because as of December 31, 2020, there is no unconditional right to a consideration (receivable) yet since the first instalment of 10% is not due until January 1, 2021. This is consistent with Example 39 of PFRS 15.IE201-203.

View 2

Company A recognizes a receivable. PFRS 15.108 states that a receivable is an entity's right to consideration that is unconditional. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due. The required payment on 1 January 2021 arises from a contractually agreed payment term, and only the passage of time is required before Company A has a right to consideration.

The PIC has concluded that both Views above are acceptable as long as this is consistently applied in transactions of the same nature. If presented as a contract asset, the disclosures required under PFRS 15 should be complied with. If presented as a receivable, the disclosures required under PFRS 15 should be followed.

Effective date

The effective date of the consensus in this Q&A follow that of PIC QA 2018-12, upon approval by the FRSC.

Date approved by PIC: September 30, 2020

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Date approved by FRSC: **October 14, 2020**

References

PFRS 15.107 If an entity performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, the entity shall present the contract as a contract asset, excluding any amounts presented as a receivable. A contract asset is an entity's right to consideration in exchange for goods or services that the entity has transferred to a customer. An entity shall assess a contract asset for impairment in accordance with PFRS 9. An impairment of a contract asset shall be measured, presented and disclosed on the same basis as a financial asset that is within the scope of PFRS 9 (see also paragraph 113(b)).

PFRS 15.108 A receivable is an entity's right to consideration that is unconditional. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due. [Refer: Basis for Conclusions paragraphs BC323–BC326] For example, an entity would recognize a receivable if it has a present right to payment even though that amount may be subject to refund in the future. An entity shall account for a receivable in accordance with PFRS 9. Upon initial recognition of a receivable from a contract with a customer, any difference between the measurement of the receivable in accordance with PFRS 9 and the corresponding amount of revenue recognized shall be presented as an expense (for example, as an impairment loss).

Example 39—Contract asset recognized for the entity's performance

PFRS 15.IE201 On 1 January 20X8, an entity enters into a contract to transfer Products A and B to a customer in exchange for CU1,000. The contract requires Product A to be delivered first and states that payment for the delivery of Product A is conditional on the delivery of Product B. In other words, the consideration of CU1,000 is due only after the entity has transferred both Products A and B to the customer. Consequently, the entity does not have a right to consideration that is unconditional (a receivable) until both Products A and B are transferred to the customer.

PFRS 15.IE202 The entity identifies the promises to transfer Products A and B as performance obligations and allocates CU400 to the performance obligation to transfer Product A and CU600 to the performance obligation to transfer Product B on the basis of their relative stand-alone selling prices. The entity recognizes revenue for each respective performance obligation when control of the product transfers to the customer.

PFRS 15.IE203 The entity satisfies the performance obligation to transfer Product A:

Contract asset	CU400	
Revenue		CU400

Example 40—Receivable recognized for the entity's performance

PFRS 15.IE205 An entity enters into a contract with a customer on 1 January 20X9 to transfer products to the customer for CU150 per product. If the customer purchases more than 1 million products in a calendar year, the contract indicates that the price per unit is retrospectively reduced to CU125 per product.

PFRS 15.IE206 Consideration is due when control of the products transfer to the customer. Therefore, the entity has an unconditional right to consideration (i.e. a receivable) for CU150 per product until the retrospective price reduction applies (i.e. after 1 million products are shipped).

PFRS 15.IE207 In determining the transaction price, the entity concludes at contract inception that the customer will meet the 1 million products threshold and therefore estimates that the transaction price is CU125 per product. Consequently, upon the first shipment to the customer of 100 products the entity recognizes the following:

Receivable	CU15,000(a)	
Revenue		CU12,500(b)
Refund liability (contract liability)		CU2,500