

TFRS: Practical issues and challenges



SEC Thailand

27 - 28 September 2021

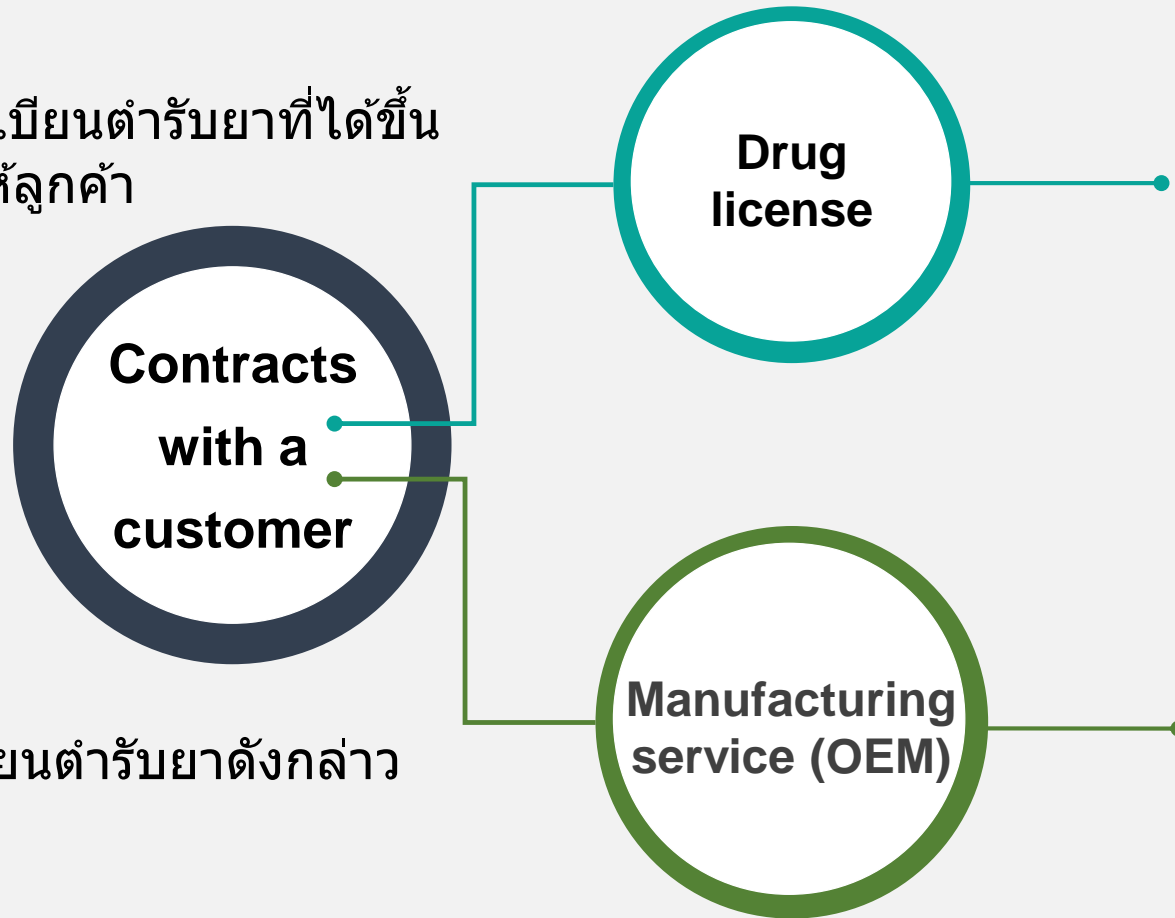
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Revenue recognition

Revenue recognition

- บริษัททำสัญญาขายทะเบียนตำรับยาที่ได้ขึ้นทะเบียนยากับ อย. แล้ว ให้ลูกค้า
- ลูกค้ายังไม่ได้รับโอนทะเบียนตำรับยาตามกฎหมาย
- ลูกค้าทำสัญญาว่าจ้างให้บริษัทเป็นผู้ผลิตยา บริษัทจึงยังคงมีชื่อเป็นโรงงานผู้ผลิตยาตามทะเบียนตำรับยาดังกล่าว

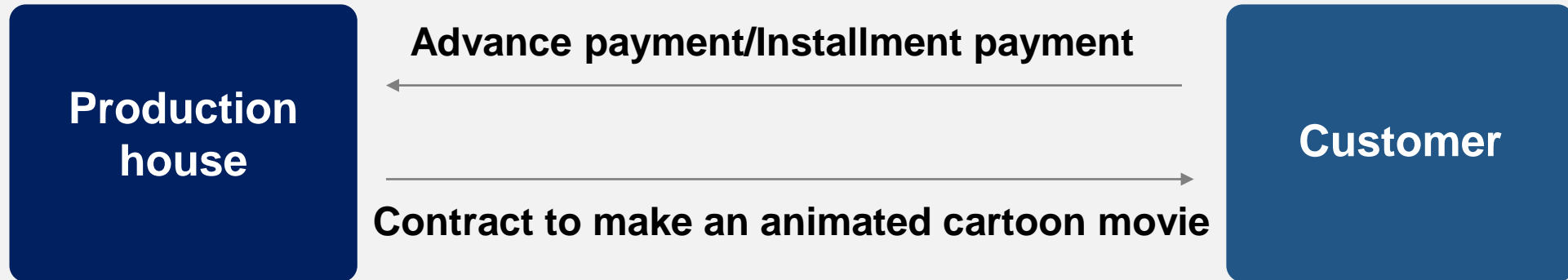


License is distinct or not distinct from the OEM manufacturing service?

How to assess?

Specialized process ?

Revenue recognition



Scope of work :

- Pre-production (i.e Layouts, story boards, model characters)
- Production (i.e. modeling, animation preparation, character animation)
- Post-production (i.e. music and sound, editorial)

Ownership of intellectual property rights :

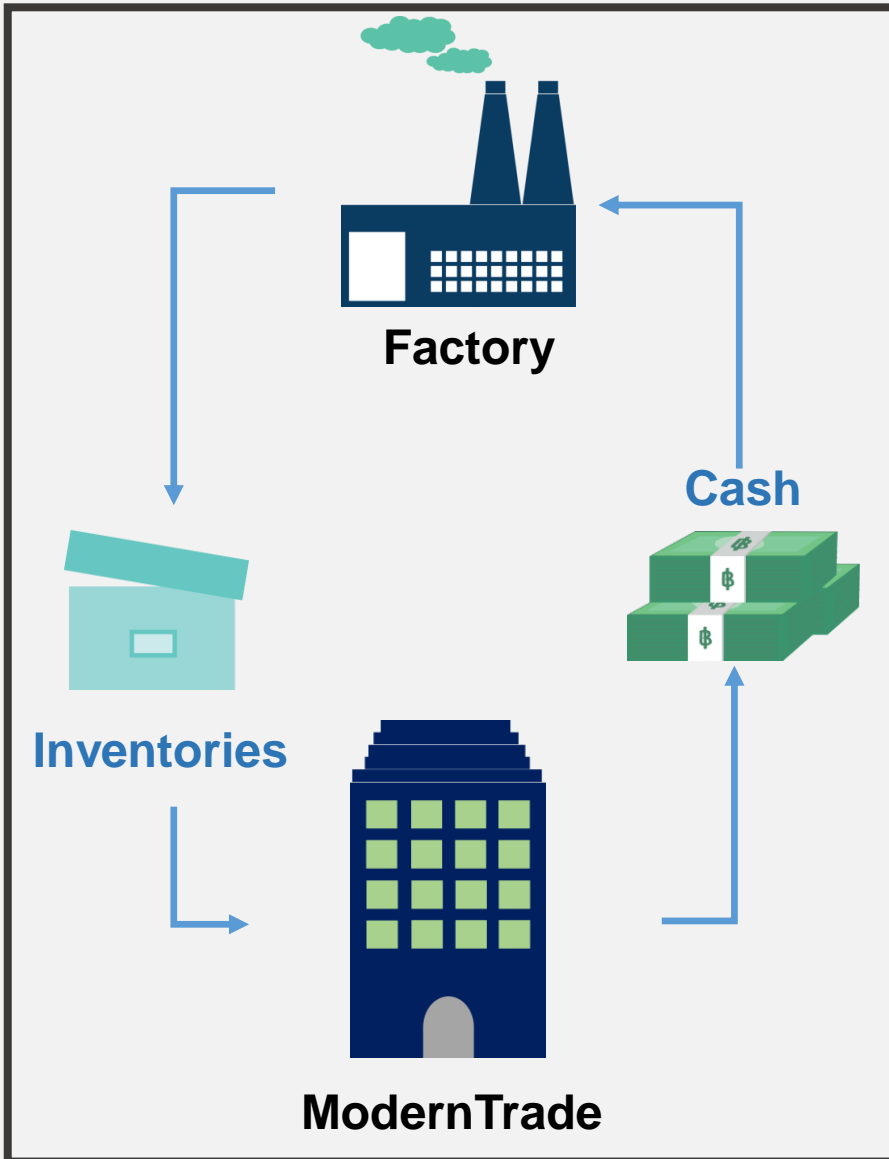
- Customer

Rights to payment :

- Production house has enforceable rights to payment

How to recognize revenue (over time vs point in time)?

Regular sale or Consignment



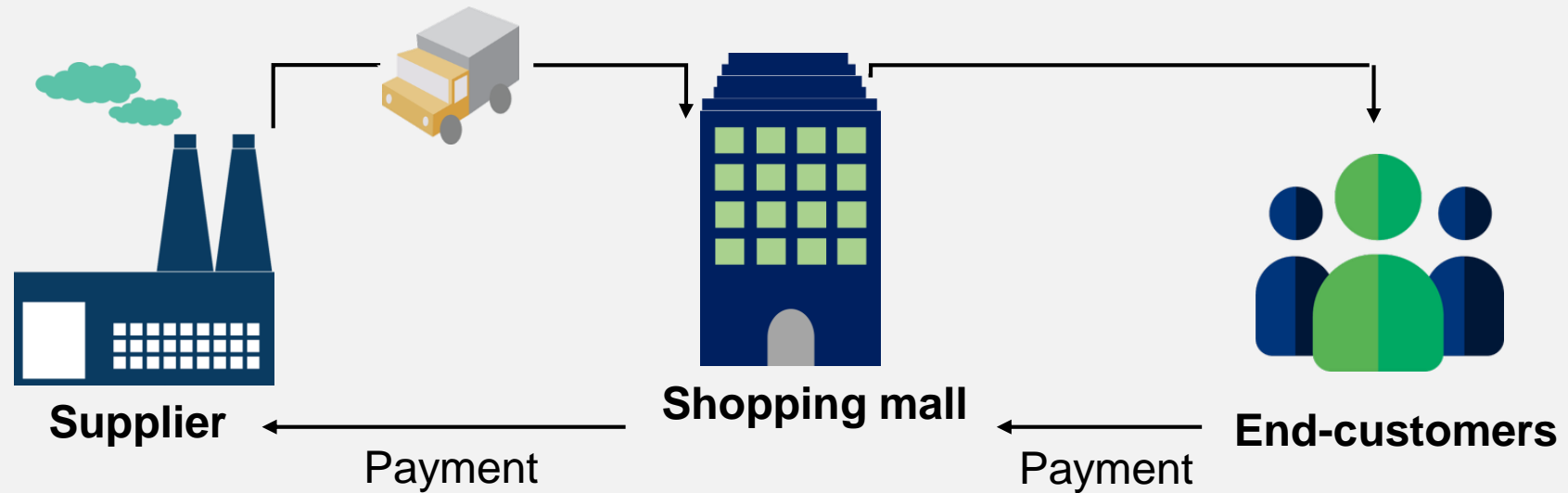
Facts

- Once the goods was sent, *the factory has no right to request the inventory back.*
- *The store has the right to return the product for various reasons*
- *The factory has the right to receive payment from the store*

Questions

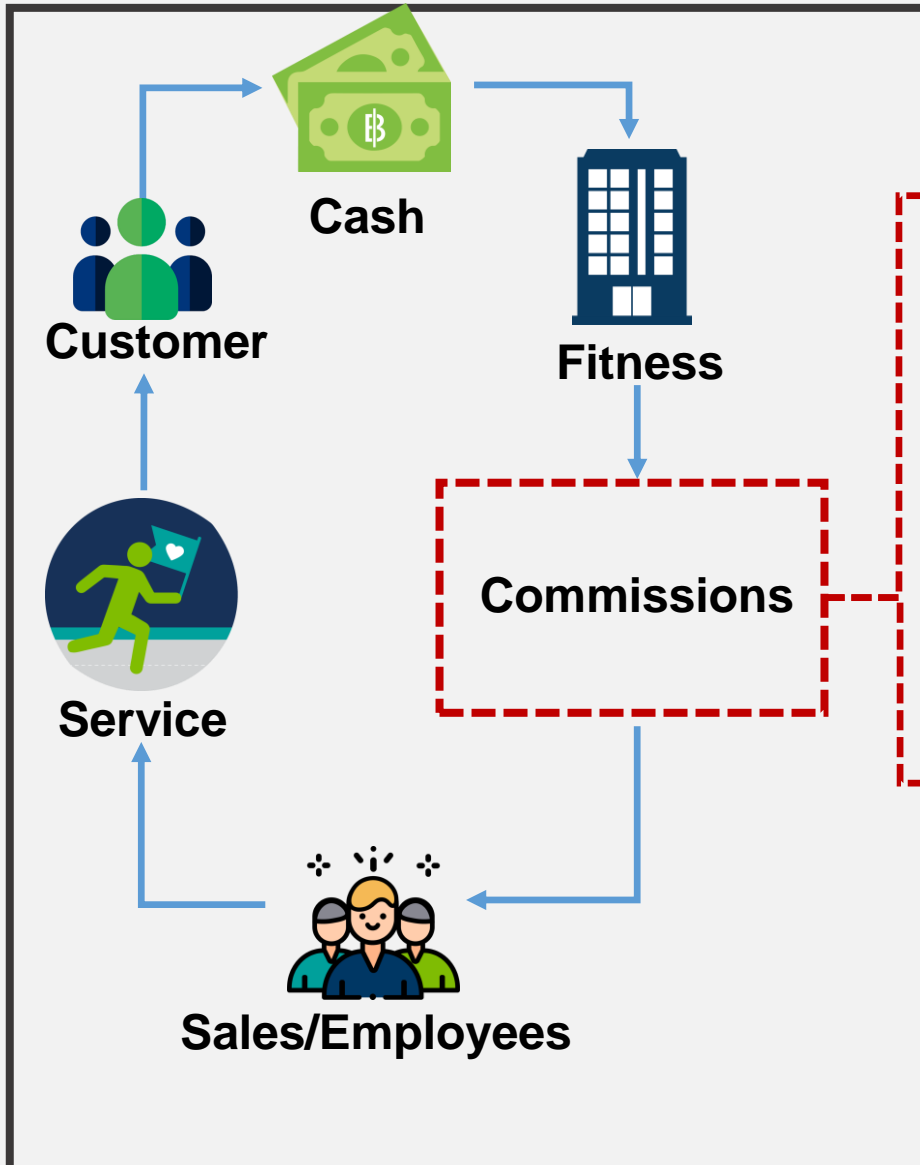
- **How to account for this transaction?**
- ***Regular sale or Consignment ?***

Regular sale vs Consignment



Agreement	Supplier	Shopping mall
Inventories	Retain legal title	Have physical possession with a right to return unsold/obsolete items to supplier
Shipping insurance	-	Cover items on Shipping
Selling price to end-customer	Determine the prices	Predetermined (% of the sale)
Terms & Conditions	-	Provide serviced/stock space in the store and sales staff

Incremental Cost of obtaining a contract



Direct Commissions

- *Commission to salesperson*

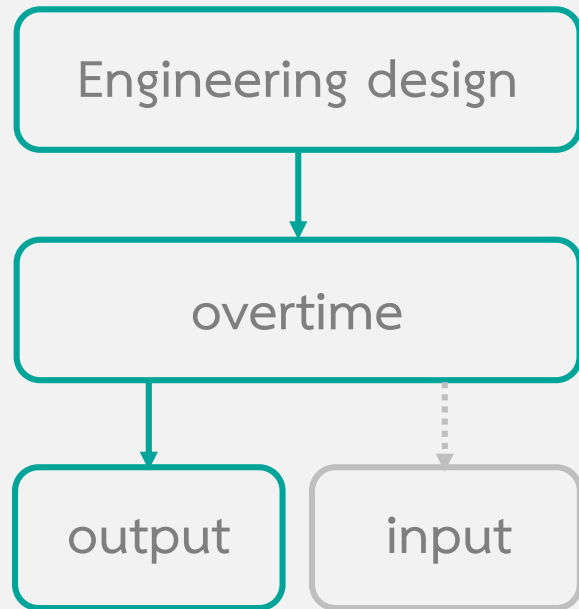
Indirect Commissions

- *Incentive to employees based on monthly sales target*
- *Special bonus to managers based on annual sales target*

*Incremental costs
of obtaining
a contract ?*

Revenue recognition

Background



★ The entity measures progress according to % billing

Example Project A scope of work

- 1 feasibility study
- 2 conceptual design
- 3 EIA report
- 4 construction design
- 5 final blueprint

	% progress	% billing
Q3'20	10	-
Q3'20	20	-
Q4'20	15	10
Q4'20	35	20
Q1'21	20	50
Q2'21	-	20
	100	100

recognise revenue

Revenue recognition

- Contract price 6 MB
- Budget Cost 4 MB
- Recognise revenue on % billing

Unit: MB

Project A	Q3 '20	Q4'20	Q1 '21	Q2 '21
% progress (cost)	30%	50%	20%	-
% billing	-	30%	50%	20%
Revenue recognition (A)	-	1.8	3.0	1.2
Accum. revenue	-	1.8	4.8	6.0
Actual cost (B)	1.2	2.0	0.8	-
Accum. cost	1.2	3.2	4.0	-
Quarterly Margin (A) – (B)	-1.2	-0.2	2.2	1.2
Quarterly Margin %	-100%	-11%	73%	100%

Key Takeaway

- ★ Revenue recognition with % billing reflect actual progress ?

Contract asset

“An entity’s right to consideration in exchange for goods or services transferred to a customer when that right is conditioned on something other than the passage of time (i.e. the entity future’s performance)”

Disclosure

Opening and closing balances of contract assets

Relationship between the timing of satisfaction of its performance obligations and the typical timing of payment

Significant changes in the contract asset balances during the reporting period, including qualitative and quantitative information

Capitalisation of borrowing costs

Capitalisation of borrowing costs

When does the company cease capitalizing borrowing costs?



Cessation of capitalisation :

When transferring ownership of the first house



Correct?



Not correct?

Classification of sales gallery

Classification of sales gallery

Inventory?



Inventories are assets:

- held **for sale** in the ordinary course of business
- in the process of **production**
- in the form of **materials or supplies**

Normally classified as current



PPE?

Property, plant and equipment are tangible:

- held **for use** in the production or supply of goods or services
- held **for administrative purposes**

Normally classified as non-current

Consolidated financial statements

Consolidated Financial Statements

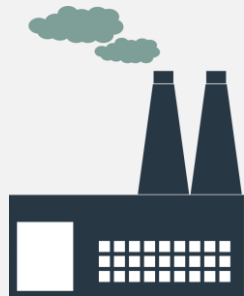


Company A
(parent)

revenue 500 MB
cost 400 MB
profit 100 MB

investment in B
25%

25x1
build factory



Factory
(associate B)

PPE 500 MB
Useful life 10 years

**Could company A
recognized profit of
100 MB?**

Consolidated Financial Statements

TAS 28 paragraph 28

28

Gains and losses resulting from 'upstream' and 'downstream' transactions between an entity (including its consolidated subsidiaries) and its associate or joint venture are recognised in the entity's financial statements only to the extent of unrelated [Note: See Question C of the January 2018 Agenda Decision, 'Contributing property, plant and equipment to an associate (IAS 28 *Investments in Associates and Joint Ventures*)' which is reproduced after paragraph 30 of IAS 28.] investors' interests in the associate or joint venture. 'Upstream' transactions are, for example, sales of assets from an associate or a joint venture to the investor. 'Downstream' transactions are, for example, sales or contributions of assets from the investor to its associate or its joint venture. The investor's share in the associate's or joint venture's gains or losses resulting from these transactions is eliminated.

Consolidated Financial Statements



Customer

Contract 10 MB



Company A

cost 1 MB



subcontract 8 MB



Company B

cost 2 MB



Contract price = 10 MB
Total budget cost = 9 MB (1MB+8MB)

Comp A

Actual cost 4.2 MB

(**cost A = 0.2 MB** + charged by B 4 MB)

Progress = 4.2 MB / 9 MB = 47%

Revenue recognized = 4.7 MB

Comp B

actual cost 1 MB

budget cost 2 MB

Progress = 1 MB / 2 MB = 50%

Revenue recognized = 4 MB

100%

Assumption : Performance obligation satisfied over time, using input method, and no revised budget needed



Consolidated Financial Statements



Customer

Contract 10 MB



Company A

cost 1 MB



subcontract 8 MB



Company B

cost 2 MB



100%



Conso F/S

Contract price = 10 MB
Budget cost = 3 MB

Actual cost = 1.2 MB
Progress = $1.2 \text{ MB} / 3 \text{ MB} = 40\%$

Revenue recognized = 4 MB

Which method is correct?

Assumption : Performance obligation satisfied over time , input method used and no revised budget required

Input methods

[Refer: Basis for Conclusions paragraphs BC168–BC178]

- B18 Input methods recognise revenue on the basis of the entity's efforts or inputs to the satisfaction of a performance obligation (for example, resources consumed, labour hours expended, costs incurred, time elapsed or machine hours used) relative to the total expected inputs to the satisfaction of that performance obligation. If the entity's efforts or inputs are expended evenly throughout the performance period, it may be appropriate for the entity to recognise revenue on a straight-line basis.

Business combination

Business VS Asset

Company A is a manufacturer and distributor of product, which has its own brands.



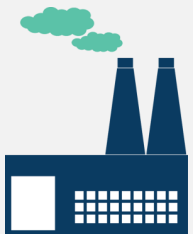
Q4 Y20X1

Comp A purchased Brand “B” from Comp B and the owner of Comp B came to work at Comp A.

Q1 Y20X2

Some employees of Comp B joined Comp A.

Comp A purchased factory and equipment from Comp B.



- Business combination VS Asset acquisition
- Which date is an acquisition date ?

Definition
of
business

An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities.

Input

Process

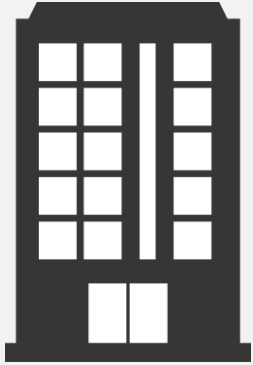
Output

Acquisition
date

The date on which the **acquirer** obtains control of the **acquiree**.

Transaction costs of an equity transaction

IPO Cost



IPO Company

Costs incurred during the IPO process...

? *Legal fees*

? *FA fees*

? *Other professional fees*

Accounting treatment	
Net proceed	<u>Incremental costs that are directly attributable to the equity transaction</u> are deducted from equity. (i.e. stamp duties and underwriting fee)
Both	<u>Transaction costs that relate jointly to more than one transaction</u> (i.e. costs of a concurrent offering of some shares and a stock exchange listing of other shares) <u>are allocated</u> to those transactions using a basis of allocation that is rational and consistent with similar transactions
Expense	Costs that do not meet the definition of “incremental costs directly attributable” are expensed as incurred (e.g., listing fee, roadshow costs, tax consultation fees, restructuring costs, etc.)

Thank you
