

### **РОЗДІЛ 3. МСФЗ: ТЕНДЕНЦІЇ УДОСКОНАЛЕННЯ ОБЛІКУ ТА ЗВІТНОСТІ**

UDC 657

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SHEE «KNEU named after Vadym Hetman»

#### **RECOGNITION OF A SIGNIFICANT FINANCING COMPONENT IN CONTRACTS WITH CUSTOMERS**

Convergence between International Financial Reporting Standards (IFRS) and US Generally Accepted Accounting Principles (GAAP) is considered as a new stage of international accounting standards development. Cooperation between the IFRS Board and the Financial Accounting Standards Board (FASB) resulted in publishing of IFRS 15 «Revenue from Contracts with Customers» (ASC 606 under the FASB numbering). The standard presents a five-step model of recognition of revenue from contracts with customers, discloses procedures of accounting for contract modifications, procedures of a transaction price allocation to performance obligations, methods of progress measurement towards complete satisfaction of a performance obligation. Also, the developers of the standard require adjust the expected consideration for delivered goods for effects of time value of money.

IFRS 15 «Revenue from Contracts with Customers» has been developed to provide fair presentation of information about revenues of the entity in amount that responses expected consideration rather than the amount determined by the terms of the contract.

The standard contains new requirements to consider the factor of the time value of money while recognizing the revenue from the contract, by which one of the parties is provided with a significant benefit of financing the transfer of goods or services. In order to assess such benefit the developers of the standard apply the term «a significant financing component». The contract contains a significant financing component if «the timing of payments agreed to by the parties to the contract provides the customer or the entity a significant benefit with the financing the transfer of goods or services to the customer» [1]. Interest revenue or expenses from the contract, which contains a significant financing component, is calculated using the effective interest rate method, while the asset, arising from the benefits for the entity, is classified as a financial asset and revised for impairment under IFRS 9.

The four-step model of the significant financing component recognition comprises:

1. Identification of a time lapse between the delivery of goods and the receipt of the consideration.
2. Assessment of a significant financing component in the contract as a difference between a promised consideration and a cash selling price.

3. Discounting of the promised consideration to the cash selling price using the discount rate.

4. Recognition of revenue at an amount of the cash selling price.

It is worth mentioning that the third step may not be applied if the period between the transfer of the assets and the receipt of the consideration will be one year or less.

The difference between the promised consideration and the transaction price is accounted for as interest revenues or expenses in the income statement.

Following the third step the promised consideration is to be discounted to the cash selling price using the discount rate that «would be reflected in a separate financing transaction between the entity and its customer at contract inception» [1]. To follow this rule, the promised consideration shall be discounted in one of three ways:

1) if the contract discount rate equals the discount rate in the separate financial transaction, the promised consideration shall be discounted by the contract discount rate to the cash-selling price without its adjustment;

2) if the contract discount rate exceeds the discount rate in the separate financial transaction, the promised consideration shall be discounted by the discount rate in the separate financial transaction to the adjusted cash-selling price;

3) if the contract discount rate is below the discount rate in the separate financial transaction the promised consideration shall be discounted by the discount rate in the separate financial transaction to the adjusted cash-selling price.

Special attention, in case of a significant financing component accounting, is to be paid to the procedures of impairment of the contract asset and the receivable, which are in scope of IFRS 9. The existence or absence of a significant financing component determines the method of loss allowances assessment. Under IFRS 9, in order to recognize impairment of the contract asset or the trade receivable, the entity may apply simplified approach: the loss allowance is measured at an amount equal to lifetime expected credit losses [2].

When the term of the contract is one year or less or it does not contain significant financing component, the impairment losses are calculated as the difference between the carrying amount of a contract asset/receivable and the received revenue.

In turn, when the contract contains significant financing component and its term is more than one year, the loss allowance is calculated as follows:

- the loss allowance for contract assets/receivables that are not impaired is counted as the present value of the difference between the contractual cash flows that are due by the terms of the contract and the cash flows that the entity expects to receive;

- the loss allowance for contract assets/receivables that are impaired is calculated as the difference between the gross carrying amount and the present value of the expected cash flows discounted by the initial effective interest rate.

### ***List of used sources***

1. *International Financial Reporting Standard 15 «Revenue from Contracts with Customers»* / *International Accounting Standards Board*. – July, 2014. – 39 pp.
2. *International Financial Reporting Standard 9 «Financial instruments»* / *International Accounting Standards Board*. – July, 2014. – 233 pp.

UDC 657.37(075.8)

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## **PROBLEMS AND THE USEFULNESS OF SEGMENTAL INFORMATION DISCLOSURES**

Segment disclosure has been a popular accounting research topic since the 1970s. But in Ukraine, the disclosure of segment information is a relatively new requirement. The disclosure of information by operating segments can be viewed, from the perspective of agency theory, as a tool to reduce information asymmetry because it allows external users to have access to data used internally for making decisions and conducting activities. It is impossible for users to predict a firm's future prospects without information concerning each segment of the entity.

The usefulness of segment disclosure was investigated by testing the forecast ability of segment information for future earnings or incomes. There was found that analyst forecast accuracy improved post-SFAS No.131 because SFAS No.131 provided the stock exchange with more information [1, p. 11].

Aggregation of segments should be consistent with the objective and basic principles of this Subtopic - to provide information about the different types of business activities in which a public entity engages and the different economic environments in which it operates in order to help users of financial statements better understand the public entity's performance, better assess its prospects for future net cash flows, and make more informed judgments about the public entity as a whole.

While the concept of operating segments is fundamental to segment reporting, the identification of operating segments often is one of the biggest challenges. A public entity must identify what operating segments are reportable segments that should be disclosed in the notes to the financial statements. A key aspect in correctly determining an entity's operating segments is to properly identify its chief operating decision maker (CODM). Identifying the CODM can be difficult and the CODM will vary from entity to entity. It could be an individual, such as the chief executive officer or chief operating officer, or it could be a group of people, such as a senior management team or a board of directors [2].