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Housing developers – how do their business model and revenue reporting work?

Karl Blom, Niklas Frykström and Goran Katinic

The authors work in the Financial Stability Department of the Riksbank.[1]

Housing prices have been rising sharply for a long time. As housing purchases are often financed through bank loans, there is a strong link between the housing market and financial stability. Recently an increased uncertainty has arisen regarding the housing market in general and the new builds market in particular. This has led to the need for a better understanding of the housing developers' business model and what risks it entails.
This Economic Commentary provides a general description of the housing developers' business model and accounting methods. The Commentary concludes with a discussion of the risks in the sector.

Following the housing price fall in autumn 2017, the conditions for firms that develop housing have changed.[2] Sales of new housing have fallen and households have become increasingly unwilling to enter into pre-sale agreements. As the financing of new housing projects often presupposes that a large share of housing is sold before the project begins, it has therefore become difficult for housing developers to begin new projects. This has also had a negative impact on their profitability.

There has also been a discussion in the media about housing developers' revenue statements and whether they are compiled on reasonable grounds.[3] Revenue statements have long been disputed and several accounting scandals in different sectors have been linked in one way or another to how companies report their revenue.

The purpose of this Economic Commentary is to explain how the housing developers' business model works and clarify the accounting principles their revenue statements follow. The Commentary concludes with a discussion of the risks in the sector.

Housing developers and new builds

A housing developer is a company that invests in land or buildings, and then engages building contractors to either build housing on the land or to convert the existing buildings into homes to be sold on. Normally, a housing developer is responsible for the whole development chain in a housing project; from acquiring the land, the idea and design, to selling the homes. On the other hand, the housing developer does not normally conduct any operations of its own with regard to building contracts. Although some of the larger construction companies do have both housing development and building contracts as business areas. For many of them housing development is only one of several branches of activity, which means that their financial situation differs from the smaller companies that are solely focused on housing development.

Several actors are involved in new builds. Figure 1 illustrates somewhat simplified the relationships between the different actors.[4]

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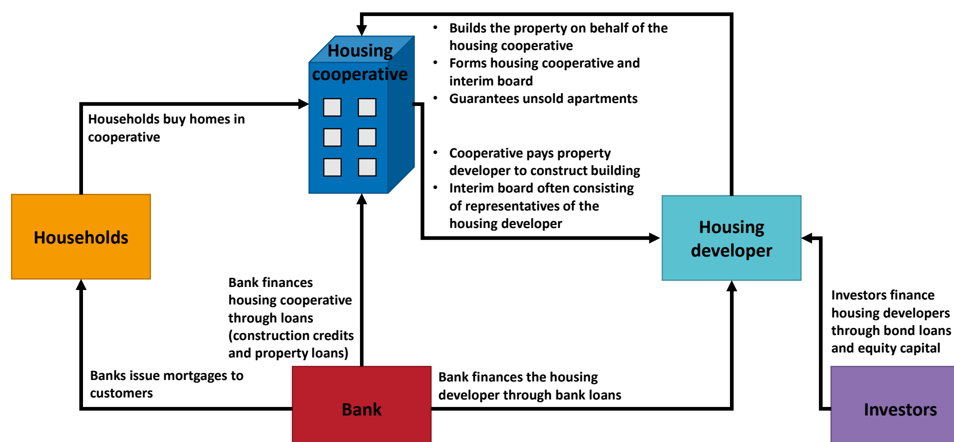
[2] Prices of tenant-owned apartments in Sweden fell according to the Valueguard HOX index by around 9 per cent between July 2017 and March 2018 (seasonally-adjusted).

[3] See for instance article in newspaper SvD 22 Jan 2019: https://www.svd.se/bostadsutvecklare-hotas-av-storsmall-efter-nya-regler

[4] For a more detailed review of the risks for households, housing developers and the banking system, see Sveriges Riksbank (2018).

Figure 1: The relationship between housing developers, tenant-owner associations, banks, households and investors



New builds begin with the housing developer acquiring land and then forming a housing cooperative.[5] An interim board is appointed temporarily in the cooperative and signs a subcontractor's agreement between the housing cooperative and the housing developer. The housing developer begins at an early stage to connect with households wanting to buy the new homes through non-binding booking agreements and later selling them through binding pre-sale agreements. But before the developer can begin selling homes through binding pre-sale agreements, the cooperative must establish a cost calculation that is a brief version of the financial plan.[6] In this situation, however, the households have not made any final payments, only smaller advance payments. The project is instead financed through the housing cooperative paying the housing developer to construct the building. The cooperative borrows money for these payments, a loan which is known as a construction credit.[7] As the bank lending the money to the cooperative always runs the risk of not getting the money back, it usually requires that the project has already sold a certain number of homes through pre-sale agreements before it grants a construction credit. In addition, the bank usually requires that the housing developers give guarantees, which means that they commit themselves to paying for any unsold homes when the building is complete.

After this, construction begins and normally takes one to two years. During this period the housing developer continues to sell the unsold homes and establishes a financial plan. This must be approved and registered with the Swedish Companies Registration Office and must be in place before the housing cooperative can begin transferring the homes to its members. When the project has been completed and the households have paid the final price, the money can be used to pay back the construction credit to the bank. The housing cooperative converts the remaining part of the construction credit into a normal loan from the bank.[8]

The housing developer also has other forms of funding, such as bank loans, bonds or equity. These can be used, for instance, to finance parts of the construction portfolio. The income and incoming payments from the housing cooperatives that the developer receives from its projects go to pay interest to the bank and on the bond loans. The discussion in the media that

[5] See Lidberg (2018) for a description of the procedure when housing cooperatives are formed.
[6] A financial plan is used as a base for assessment and decision-making. It should contain financial forecasts and a sensitivity analysis as well as showing how the cooperative is financed. It should also include the time for ownership transfer and moving in, see Boverket (the Swedish National Board of Housing, Building and Planning): https://www.boverket.se/sv/ekonomiska-planer/for-yrkesverksamma/ekonomiska-planer/ekonomiska-plan/
[7] A construction credit is a loan used when building new housing or reconstructing existing housing. A bank that has issued a construction credit pays all the housing developer's invoices for production costs, which means that the borrowed amount grows during the time the housing is being completed.
[8] In this example it is assumed that the housing developer regularly includes its profit margin when invoicing for the services supplied to the housing cooperative, which in its turn pays for them with the construction credit.

has concerned housing developers' accounting methods largely concerns how revenue from the housing cooperatives is reported by the developer. At the same time, the new build process often extends over several years, which makes this question complicated.

Revenue reporting

Revenue can be reported in different ways. The main question is at what point in time and at what amount a revenue item shall be reported. Should the revenue for a project that runs over several years be reported during the period the new build is progressing, or should the company wait until the project is complete and the buyers can move into their homes?

Put simply, one can say that a revenue is either reported over time or at a specific point in time. If the revenue is reported over time, the method is called the *percentage-of-completion method* and this entails dividing up the revenue across a period of time. If the revenue is instead reported at a specific point in time, it is known as the *completion method* and this entails the revenue being reported when the project has been completed.

The accounting standard governing how companies should report income, IFRS 15, is a principle-based framework, which entails a certain amount of flexibility and companies have scope for interpretation with regard to choosing how to report.[9] However, the main principle when reporting revenue is as follows:

> *"An entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services."*

This means that a company shall report revenue when or if the company transfers promised goods to a customer. A transfer arises when the customer receives control over the goods, and control over the goods means that the customer can control their use and will have all future benefit from them.[10]

What is it that determines whether a customer has received control over the promised goods at a specific point in time? The sale of goods, for instance a machine, is normally reported at a time when the customer can begin using it. With regard to assignments that cover a longer period of time, such as housing projects, the seller first has to perform certain obligations for which the buyer pays. As the seller performs these obligations, it may over time report the income linked to when control is transferred from seller to buyer, according to the principle of percentage-of-completion method. But for the company to do this, at least one of the following three criteria must be met:[11]

1. The customer controls the asset as it has been created or enhanced by the performance of the company pursuant to the contract.
2. The customer receives and consumes the financial benefits provided by the company's performance, for instance, the construction of a building on the customer's land.
3. The customer simultaneously receives a financial advantage from a company's performance as the company performs.

[9] IFRS 15 (Revenue from Contracts with Customers) is the standard governing how revenue should be reported. IFRS is a global accounting standard developed by the International Accounting Standards Board (IASB). All listed companies within the EU are obliged to apply IFRS. See Appendix for a broad description of IFRS 15.

[10] To assess when control arises, IFRS 15 contains some indicators of when the control is transferred to the customer, for instance, when the company has the right to payments, the customer has accepted the goods, legal ownership has been transferred to the customer, the customer has received the goods in physical form or if the customer has taken on substantial risks and benefits.

[11] See IFRS 15 p.35-37.

If none of these three criteria is met, the company must instead report the revenue at a point in time pursuant to the completion method. Regardless of which method is used, the final revenue is nevertheless calculated to be the same. On the other hand, the choice of accounting method can affect assessments regarding the company's future, key figures and potential to pay dividends to shareholders. This means that both shareholders and lenders are affected by how the revenue is reported. At the same time, the accounting principles give room for manoeuvre that can entail risks. If the revenue is reported early, this means for instance that the information is less uncertain and the company could then try to show a more positive image of its results.[12]

Differences in housing developers' reporting

Different housing developers report apparently similar projects in different ways, for instance new builds. A small percentage of the listed companies working with housing development report income and profits at a point in time pursuant to the completion method. This means that the revenue is not reported until the project is complete and control of the home is transferred to the buyer. This is often when the buyer makes the final payment and gains access to their home.

However, the majority of the listed housing developers report their revenue over time as the project progresses. This can mean that the project is divided up into different parts that are delivered to the housing cooperative (customer). For instance, the subcontractor's agreement can be formulated so that the housing developer is to deliver three different sub-projects to the housing cooperative, where the first sub-project can be that the land and foundation are complete, the second that the framework of the building is complete and the final one that the building is ready for the customer to move in. The respective sub-projects can then be regarded as individual commitments and when they are met, the housing developer reports the revenue for the work completed so far.

Depending on the wording of the subcontractor's agreement and the relationship to the housing cooperative, there is thus a possibility for the housing developer to decide how to report their projects. If a project runs over a longer period of time, there may be reason for the housing developer to report revenue pursuant to the percentage-of-completion method to generate income during the course of the project. This means that the housing developer can show a result that in time meets the commitment to the customer. However, if the company is to use the percentage-of-completion method, the subcontractor's agreement must be formulated so that distinct commitments are delivered and so that the housing cooperative is regarded as independent and thus has control over the goods supplied.

Housing developer's relationship to housing cooperative important factor for reporting

A housing cooperative is a separate legal entity. During the course of a new build it is represented by an interim board that signs agreements, for instance a subcontractor's agreement with the housing developer. On important aspect as to how a housing developer will report its revenue is thus when the housing cooperative gains control over the product. If the cooperative is to be regarded as controlling the goods, it must be regarded as independent in relation to the housing developer. In this assessment one must take into account the relationship between the parties.[13] There are several factors that are significant for this assessment: whether the housing developer controls the majority of the housing cooperative board, whether the developer produces the cooperative's documentation, for instance the

[12] Financial reports shall provide a true and fair picture of a company's financial position, financial results and cashflow, see IAS 1 p.15. This means that the information presented in the financial report shall be correct and reliable.

[13] See IFRS 10 B 75.

financial plan and permits, whether the developer plays a key role in the bank financing of the housing cooperative, whether it is the developer that pays the costs for the housing cooperative, such as the fees to the board members, and whether it is the developer that accepts the risk for unsold apartments.

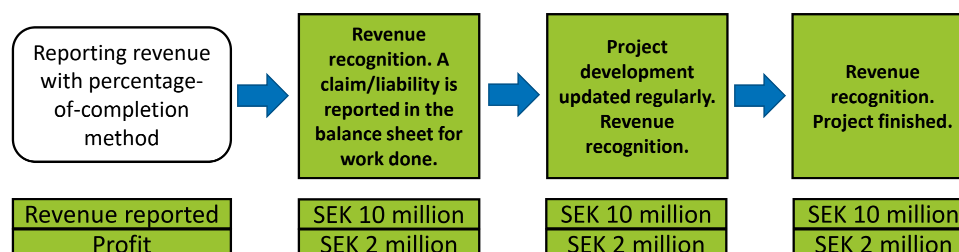
That the housing developer guarantees potentially unsold apartments, for instance, is a factor that could indicate that the cooperative should not be regarded as independent of the developer.[14] If the housing cooperative cannot be regarded as independent, the housing developer should consolidate the cooperative's finances with its own.[15] Consolidation means that the housing cooperative's assets and liabilities are merged with those of the housing developer. The housing developer cannot then book revenue from the cooperative with the construction credits used to finance the project. Instead, revenue is reported when the project is complete and control of the building is transferred to the housing cooperative.

If the housing cooperative is instead regarded as independent from the housing developer, it can be considered to have control over the delivered commitment (for instance, partial deliveries in the construction), which in turn means that the housing developer can report its revenue over time.

Differences between the percentage-of-completion method and the completion method –– example

The choice of accounting method will affect the results the housing developer can report during the project period. Figure 2 illustrates an example of how the percentage-of-completion method works in housing development.

Figure 2. Reporting revenue with the percentage-of-completion method



In the example above the housing developer reports revenue during three periods. The assignment is valued at a total of SEK 30 million and the developer reports a revenue of SEK 10 million on three occasions during the entire project period. They also make a profit deduction of SEK 2 million for each period.[16] The first part is reported, in this example, when the cooperative has calculated the costs and the developer has begun selling the apartments.
At this stage, the housing developer reports a contract asset and contract liability on its balance sheet. The contract asset is that the company has the right to receive payment and the contract liability is that the company is obliged to complete what is written in the contract, namely to

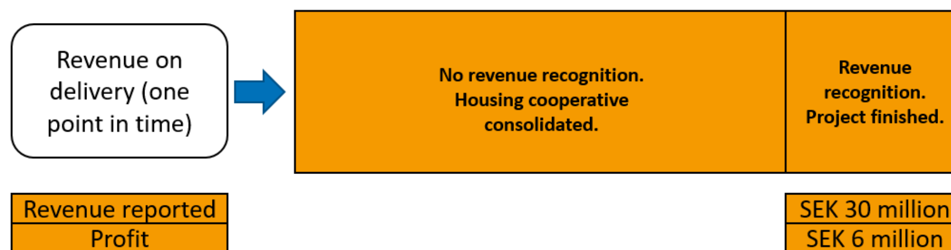
[14]The Stockholm Stock Exchange (Nasdaq OMX Stockholm) had a dialogue with housing developers in 2018 regarding the application of IFRS 15 and the bases for the assessment of whether housing cooperatives are independent. Their assessment is that the housing cooperative shall be entirely independent from the housing developer right from the start, otherwise revenue shall be reported at a particular point in time (completion) and the cooperative's finances shall be consolidated with those of the housing developer. If companies base their results on the percentage-of-completion method, that is before the housing cooperatives have all apartments sold and before all the apartments are paid for, the exchange will require a special justification, see Memorandum from the Stockholm Stock Exchange – Supervision of regular financial information 2018.
[15] IFRS 10 contains regulations for when an entity shall be consolidated and there is a controlling influence, see IFRS 10 p.2-8.
[16] The example assumes a profit margin of 20 per cent. The respective partial delivery when a commitment is met also entails a cashflow. The housing developer can retain the profits generated in its own capital, pay them out as dividends or reinvest them in new projects. Ongoing housing projects are financed with construction credits in the external housing cooperatives.

finish the building. The next partial report of revenue occurs during the course of the building when several homes are sold. The third and final part of the revenue is reported when the project has been completed.

The amount of profit deduction made in the different phases can differ from one housing developer to another, and there is room for manoeuvre for the developers to determine themselves when and to what extent the revenue should be reported in the respective period. This method once again presupposes that the housing cooperative is regarded as independent in relation to the developer. The liabilities in the housing cooperative are then reported as a contingent liability in the housing developer's financial report.[17]

Figure 3 shows an example of how revenue is reported on final delivery. This means that the housing developer can neither book revenue nor make any profit deduction during the project period.[18] It is only when the project is complete that the housing developer can report a revenue of SEK 30 million and makes a profit deduction. Moreover, in this case the housing cooperative is not considered to be independent of the housing developer. This means that the housing cooperative's finances are consolidated with those of the housing developer during the entire period, which means that the assets and liabilities in the housing cooperative are visible in the developer's consolidated accounts.

Figure 3. Reporting revenue on delivery



Depending on which accounting method is used, the results the housing developer shows will differ during the duration of the project. A substantial risk for housing developers is that prices may fall during the period the construction is under way. In this type of situation it may be significant how the companies have reported and used potential profits from projects not yet completed.

Risks in the housing developers' business model and accounting methods

A central aspect of the housing developers' business model has been that households sign binding pre-sale agreements at an early stage and at a predetermined price. By doing this households subject themselves to both a price risk and a financing risk.[19] If the majority of the homes in a project have been sold through pre-sale agreements, it means that the housing developer reduces its own risks at the same time as passing the risk of a potential price fall on to the household. After the price fall in autumn 2017 households have become more cautious,

[17] A contingent liability describes a company's guarantee commitments, financial commitments or other commitments not included in the balance sheet. Contingent liabilities are reported pursuant to IAS 37.
[18] This entails a negative effect on the company's results during the construction period because of the current costs the company has at the same time as it is not able to report any income during the period.
[19] Price risk also refers to the risk that prices will fall during the construction period. The financing risk is the risk that the bank will not grant a loan in accordance with an earlier pre-approved mortgage limit as a result of the loan-to-value ratio changing after a price fall. For a detailed example, see Lidberg (2018).

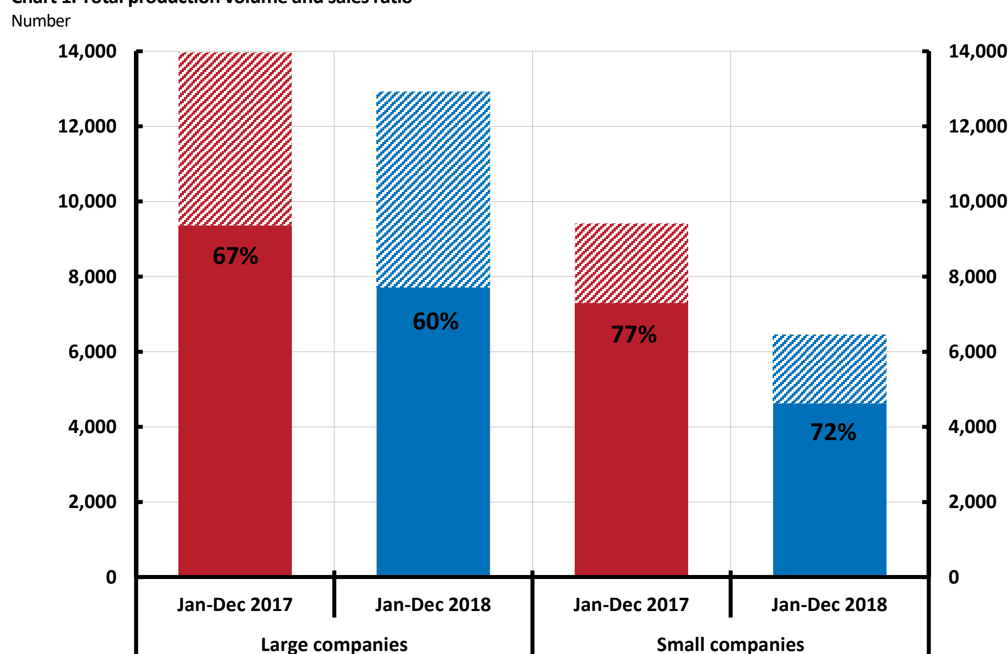
which has made it more difficult for housing developers to sell homes through pre-sale agreements. At the same time, there have been several legal cases, where the question of invalid pre-sale agreements has been considered. When the homes have been completed, the number of unsold homes is still at a low level, which indicates that households are still willing to buy new builds as long as the time until they move in is not very long. The weaker development with regard to sale and production starts has been particularly tangible for smaller housing developers, which are forced to sell a higher percentage of homes through pre-sale agreement to be able to start new projects.

Price fall during the project period the primary risk

The period from when a project begins until it is completed represents a considerable risk for the developer as long as a large number of homes remain unsold. If a company has a large number of unsold homes under production it is more sensitive to potential price falls. This follows on from the company's guarantees with regard to the housing cooperative, which mean that they must compensate the cooperative for unsold apartments according to the prices and fees in the financial plan (see Figure 1). The sales ratio, that is the percentage of homes sold through pre-sale agreements during the construction process, has also declined over the past year (see Chart 1).

Chart 1. Total production volume and sales ratio

Number



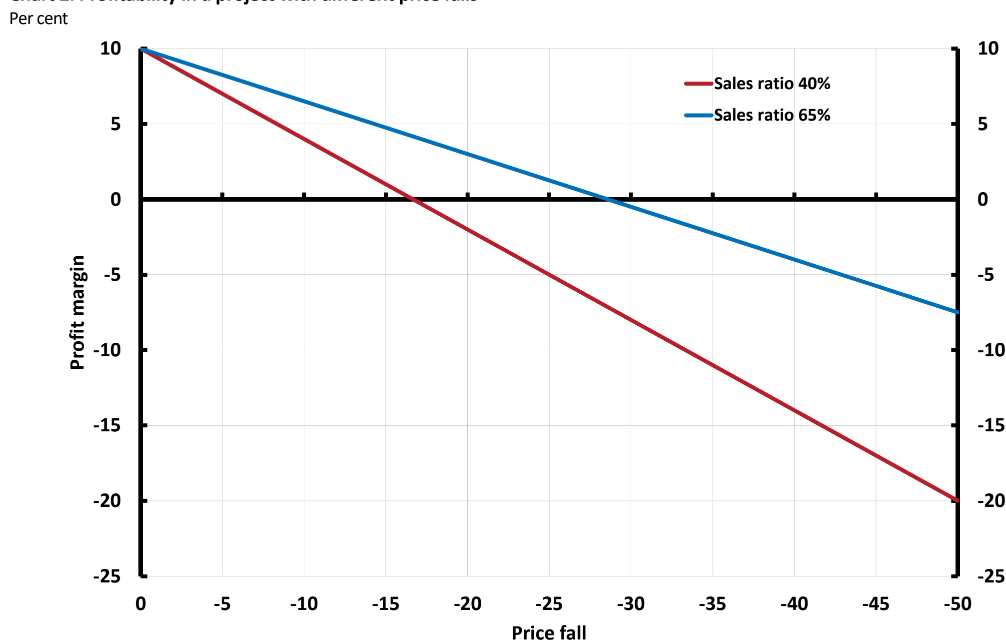
Note. Large companies refers to Skanska, Peab and JM. Small companies refers to ALM Equity, Bonava, Besqab, Oscar Properties, SSM, Tobin Properties and Veidekke. The underlying data has excluded as far as possible new builds of rental properties and homes outside of Sweden.

Sources: Respective companies' interim reports

Although the sales ratio is at a relatively high level for both large and small companies, the diagram indicates that new projects will begin with a lower sales ratio than before. This means that housing developers will become more sensitive to possible price falls. If the uncertainty in the new build market remains, the developer may choose to begin new projects with a lower sales ratio to retain a high production volume so they can retain their market shares and realise their profit forecasts.

If the development of a lower sales ratio continues, the risk of contagion effects on the rest of the economy increases. The effects of different sales ratios on the profitability of a project are illustrated in Chart 2. In this chart an initial margin of 10 per cent is assumed and a sales ratio corresponding to 65 per cent as well as a lower sales ratio of 40 per cent.

Chart 2. Profitability in a project with different price falls
Per cent



Note. The chart shows how the profit margin is affected in the event of different price falls.
Source: The Riksbank

Even with a larger price fall of up to 30 per cent, no initial losses arise in this example at the current sales ratio of around 65 per cent, which one can see in the blue line in the chart.[20] But if the sales ratio continues to fall to 40 per cent larger losses may arise as illustrated by the red line in the chart.[21] However, it is important to remember that this scenario has been simplified and it does not take into account the fact that other factors may affect the housing developers when prices fall so much. As has been the case recently, a price fall could also affect the possibility for developers to begin new projects and thus mean a loss of future income. This in turn affects the financing costs and in the long run also the possibilities to refinance bank loans or bond loans that fall due, if the housing developers no longer have a stable cashflow.

How companies report can also affect the risks

The example in Chart 2 shows that a price fall entails a substantial risk for a housing developer and that a high sales ratio is one way of reducing this risk. The trend towards a falling sales ratio but continued high production volumes thus means that the developers are exposing themselves to larger risks. The risks linked to price developments apply regardless of how housing developers choose to report their revenue. But the way they report could possibly also play a role in this context.

[20] The current sales ratio refers to the volume-weighted sales ratio from Chart 1.

[21] If one allows the above example to represent the entire new build market, one could estimate the total losses that may arise with different price falls. The listed stock exchange developers on which data has been collected have a total production volume corresponding to around 20,000 homes. If the sales price is assumed to correspond to SEK 3 million, this would entail a value of SEK 60 billion for all new builds. If the sales ratio continues to fall down to 40 per cent and there is a price fall corresponding to 30 per cent, then the example would show losses of around SEK 5 billion.

Housing developers who use the percentage-of-completion method report parts of the expected profit during the course of the project. The extent to which they report the profits and the timing of the reports can vary from one housing developer to another, as the IFRS 15 allows the companies room for manoeuvre here. From a risk perspective, the percentage-of-completion method does not entail any difference in relation to the completion method as long as the housing developer chooses to allow the profits reported during the course of the project to remain as equity. However, if the developer has the possibility and chooses to use some of the profits from an ongoing project, for instance, to invest in new projects, the buffer in the current project declines. In addition, it also affects the housing developer's capacity to manage potential liquidity problems if the outlook for their operations deteriorates.

This can be illustrated in Chart 2 above, where the project has an original profit margin corresponding to 10 per cent. If a property developer chooses to report and use half of this expected profit after half of the project time has passed, for instance, to invest in new projects, the housing developer will become more sensitive to potential price falls on the part of the project that remains unsold.[22] Whether the percentage-of-completion method increases the risks in relation to the completion method thus mainly depends on whether the developer chooses to use parts of the expected profits before the project has been completed and to what extent and how early on this is done.

A housing developer that uses the completion method, on the other hand, will not receive any income during the project period and is thus unable to use the expected profits from the project until it is completed. This means that the accrued profits from the homes sold comprises a buffer in case the prices were to fall during the course of the project. The effects of the price fall on the homes that have not been sold through pre-sales agreements are then only visible when the housing developer reports the revenue on completion.

Unclarity regarding accounting and pre-sale agreements can affect confidence and create uncertainty

It may appear unclear to an outsider why apparently similar projects are reported using different methods. If it is also unclear how and why a company is using different accounting methods this may affect confidence in the company. If a housing developer is using the percentage-of-completion method, and the housing cooperatives are therefore not consolidated into the developer's finances, it may be more difficult to gain an impression of the property developer's total exposures in the form of commitments to housing cooperatives with regard to unsold apartments. On the other hand, the percentage-of-completion method means that good insight into the housing developer's project portfolio is needed to be able to regularly assess the company's financial position if it does not complete projects at an even pace.

Further, in recent years housing developers have sold tenant-owned apartments at such an early stage that the dates for transfer and moving in could not be determined with any certainty in the agreements, but were stated in varying time intervals instead. There have also often been delays in the projects that have meant that the date for moving in does not tally with the agreement. These delays have resulted in a discussion of whether the pre-sale agreements can be considered invalid, and there are several legal cases under way at present. This kind of uncertainty can ultimately affect households' willingness to enter into pre-sale agreements and may have further negative effects on the housing developers' scope to begin new projects.

[22] The housing developer's buffer comprises both the invested own capital in the project and the profit margin the project generates. If, for example, a developer were to use the whole of the expected profit at a very early stage to then invest it in new projects on repeated occasions, the developer's bugger would roughly correspond to the profit margins in the different projects. In the example here, the housing developer could expand its balance sheet through expected profits without injecting any new own capital into new projects.

Concluding comments

Following a long period of rising housing prices, we are now seeing increased uncertainty on the housing market after the price fall in autumn 2017. This has in turn meant that several of the housing developers are experiencing difficulty in selling homes and beginning new projects. The period from starting up a new project until it is complete represents the greatest risk to the developer, as the company is then vulnerable to potential price falls. This is linked to the company's guarantees to the housing cooperative. Previously, companies have to a greater extent been able to transfer the risk of a price fall to households, as almost all of the project has been sold through binding pre-sale agreements before they have even begun building.

Several of the housing developers use the percentage-of-completion method when they report their revenue. This has been criticised because it enables companies to influence and angle the results and financial position shown.

The current regulations allow companies to choose how to report their revenue. If a project runs over a long period of time there may be reason for a housing developer to report their revenue in stages to be able to show a result that better corresponds to the commitments the housing developer has supplied to the customer. However, this presupposes that the housing cooperative is considered to be independent of the housing developer and thus does not need to be included in its consolidated accounts. This usually means that large debts guaranteed by the housing developer are not visible in its balance sheet.

The fact that housing developers report apparently similar projects in different ways can appear unclear and if there is also uncertainty over how and why a developer has applied a specific method to report its revenue, this could affect confidence in the company.

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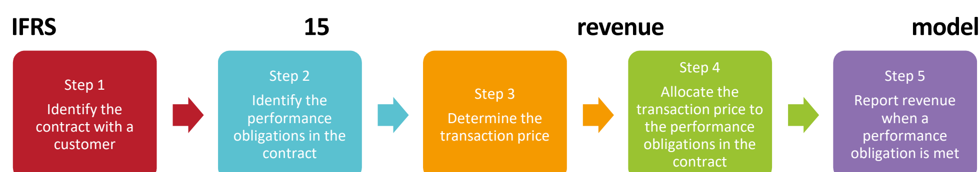
Appendix

General description of IFRS 15

The IASB (International Accounting Standards Board) has published a new standard for revenue reporting called IFRS 15 Revenue from Contracts with Customers. IFRS 15 describes how a company shall report revenue and the basic principle is: “An entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.” IFRS 15 shall be applied to a financial year beginning on 1 January 2018 or later. For listed companies within the EU this means that the first annual accounts with the new regulations pursuant to IFRS 15 will be presented in the annual report for 2018. The IFRS 15 standard is fully comprehensive and based on principle and it replaces all of the earlier standards on revenue reporting (IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services). IFRS 15 introduces a new five step model for revenue reporting. The model is based on when the control of goods or services is transferred to the customer.

IFRS 15 revenue model



IFRS 15 applies to all agreements with customers apart from those covered by other standards, such as leasing agreements (IFRS 16), insurance agreements (IFRS 4) and financial instruments (IFRS 9). The objective of IFRS 15 is to establish the principles that a company shall apply to report revenue stemming from a contract with a customer (IFRS 15 p. 1). The five steps are described below.

Step 1 - Identify the contract

The first step is the most important and central in the five step model. A company shall only report revenue from a business transaction if an agreement has been reached (IFRS 15 p.9). What characterises a contract is that it is “an agreement between two or more parties that creates enforceable rights and obligations” (IFRS 15 p.10). The contracts can be written, oral or implied by the company’s normal business practices (IFRS 15 p. 10).

Step 2 - Identify the performance obligations

In the second stage, a company shall identify all distinct goods and services that are promised in a contract. A performance obligation arises when there is a promise to transfer a good or services that is distinct to the customer. The obligation also means there will be remuneration from the customer. It is at the start of the contract that a company shall identify the performance obligation by transferring the good or service to the customer.

Step 3 - Determine the transaction price

When determining the transaction price different types of amount are considered, fixed and variable remuneration. To determine whether fixed or variable consideration applies the company must look at the contract as a whole (IFRS 15 p.47). What comprises the transaction price is the amount of consideration to which a company expects to be entitled in exchange for transferring promised goods or services to a customer (IFRS 15 p.47). This means that the transaction price is determined by the remuneration promised in the contract, not taking into

account the customer's payment ability, as this does not take into account what the company can expect to receive from the customer.

Step 4 - Allocate the transaction price

When the transaction price has been determined the next step is to allocate the price to the performance obligation. If there are several separate performance obligations, the price shall be allocated to the different obligations.

Step 5 – Report revenue

The final step is that the performance obligations in the contract are satisfied and the revenue is recognised. Satisfying the performance obligation can take place over time or at a specific point in time and this is largely done when the asset is transferred to the buyer and the control is transferred (IFRS 15 p.31). IFRS 15 defines control as the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset.