IMPROVEMENT OF REVENUE RECOGNITION PROCEDURE BASED ON INTERNATIONAL STANDARDS

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ABSTRACT

This article describes the procedure for recognizing income in the formation of financial results. As a result of the research, recommendations were developed for improving the procedure for recognizing income in economic entities.

Keywords: *accounting, financial reporting, accounting information, financial result, profit, loss, revenue.*

INTRODUCTION

Issues of improving the accounting of financial results in accounting are of constant interest to stakeholders from financial reporting information. In the Republic of Uzbekistan, in accordance with the international standards of financial reporting (IFRS), national standards are being revised and adapted to the requirements of international standards. However, standards are improving at the international level as well. In particular, in order to properly organize the account of financial results calculated from the main objects of accounting and to consider the requirements for recognition of income, the IFRS 15 "Revenue from Contracts with Costumers" was adopted.

LITERATURE REVIEW

The financial result represents how it was obtained by each type of activity and is important in making decisions at the management level to coordinate the activities of the entire firm [1].

A group of economists came to the conclusion that "accounting of financial results is the main source of information for analyzing financial and economic indicators and making management decisions" [2].

Mariana Man and Liana Gadau state that "financial results, especially information about its profitability, help to assess the possible changes in the economic resources that the enterprise can control in the future"[3].

In general, in the works of the above economists, the issues of organizing the financial results account are covered, but the procedure for recognizing income is not fully covered.

ANALYSIS AND RESULTS

The conditions specified in the contract concluded with the buyers have a significant impact on the procedure of revenue recognition in the accounting of income, expenses and financial results and disclosure in the financial statements.

According to the IFRS 15 “Revenue from Contracts with Costumers”, the recognition of revenue consists of five stages. We will discuss these steps below.

1. Determining the terms of the contract. There should be no problematic aspects for organizations at this stage. The main condition for concluding a transaction is the certainty of economic benefits. Its peculiarity is that this trust should be achieved not only in the short term, but also in the long term.

IFRS 15 “Revenue from Contracts with Costumers” discloses the following issues:

the parties have approved the contract and must fulfill its terms;

the organization can determine the rights of each of the parties in relation to the goods (works, services) provided under the contract and purchased by the other party under this contract;

the organization can determine the payment procedure for goods (works, services);

the contract has a commercial content, and as a result of its execution, not only its duration and risks, but also the future cash flows of the organization will change;

there is a possibility that the enterprise will receive payment for the goods or services provided to the customer.

2. Determination of obligations to fulfill the terms of the contract. The name of this stage indicates that the contract is not the only obligation for which revenue is recognized. In particular, in one contract, several services, works or the period of their transfer to the buyer can be divided into different stages. For this reason, IFRS 15 “Revenue from Contracts with Costumers” proposes to divide the terms of the contract into separate obligations.

In the term specified in the contract, the organization undertakes to perform other works described as the construction of a certain object according to the order of the customer, and the customer undertakes to create the necessary conditions for the contractor to perform the works, then accept their results and pay a certain price. In this case, the contract is concluded for the construction or reconstruction of the object, as well as for the installation, commissioning and other works integrally related to the construction object. Accordingly, there is no need to separate obligations for separate goods and services under such a contract, because the result is the same - the construction, reconstruction or capital repair of the facility.

3. Determining the transaction price. This criterion is important for the recognition of income, as it affects the amount of income expressed in monetary value. The concept of fair value was revised in IFRS 15 “Revenue from Contracts with Costumers” and as a result it was proposed to use a separate selling price.

In determining the transaction price, organizations will need to assess: collection of receivables; the impact of variable wages, time value of money, contingent fee amounts, non-cash rewards, and client fees.

Contractual agreements may contain provisions on the timing of cash receipts from customers that do not coincide with the timing of revenue recognition. If the financing component is significant, IFRS 15 “Revenue from Contracts with Costumers” requires an adjustment to reflect the effect of hidden financing.

The situation with customer financing is actually the opposite, but this process is reflected in accounting in a completely different way. Therefore, IFRS 15 “Revenue from Contracts with Costumers", requires an assessment of advance payments for hidden financing on long-term contracts. If the time interval between the down payment and the recognition of sales proceeds is less than one year, then such payments are not recognized as hidden financing, in which case the seller borrows money from the buyer. However, if funding is recognized as available, lump sum payments will result in increased finance costs and deferred revenue.

This approach can lead to the division of transactions containing an important financial component into two parts, namely, a transaction for the sale of goods and a financing transaction. At the same time, the consequences can be significant in terms of establishing internal rules of the organization necessary to identify and account for hidden financing operations.

4. Implementation of the distribution of the price of the transaction to be executed. After determining the transaction price, it should be allocated to all previously allocated obligations.

5. Revenue recognition. This step changes the concept of revenue timing.

There are the following criteria for the recognition of income according to the IFRS 15 "Revenue from Contracts with Costumers" (Figure 1).

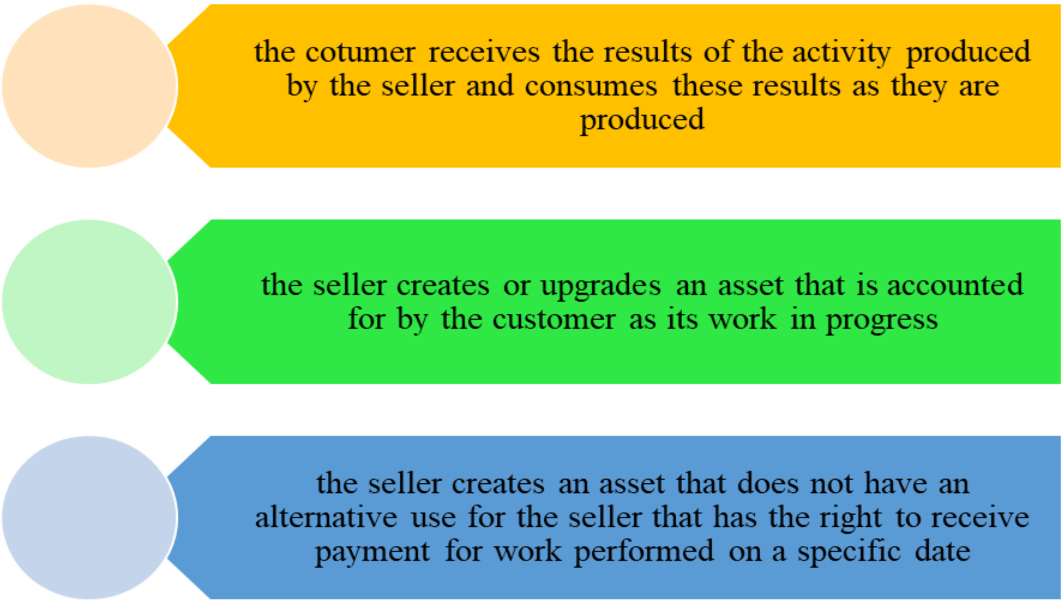

Figure 1. Revenue recognition criteria [4]

[4] Made by author

The implementation of the third and fifth steps in the updated revenue recognition model indicates the need to revise the existing accounting procedure.

For organizations, two key factors are important when implementing the third stage of transaction pricing - the amount of variable compensation and the significant financial component. To account for the factor of variable compensation, organizations implementing long-term contracts should consider advance payments as an important component of financing for the first time. In this case, it will be very difficult to settle the settlement of long-term contracts.

Under the fifth, final step of the new model, customers must also recognize revenue within a certain period of time if one of the three criteria defined in the standard is met.

The following are the most important differences between the model defined in IFRS 15 “Revenue from Contracts with Costumers” of revenue accounting in accounting and the existing practice of accounting financial results in organizations:

1. IFRS 15 “Revenue from Contracts with Costumers” applies to all organizations. Each entity of the economy must use this model in accounting for financial results and recognizing revenue. For contracting entities operating under long-term contracts, each contract must now be evaluated for compliance with at least one of the three recognition conditions described above in order to recognize revenue when the facility is ready.

2. If control over the relevant "asset", that is, over the goods or services included in the contract, is transferred to the customer, the contractual obligation is fulfilled.

3. Meeting the requirement of at least one of the three criteria specified in the standard over a certain period of time obliges companies to recognize revenue.

CONCLUSION

The following conclusions were reached regarding the improvement of the calculation of financial results:

1. Accounting reform in our country based on the requirements of international standards is being carried out rapidly. The preparation of financial reports by joint-stock companies, commercial banks and large taxpayers based on the requirements of international standards serves to increase their investment attractiveness.

2. Organizations also feel the need to attract large amounts of investments based on the characteristics of their activity. Therefore, the organization of accounting work in this industry based on the requirements of international standards is the need of the hour.

3. International standards of financial reporting are constantly improving. In particular, it is necessary to organize the accounting of income and expenses, which are considered the most important objects of accounting, on the basis of international standards. The application of IFRS 15 “Revenue from Contracts with Costumers” in the recognition of income in organizations makes a significant contribution to improving the accounting of financial results.

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