STATEMENT OF PRACTICE (SP 23/21)

Tax treatment arising from adoption of IFRS 15 - Revenue from contracts with customers

MAURITIUS REVENUE AUTHORITY

15/02/2021

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Tax Treatment Arising from Adoption of IFRS 15 – Revenue from Contracts with Customers

1.0 Objective

This Statement of Practice is intended to provide guidance on the tax treatment for entities that have adopted IFRS 15 Revenue from Contracts with Customers.

While the objective of this paper is to promote clarity and certainty in revenue recognition by providing useful information it cannot cater for every situation and is limited to general advice and guidance only.

2.0 Background

IFRS 15 is the new standard on revenue recognition which was issued by the International Accounting Standards Board (IASB) in May 2014 and is effective for accounting periods beginning on or after 01 January 2018, though earlier application is permitted.

IFRS 15 replaces the following standards and interpretations:

- IAS 11 Construction contracts
- IAS 18 Revenue
- IFRIC 13 Customer loyalty programs
- IFRIC 15 Agreements for the construction of real estate
- IFRIC 18 Transfers of assets from customers
- SIC 31 Revenue – Barter transactions involving advertising services

IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.

3.0 The Five-Steps Model of IFRS 15

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration that the entity expects to be entitled in exchange for those goods or services, by applying the following 5 steps:

Step 1: Identify the contract(s) with the customer

Step 2: Identify the performance obligation(s) in the contract

Step 3: Determine the transaction price of the entire contract

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 4: Recognise revenue when (or as) the entity satisfies a performance obligation

4.0 Brief notes on some other major changes brought by IFRS 15

Revenue recognition under IFRS 15 is based on the transfer of control over goods and services to a customer, rather than the transfer of risks and rewards as per IAS 18.

The amount of revenue recognized is the amount allocated to that performance obligation in Step 4. An entity must be able to reasonably measure the outcome of a performance obligation before the related revenue can be recognized. In some circumstances, such as in the early stages of a long term contract, it may not be possible to reasonably measure the outcome of a performance obligation, but the entity expects to recover the costs incurred. In these circumstances, revenue is recognized only to the extent of costs incurred.

Moreover, depending on the circumstances of the case, revenue can be recognized over time or at a point in time. An obligation satisfied over time will meet one of the following criteria:

- The customer simultaneously receives and consumes the benefits of the entity's performance as the entity performs (e.g.: service contracts such as cleaning service or a monthly payroll processing service);
- The entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced (e.g.: a work in progress asset);
- The entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to-date (e.g.: construction contract).

A performance obligation that is not satisfied over time is satisfied at a point in time. Revenue should be recognized at the point in time when the customer obtains control over the asset. The transfer of control may be indicated by the following:

- The customer has an obligation to pay for the asset;
- The customer has legal title to the asset;
- The entity has transferred physical possession of the asset;
- The customer has significant risks and rewards of ownership;
- The customer has accepted the asset.

5.0 Provisions for Revenue Recognition in the Income Tax Act 1995

Revenue is recognized in the Income Tax Act 1995 as per the following provisions which are reproduced below:

Section 5 – Derivation of Income

"...(2) Subject to the other provisions of this Act, income shall be deemed to be derived by a person when:

(a) It has been earned or accrued; or ...."

Section 12 – Income received in anticipation

"Where income is derived by a person in any year by way of premium or payment in advance or in any like manner by way of anticipation, the Director-General may, on the written application of that person during the following year, apportion that income between the income year and any number of subsequent, years not exceeding 5, and the part so apportioned to each of those years shall be, deemed to be income derived in that year."

Note: According to section 52 of the Income Tax Act, the provisions of section 12 shall apply in all respects to a company as they apply to an individual

6.0 Acceptance of Revenue Recognition under IFRS 15 for Income Tax Purposes

For income tax purposes, the amount of revenue that must be recognized by a taxpayer in a year should be the amount of income that has accrued to him in the year, and as a matter of fact, the standard does not deviate from the accruals concept.

Consequently, in most cases the accounting revenue as determined by IFRS 15 would be accepted as revenue for tax purposes (refer to Paragraph 7.0 for exceptions). An entity would continue to be entitled to its income once the service is performed or goods are transferred. The acceptance of the **accounting revenue** as determined under IFRS 15 is **consistent** with the above-mentioned income tax principle of **'derivation of income'** laid down in Section 5(2) (a) of the Income Tax Act.

For straightforward retail transactions, IFRS 15 will have little, if any, effect on the amount and timing of revenue recognition. For contracts such as long term services contracts and multi-element arrangements, it could result in changes either to the amount or to the timing of revenue recognised. However, any difference in the amount of revenue recognised under IFRS 15 from the amount recognised otherwise is largely a timing difference given that the entire amount of revenue from the contract would eventually be recognized and therefore subject to tax.

Please refer to Examples 1 and 2 at Annex I which show revenue recognition for contracts with more than one performance obligation.

7.0 Exceptions

The following are a few situations where the accounting revenue recognised under IFRS 15 are not acceptable for Income Tax purposes:

(a) Advance Payment

A seller will have to account advance payment received as a current liability in its balance sheet. However, if the seller does not expect to recognize revenue from the underlying sales within one year, the liability should be classified as a long- term liability. Consequently, advanced payment may be deferred and recognized in future years. However, the revenue recognition will be subject to the provisions of Section 12 of the Income Tax Act which has been reproduced in Paragraph 5.0 above.

Please refer to Examples 3 and 4 at Annex II.

(b) Contracts with Significant Financing Components

One of the requirements of the standard is that when consideration is received in advance or paid after the goods or services are delivered, the entity is required to account for the financing effect, which may be interest income or interest expense. This requirement is needed by IFRS 15 if the period between transfer of goods or services and payment date exceeds one year. Such accounting adjustments to treat that part of consideration as interest are notional in nature and must be disregarded for tax purposes.

In effect, as notional interest expenses are expenses that have not been incurred, adjustment need to be made to the tax computation to disallow any notional interest expense and subject the correct amount of revenue to tax as income in the year it is earned.

Similarly, notional interest income should not be brought to tax, necessary adjustment must be made in the tax computation to bring the correct amount of revenue to tax as income in the year it is earned.

Please refer to Examples 5 and 6 at Annex III.

8.0 Transitional Adjustments

An entity may adopt IFRS 15 by using one of the following methods:

1. **Full Retrospective Method**
   - The financial statements are presented as if IFRS 15 has always been applied
   - Comparatives (including the opening balance sheet) are restated.
2. **Modified Retrospective Method**
   - The financial statements are retrospectively adjusted but the cumulative impact is recognized at the date of initial application (1 January 2018 for calendar year ends)
   - Comparatives are not restated and are presented using existing accounting standards.

In the year (or accounting period) in which IFRS15 is adopted for the first time (hereafter referred to as 'initial year'), there could be an over-recognition or under-recognition of income attributable to prior years or prior accounting periods regardless of whether full retrospective method or modified retrospective method is adopted for accounting purposes. The upward and downward transitional adjustments which are revenue in nature would be assessed to tax or allowed as a deduction in the initial year. By allowing any downward adjustment that is revenue in nature as a deduction in the initial year avoids the difficulties of having to track pre-IFRS 15 determined revenues (which would be recognised late under IFRS 15). The related revenue would be taxed accordingly when it is subsequently recognised under IFRS 15. In other words, once the transitional adjustment is allowed in the initial year, the taxation of the related revenue starts afresh and there is no need for any further tax adjustment.

The same would apply for income under recognised in prior years. In this case, the income that was under recognised would be taxed in the initial year. Any upward transitional adjustment that is revenue in nature would be subject to tax in the initial year.

To facilitate matters, the transitional adjustments would be taxed at the rate applicable to income being taxed in the initial year. With such an approach there would not be any need to trace each adjustment back to the year in which the transaction arose and the applicable tax rate then.

Please refer to Example 7 at Annex IV.

9.0 Methods for Measuring Progress towards Completion

If a performance obligation is satisfied over time, revenue is recognized based on the progress towards complete satisfaction of performance obligation.

Measurement of progress is based on two methods, namely the **output method** or the **input method**.

The output method looks at the measure of progress of the asset being transferred to the customer. It uses direct measurement of value to the customer of the goods or services transferred to date, for example:

i. Surveys – the value of work certified to date
ii. Milestones reached
iii. Time elapsed
iv. Units produced or delivered

The input method looks at the resources used to date to create the asset being transferred, for example

i. Labour hours worked
ii. Costs incurred
iii. Resources consumed

Please refer to Example 8 at Annex V.

ANNEX 1

Example 1: Applying the IFRS 15 Five-Steps Model

On 1 January 2019, A Co. Ltd enters into a twelve-month 'pay monthly' contract for a mobile phone with a customer. The terms of the plan are:

a) The customer receives a free handset on 1 January 2019
b) The customers pay a monthly fee of Rs 4,000, which includes unlimited free minutes. The customer is billed on the last day of the month.

Customers may purchase the same handset from A Co. Ltd for Rs 8,000 without the payment plan. They may also enter into the payment plan without the handset, in which case the plan costs them Rs 3,500 per month.

The company's year-end is 30 June 2019.

Application of the five –step model to A Co. Ltd based on the above data:

i. **Identify the contract with a customer:**
A Co. Ltd has a twelve-month contract with the customer.

ii. **Identify the separate performance obligations in the contract:**

In this case, there are two distinct performance obligations:

1) The obligation to deliver a handset; and
2) The obligation to provide network services for twelve months

(**N.B:** The obligation to deliver a handset would not be a distinct performance obligation if the handset could not be sold separately, but it is in this case because the handsets are sold separately.)

iii. **Determine the transaction price:**

It is Rs. 48,000 that is, 12 months x the monthly fee of Rs. 4,000.

iv. **Allocate the transaction price to the separate performance obligations in the contract:**

The transaction price is allocated to each separate performance obligation in proportion to the **stand-alone selling price** at contract inception of each performance obligation, that is the stand-alone price of the handset (Rs. 8,000) and the stand-alone price of the network services (Rs. 3,500 x 12 = Rs. 42,000):

Performance obligation	Stand-alone selling price (Rs)	% of total	Revenue (=relative selling Price =Rs 48,000 x %) (Rs)
Handset	8,000	16%	7,680
Network services	42,000	84%	40,320
Total	***50,000***	***100%***	***48,000***

v. **Recognise revenue when (or as) the entity satisfies a performance obligation,** that is when the entity **transfers** a promised good or service to a customer. This applies to each of the performance obligations:

1) When A Co. Ltd gives a handset to the customer, it needs to recognise the revenue of Rs 7,680.
2) When A Co. Ltd provides network services to the customer, it needs to recognise the total revenue of Rs 40,320. In practice, this is done once per month as the billing happens.

Applicable Journal entries in the books of A Co.Ltd:

On 1 January 2019

	Rs.	Rs.
DEBIT Receivable (unbilled revenue)	7,680	
CREDIT Revenue		7,680
Being recognition of revenue from the sale of the handset		

On 31 January 2019

The monthly payment from the customer is split between amounts owing for network services and amounts owing for the handset.

	Rs.	Rs.
DEBIT Receivable (Customer)	4,000	
CREDIT Revenue (40,320 / 12)		3,360
CREDIT Receivable (unbilled revenue) (7,680 / 12)		640
(Being recognition of revenue from monthly provision of network services and 'repayment' of handset)		

Differences between IAS 18 and IFRS 15

Under IAS 18, A Co. Ltd would not recognise any revenue from the sale of handset, on the grounds that A Co. Ltd has given it to the customer for free. A Co. Ltd would view the free handset as a marketing cost which would be recognised in Profit or Loss immediately.

Revenue from the provision of network services would be recognised on a monthly basis as follows:

		Rs.	Rs.
DEBIT	Receivable / Cash	4,000	
CREDIT	Revenue		4,000

A Co. Ltd's year end is 30 June 2019, which means that the contract falls into more than one accounting period. The impact from IAS 18 to IFRS 15 for A Co. Ltd, for the year ended 30 June 2019 is as follows:

For the period 1 January 2019 to 30 June 2019		
Performance Obligation	**Under IAS 18 (Rs.)**	**Under IFRS 15 (Rs.)**
Handset	0	7,680
Network Services (4,000 x 6) | (3,360 x 6)	24,000	20,160
TOTAL	**24,000**	**27,840**

As can be seen from the above, the variation in timing may have income **tax implications** and if the tax rate changes, it may have an overall effect on net profit after tax.

However, it is interesting to note that **VAT treatment** will continue to be governed by the VAT Act which provides that **a supply** is deemed to take place at the **earlier of the invoice date or date of receipt of payment**. Hence, in the above example, for VAT purposes, the value of the supply for the year ending 30 June 2019 will be Rs 24,000 and not Rs 27,840.

Note: For construction works provided to a Ministry, Government department, local authority or the Rodrigues Regional Assembly under a construction works contract in respect of invoices issued during the period 1 October 2020 to 30 September 2022, the supply shall be deemed to take place at the time payment for that supply is received by the supplier.

Example 2: Design and Construction of Building

B Co. Ltd is engaged by C Co. Ltd to design a building and also to construct the building once the design has been approved. C Co. Ltd is the owner of the land where the building is to be constructed. These activities are both within the same contract and the contract price is for Rs.10m.

C Co. Ltd could benefit from the design services by itself as they could engage another construction company to construct the building with the design specifications made by B Co Ltd. The standalone selling price for the design services is Rs.1.2m and Rs. 9m for the construction services.

The contract consists of two distinct performance obligation namely design and construct. The contract price needs to be allocated as follows:

Contract components	Standalone Selling Price (Rs.)	Revenue
Design	1.2m	1,176,470 [(1.2/10.2) x 10m]
Construction	9m	8,823,530 [(9/10.2) x 10m]
Total	**10.2m**	**10m**

The revenue from the design services would potentially only be recognised when the design specifications were approved by the customer, and the **construction revenue** would be recognised **over time** as the building will be constructed on the customer's land.

ANNEX II

Example 3: Advance Payment

D Co. Ltd is engaged in tertiary education and charges registration fees payable in full on enrolment of students. The course is for a period of 3 years.

The performance obligations of the entity are to

i. Deliver lectures for a period of 3 years,
ii. Conduct examination and award certificate.

The registration fee is part of the transaction price and is paid in advance. In fact as the registration fee is a non-refundable amount charged to students it is not a distinct performance obligation.

The registration fee is an advance payment for future services and would be recognised as revenue when the service is performed. Therefore the registration fee will have to be spread over the 3 years period although the whole fee is paid at the time of registration.

Example 4: Advance Payment – Accounting for Initial Rental Premiums

E Co. Ltd has constructed a shopping complex and has entered into a 10 - year lease with tenant F. The tenant has agreed to pay an initial premium of Rs 12m in addition to the annual reduced rent of Rs 1.2m.

Under IFRS 15, E Co. Ltd should recognise the premium received on a straight line basis over the lease term. This would result in total rental income of Rs 2.4m per annum [1.2m + (12m/10)].

However, in view of Section 12 of the Income Tax Act, E Co. Ltd should declare the following income for income tax purposes during each of the first 6 years:

Description	**Rs.**
Premium (1/6) x 12m	2m
Reduced Rent	1.2m
TOTAL	**3.2m**

Then for the subsequent 4 years, E Co. Ltd will declare an annual rental income Rs1.2m.

ANNEX III

Example 5: Time Value of Money - Where a Deferred Payment is received by the Entity

On 1 January 2018, G Co. Ltd sold furniture to a customer for Rs 160,000 with a 3 years' interest-free credit. The customer took delivery of the furniture on 1st January 2018. The sum of Rs 160,000 is payable to G Co Ltd on 31 December 2020. G Co. Ltd.'s incremental borrowing rate is 8% and it has adopted IFRS 15 since 1st January 2018. The company closes its account on 31st December each year.

On the basis of the above data, the transaction price is Rs 127,013 [160,000 * (1/ $(1.08)^3$)] because the time value of money must be considered when determining the transaction price. Under IFRS 15 interest income will thus be recognised as follows:

	Method	Rs.
2018	Rs. 127,013 x 8%	10,161
2019	Rs. (127,013 + 10,161) x 8%	10,974
2020	Rs. (127,013 + 10,161 + 10,974) x 8%	11,852

Applicable journal entries in G Co. Ltd's book are as follows:

1 January 2018:

	Rs.	Rs.
DEBIT Receivable	127,013	
CREDIT Revenue		127,013
(Recognition of revenue and contract receivable upon delivery of furniture)		

Tax adjustment for 2018: Revenue accrued to the taxpayer (i.e. the amount the taxpayer is entitled) is Rs. 160,000. Adjustment has to be made in the corporate income tax computation so that full amount of Rs. 160,000 should be subject to tax.

2018:

	Rs.	Rs.
DEBIT Receivable	10,161	
CREDIT Interest Income		10,161
(Recognition of interest income)		

2019:

	Rs.	Rs.
DEBIT Receivable	10,974	
CREDIT Interest Income		10,974
(Recognition of interest income)		

2020:

	Rs.	Rs.
DEBIT Receivable	11,852	
CREDIT Interest Income		11,852
(Recognition of interest income)		

Tax adjustment for 2018, 2019 and 2020: The interest income recognised in accounting entries under the IFRS 15 should not be taxable and an appropriate adjustment should be made in the corporate tax computation for each of these three years. Otherwise this would lead to double taxation.

Example 6: Time Value of Money – Where an Advanced Payment is received

On 1st Jan 2018, H Co. Ltd contracted to sell product X, with upfront cash receipts of Rs. 500,000. The product will be delivered in 2 years, i.e. on 31 December 2019. H Co. Ltd.'s incremental borrowing rate is 5%.

During the 2 years from contract inception until the transfer of product X interest expense will be recognised as follows:

	Method	Rs.
2018	Rs. 500,000 x 5%	25,000
2019	Rs. (500,000 + 25,000) x 5%	26,250

Applicable journal entries in taxpayers' books will be as follows:

2018:

	Rs.	Rs.
DEBIT Interest Expense	25,000	
CREDIT Contract Liability		25,000
(Recognition of interest expense on upfront payment)		

2019:

	Rs.	Rs.
DEBIT Interest Expense	26,250	
CREDIT Contract Liability		26,250
(Recognition of interest expense on upfront payment		

	Rs.	Rs.
DEBIT Contract Liability	551,250	
CREDIT Revenue		551,250
(Recognition of revenue for the transfer of Product X at end of 2 years)		

Tax adjustments: Although Rs. 551,250 will be recognized in 2019 as revenue in accordance with IFRS 15, a tax adjustment will be needed in the Corporate Income Tax computation of H Co. Ltd to deduct Rs 51,250 notional interest as the revenue accrued to the taxpayer (i.e. the amount the taxpayer is entitled should be Rs 500,000). Therefore, only the sum of Rs 500,000 should be subject to income tax and the interest expenses recognized in the accounts being notional (i.e. not incurred) are not deductible for income tax purposes.

ANNEX IV

Example 7: Transitional adjustment

K Co. Ltd, a company providing centralized data services, adopts IFRS 15 for the annual period starting 1 January 2018. During the transition process, K Co. Ltd selected for consideration 2 contracts with two companies, under which free computers were provided. Both contracts are for data processing only and the details are as follows:

Contract 1: Starting 1st July 2016 for 5 years with monthly fee of Rs. 300,000; 10 computers with total cost of Rs. 250,000 were given for free.

Contract 2: Starting 1st September 2017 for five years with monthly fee of Rs. 200,000; 5 computers with total cost of Rs 125,000 were given for free

During transition process, K Co. Ltd found the following:

- Under current standard, IAS 18, no revenue for computers was recognised and cost of computers was treated as a marketing expense.
- Under IFRS 15, transfer of computers is a separate performance obligations and K Co. Ltd need to allocate transaction price also to computers. Stand-alone selling price of one computer is Rs 45,000.

Allocation of transaction price to performance obligations:-

	Contract 1		**Contract 2**	
Transaction price	**18,000,000**		**12,000,000**	
	Stand-alone selling price	Allocated transaction price	Stand-alone selling price	Allocated transaction price
Monthly services	18,000,000	17,560,976	12,000,000	11,779,141
Computers	450,000	439,024	225,000	220,859
TOTAL	**18,450,000**	**18,000,000**	**12,225,000**	**12,000,000**

Analysis of reporting:-

	IAS 18		IFRS 15		
	2016	**2017**	**2016**	**2017**	**2018**
Contract 1	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**
Computers	0	0	439,024	0	0
Services	1,800,000 6 x300,000	3,600,000 12 x 300,000	1,756,097 (6/60) x 17,560,976	3,512,195 (12/60) x 17,560,976	3,512,195 (12/60) x 17,560,976
Contract 2					
Computers	0	0	0	220,859	0
Services	0	800,000 4 x 200,000	0	785,276 (4/60) x 11,779,141	2,355,828 (12/60) x 11,779,141
TOTAL					
Computers	0	0	439,024	220,859	0
Services	1,800,000	4,400,000	1,756,097	4,297,471	5,868,023
GRAND TOTAL	**1,800,000**	**4,400,000**	**2,195,121**	**4,518,330**	**5,868,023**
Upward Adjustment					**513,451**

Differences (IAS 18 vs. IFRS 15)			
	2016	**2017**	**TOTAL**
Computers	439,024	220,859	**659,883**
Services	-43,903	-102,529	**-146,432**
TOTAL	**395,121**	**118,330**	**513,451**

Transition using modified retrospective method

Journal entries:

	Rs.	**Rs.**
DEBIT Contract Asset (439,024 + 220,859 – 43,903 – 102,529)	513,451	
CREDIT Retained Earnings		513,451
(Restatement of previous periods = cumulative catch – up)		

Tax adjustment: In the initial year (i.e. the year in which IFRS 15 is adopted – in the present case the year ended 31 December 2018), there is an upward adjustment of Rs 513,451 which would be assessed to tax.

Annex V

Example 8: Measuring progress towards completion

L Co. Ltd, a property developer, builds a residential complex consisting of 50 apartments of similar size and proportions; however, they may be customised to clients' needs.

The company enters into 2 contracts with 2 different clients (M and N). Both clients want to buy almost identical apartments and agree with total price of Rs. 3,000,000 per apartment. The payment schedule is as follows:

- Upon the signature of a contract, clients pay deposit of Rs. 300,000 each
- Milestone: 1 year prior planned completion, L Co. Ltd will deliver progress reports to clients and clients need to pay Rs. 1,500,000.
- Completion: Upon the completion of the construction, the legal ownership to the apartment is transferred to clients and they pay the remaining amount of Rs. 1,200,000.

Assumed period of construction is 2 years from the date of contract. L Co ltd has the right to retain the payment from any client in the situation when that client defaults on the contract before its completion.

The contracts with clients M and N are **<u>NOT</u>** identical.

Further terms specify:

- No other specific terms in the contract with Client M.
- The contract with client N specifies that the company cannot transfer or direct the apartment to another client and in return, the client N cannot terminate the contract. If the client N defaults on the contract before its completion, the company has the right for all contractual prices if it decides to complete the contract.

Total cost of construction is Rs. 2,400,000, thereof Rs. 1,050,000 in the first year of construction and Rs. 1,350,000 in the second year of construction

Revenue will be recognised as follows:

Contract M

The criterion for recognising revenue over time is **NOT met**

- An apartment can be easily sold/transferred to another client in the case of default
- The company has NO enforceable right to payment for performance up to date

Recognise revenue at a point of time

Year 1:

NO revenue is recognised

Year 2: – at delivery of apartment

The company will recognise revenue of Rs. 3,000,000 (full amount) at the point of delivery.

Journal entries

1. ***Upon the signature of contract** – deposit received from Client A*

	Rs.	Rs.
DEBIT Cash	300,000	
CREDIT Contract Liability		300,000

2. ***Milestone 1** – progress payment received from client*

	Rs.	Rs.
DEBIT Cash	1,500,000	
CREDIT Contract Liability		1,500,000

3. ***Completion** – final payment received from client M*

	Rs.	Rs.
DEBIT Cash	1,200,000	
CREDIT Contract Liability		1,200,000

4. ***Delivery** of apartment to client M*

	Rs.	Rs.
DEBIT Contract Liability	3,000,000	
CREDIT Revenue		3,000,000

Contract N

The criterion for recognising revenue over time **IS met**:

- The company cannot direct the apartment for the alternative use
- The company has the enforceable right to payment for performance completed to date

Revenue for contract N must be recognised over time.

Revenue recognition

Revenue is recognised with reference to the progress towards completion stage

In this case, it is appropriate to measure progress towards completion by the input methods

Year	Costs	Progress	Revenue
1	1,050,000	43.75%	1,312,500
2	1,350,000	56.25%	1,687,500
TOTAL	**2,400,000**	**100%**	**3,000,000**

Journal entries

1. ***Upon the signature of contract*** *– deposit received from Client B*

		Rs.	Rs.
DEBIT Cash		300,000	
CREDIT	Contract Liability		300,000

2. ***Milestone 1*** *– progress payment received from client*

		Rs.	Rs.
DEBIT Cash		1,500,000	
CREDIT	Contract Liability		1,500,000

3. ***Year 1*** *– revenue recognised from contract N*

		Rs.	Rs.
DEBIT Contract Liability		1,312,500	
CREDIT	Revenue from Contract N		1,312,500

4. ***Year 2: Completion*** *– final payment received from client N*

	Rs.	Rs.
DEBIT Cash	1,687,500	
CREDIT Contract Liability		1,687,500

5. ***Delivery*** *of apartment to client B*

	Rs.	Rs.
DEBIT Contract Liability	1,687,500	
CREDIT Revenue from Contract N		1,687,500

S. Lal

Director General – Mauritius Revenue Authority

15 February 2021