**Daxin Research Institute publish 100 FAQs about IFRS15**

The new revenue standard is likely to affect the accounting method of revenue. It was jointly issued by the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) in May 2014, and will replace the current guidelines under the International Financial Reporting Standards (IFRS) and the US Generally Accepted Accounting Principles (US GAAP), and a single new revenue recognition model was introduced for customer contracts. For some companies, the new standard will have a huge impact on the way and timing of revenue recognition. All companies will be subject to new and broader disclosure requirements. The new standard will take effect during the annual period beginning on or after January 1, 2018, allowing early adoption.

Due to the large changes in the new revenue standards, the complexity of the content, and more principled regulations, all enterprises will have varying degrees of impact. At the same time, in recent years, new businesses and new business models have emerged one after another, and there are still many confusions when they implement the new revenue standards. Daxin Technical Standards Department has sorted out 100 frequently asked questions and answers for the implementation of the new revenue standards from the aspects of contract identification, revenue recognition, revenue measurement, accounting treatment of special transactions, and presentation, so that people in the industry can better understand and apply the new revenue standards.

This question and answer is only for the reference of accounting firms and relevant practitioners in their practice, and cannot replace relevant laws and regulations, CPA practice standards, and CPA professional judgments.

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# [Question 1] What major changes occur than the original revenue standard?

Answer: The main changes are reflected in the following five aspects.

First, the original revenue standard and the construction contract standard are included in the model of revenue confirmation;

The second is to control the judgment criteria for the risk remuneration model as an revenue confirmation time, no longer distinguish the sales of goods and provide the boundaries of the service, and the control model will split the different compliance obligations within the same contract, consider each compliance obligation to control each time points (or period), the '' risk remuneration model "in the original revenue standard does not emphasize whether different parts of the mixed sales should be analyzed separately in risk rewards;

Third, the revenue measurement should be determined by the contract terms and combined with previous habits;

The fourth is to clarify the practice guidelines for a particular transaction arrangement;

The fifth is to make more disclosed requirements from qualitative and quantitative aspects.

# [Question 2] How to understand the connotation of "control" transfer when revenue confirmation?

Answer: An asset is transferred when the customer is controlled to the asset (or during the process). Control refers to the ability to dominate the use of goods or services and obtain almost all remaining benefits of goods or services, and control of goods or services may also be transferred over a certain time. The benefits can be obtained in direct or indirectly, including the use of the assets to produce goods or provide services, using this asset to improve the value of other assets, using this asset to pay off liabilities, reduce costs, sell or exchange this asset, As the mortgage guarantee for loans, and holding this asset.

# [Question 3] What is the "five-step" model of the revenue standard?

Answer: The first step is to identify the contract with the customer; the second step is to identify the single compliance obligations in the contract; the third step is to determine the transaction price; the fourth step is to share the transaction price to each single compliance obligation; the fifth step is to confirm the revenue while performing various compliance obligations.

Among them, the first step, the second step and fifth step is mainly related to revenue confirmation, and the third step and fourth steps are mainly related to the metric of revenue.

# [Question 4] Is the revenue standard applicable to the exchange of inventory for non-monetary assets?

Answer: Exchange inventory for non-monetary assets such as customers' inventory, fixed assets, and intangible assets, and conduct accounting treatment in accordance with revenue standards.

# [Question 5] Does the debtor use the goods or services produced by daily activities to pay off the debt, whether the revenue standard is applicable?

Answer: The revenue is formed in the daily activities of the enterprise. Under normal circumstances, debtors use goods or services produced in their daily activities to pay off debts, which are not part of the daily activities of the enterprise. Therefore, debt restructuring does not apply to revenue standards and should not be treated as a sale of inventory.

# [Question 6] When an enterprise disposes of fixed assets, intangible assets, etc., which criteria should be followed when determining the timing of disposal and measuring the disposal gains and losses?

Answer: For long-term asset disposal transactions such as fixed assets and intangible assets, it should be handled in accordance with the relevant provisions of the revenue standards. This is because the relevant standards have more principled for determining the timing of disposal and measuring the profit and loss of disposal.

# [Question 7] Under the revenue standard, are there situations in which the same economic business adopts different accounting treatments?

Answer: The same or similar transactions or events that occur in the same enterprise at different periods should be handled in a consistent manner. The same or similar transactions or events that occur in different companies should adopt prescribed accounting policies to ensure that the accounting information is consistent and comparable.

The revenue standard takes the rights and obligations agreed in the contract as the core point of accounting treatment. There may be cases where the same or similar transactions are accounted for differently due to different contract terms.

For example, in a contract signed between a shipbuilding company and a customer, when the contract terms meet ''the goods produced during the performance of the company have an irreplaceable use, and the company has the right to collect payments during the entire contract period, according to the cumulative amount that has been completed so far In the performance part of the contract“, the revenue shall be recognized according to the time period method, otherwise the revenue shall be recognized according to the time point method.

# [Question 8] How to distinguish between the revenue standard and the lease standard for the revenue of the right-of-use nature? How to split the contract of the mixed business?

Answer: If the lease standard applies to the contract as a whole, the accounting treatment will be carried out in accordance with the lease standard. If a transaction partly applies the revenue standard and partly applies the lease standard, the contract should be split.

For example, a medical service company signs a contract with a customer, stipulating that the company provides the customer with medical testing equipment for free, but the customer must purchase testing reagents from the company when using the equipment. In this case, the company should first determine whether the medical testing equipment provided by the company is leased (ie, leased equipment). If it is leased, the lease component and non-lease component in the contract need to be separated according to the lease standard.

# [Question 9] How to identify the contract with the customer?

Answer: If the contract between the company and the customer meets the following five conditions at the same time, the company should perform the performance obligations in the contract, that is, recognize revenue when the customer obtains control of the relevant goods: first, the parties to the contract have approved the contract and promise The respective obligations will be fulfilled; the second is that the contract clarifies the rights and obligations of the parties to the transferred goods; the third is that the contract has clear payment terms related to the transferred goods; the fourth is that the contract has commercial substance, that is, performance The contract will change the risk, time distribution or amount of the company’s future cash flow; Fifth, the consideration that the company has the right to obtain due to the transfer of goods to the customer is likely to be recovered.

# [Question 10] What are the categories of "customers"?

Answer: The term "customer" in the revenue standard refers to the party that has entered into a contract with an enterprise to purchase goods or services produced by the enterprise from its daily activities and pay the consideration. The scope of customers includes the subjects in the distribution chain related to the contract. If a transaction includes the main responsible person, the agent and the end user, and the enterprise is the agent, then the main responsible person and the end user are both the enterprise's customers. For example, a company provides Internet advertising services to multiple companies, but only matches the advertising space provided by the advertisers and publishers, and does not provide any sophisticated advertising positioning services, that is, the company is an agent, and the revenue is recognized on the net basis , Then advertisers and publishers are both corporate customers.

# [Question 11] How to understand the legal binding force of the rights and obligations stipulated in the contract and the impact on the identification contract?

Answer: Whether the rights and obligations stipulated in the contract are legally binding, it needs to be judged according to the legal environment and practical operation of the enterprise. If each party to the contract has the right to unilaterally terminate the completely unexecuted contract, and there is no need to compensate the other parties in the contract, the contract shall be deemed to be non-existent. Among them, a completely unexecuted contract refers to a contract in which an enterprise has not yet transferred any goods promised in the contract to the customer, and has not yet received and is not yet entitled to receive any consideration for the promised goods.

# [Question 12] How does the contract change affect the original contract and performance obligations?

Answer: If the contract change adds clearly distinguishable goods and the contract price, and the new contract price reflects the stand-alone selling price of the new product, the contract change will be treated as a separate contract (applicable in the future); if there is no increase, it can be clearly distinguished It is necessary to judge whether there is a clear distinction between the untransformed commodities and the transferred commodities. If it can be clearly distinguished, it shall be regarded as the termination of the original contract and the conclusion of a new contract (deemed as a new contract); if it cannot be clearly distinguished, it shall be regarded as an integral part of the original contract (accumulative additional adjustment method).

# [Question 13] What form of contract modification is the additional contract revenue of the engineering construction industry?

Answer: The additional contract of the construction company may be due to the following reasons:

The quality of the project is good, and the owner will give the project reward;

During the construction period, for the materials and equipment purchased by the construction enterprise (materials supplied by Party B) due to the increase in market prices, the owner shall give additional construction funds;

Changes in the scope of construction have led to an increase in the amount of work to give additional revenue.

The first two cases did not add new performance obligations and should be part of the original contract. For the third situation, if the remaining goods or services provided by the enterprise are indistinguishable from the goods or services that have been transferred on or before the date of contract modification, then the contract is still a single performance obligation and is part of the original contract section.

# [Question 14] How to distinguish and apply contract modification and variable consideration in practice?

Answer: In general, variable consideration has two obvious characteristics: first, the accumulated confirmed revenue is very likely not to be materially reversed after the period; second, it is reasonable to expect that both parties to the contract may adjust the contract price.

Contract changes are mainly reflected in the need to re-negotiate and amend the contract signed by both parties. For example, if the contract price changes due to the COVID-19 epidemic, but it is not clearly stipulated in the previous contract, it is a contract change and should be accounted for in accordance with the relevant provisions of the contract change.

# [Question 15] If there is no relevant agreement on the time when the contract consideration is collected in the contract, will it meet the revenue standard?

Answer: One of the conditions for the establishment of the contract is that there should be clear payment terms related to the transferred goods. If the contract lacks the relevant agreement on the time when the contract consideration is collected, it is very likely that the conditions for the establishment of the contract are not met, and the contract is not established and the relevant contract revenue cannot be recognized according to the revenue standard.

# [Question 16] How to understand the five conditions for the establishment of a contract"The consideration is probable be recovered"?

Answer: When assessing whether the consideration that the enterprise has the right to obtain due to the transfer of goods to the customer is probable recovered, it should only consider the customer's ability and intention to pay the consideration upon maturity (that is, the customer's credit risk). The ‘‘probable’’ here refers to the possibility that the consideration is more than 50% satisfied.

# [Question 17] How to understand the restriction on the variable consideration amount included in the transaction price?

Answer: After the enterprise determines the variable consideration amount according to the expected value or the most likely amount, the variable consideration amount included in the transaction price should meet the restriction conditions, that is, the transaction price including the variable consideration should not exceed the time when the relevant uncertainty is eliminated. It is very probable that the accumulated recognized revenue will not have a significant reversal of the amount.

When assessing uncertainty, an enterprise should also consider the possibility of revenue reversal and the proportion of the reversal amount. Among them, “very likely” is a relatively high threshold, and the probability of its occurrence should be much higher than “probable (more than 50°%)”, but it is not required to be “basically certain” (more than 95% probability) )", the purpose of which is to avoid the occurrence of uncertain factors leading to the reversal of previously recognized revenue.

When evaluating the proportion of the amount of revenue reversal, the fixed consideration and variable consideration contained in the contract should be considered at the same time. That is, the enterprise should evaluate the proportion of the amount of revenue reversal that may occur relative to the total consideration of the contract (Including fixed consideration and variable consideration).

# [Question 18] After signing the contract, is it necessary to reassess the recoverability when the customer's credit risk increases significantly? Can the previously recognized revenue be adjusted?

Answer: If at the start date of the contract, the enterprise believes that the contract meets the five conditions of contract establishment stipulated in the revenue standards. However, in the subsequent period, the customer’s credit risk has risen significantly high, the company needs to evaluate whether the consideration that it is entitled to obtain from transferring the remaining goods to the customer in the future is likely to be recovered. If the conditions that are likely to be recovered cannot be met, the contract will no longer meet the five conditions for the establishment of the contract stipulated in the revenue standards and should stop recognizing revenue. Under this condition, the recognition of revenue should be stopped.

At the same time, the previously recognized revenue should not be adjusted. In general, consideration should be given to whether the contract assets and receivable balances corresponding to the previously recognized revenue are impaired. If there is impairment, an impairment provision should be made.

In the subsequent period after the revenue recognition is stopped, when the contract establishment conditions are met again, or when the company no longer has the remaining obligation to transfer the goods to the customer, and the consideration that has been collected from the customer does not need to be returned, the consideration that has been collected can be recognized for revenue.

# [Question 19] If two or more contracts are merged into one "large" contract, how should the accounting is handled?

Answer: If two or more contracts are merged into one contract, it is still necessary to perform the second to fifth steps of accounting for the "large" contract according to the five-step method, including distinguishing what is included in the merged "large" contract. For each individual performance obligation, the transaction price and apportionment of the “large” contract are determined, and revenue is recognized when each individual performance obligation is fulfilled.

# [Question 20] How to determine the contract period?

Answer: The term of a contract refers to the period of currently enforceable legally binding rights and obligations owned by both parties to the contract. Its length will affect the determination and apportionment of the transaction price and the recognition of revenue.

In practice, it is common for companies to sign multi-year service or technology license contracts with customers at a time, especially in the field of intellectual property rights such as software, patents, and franchise rights.

For example, a software company signed a three-year software license arrangement with a customer, allowing customers to use the company's software to design products, and pay a license fee of 1 million yuan per year for the next three years. The contract stipulates that if both parties breach the contract (for example, the customer fails to pay the license fee on schedule), they shall pay a liquidated damage equivalent to 50% of the total contract amount.

In this case, how to determine the contract period? Should the revenue be recognized as one contract at one time (assuming that the point-of-time method is met), or should it be split into three contracts to recognize revenue in installments?

The key to determining the contract period is to determine the impact of the compensation clause on the contract period when the contract is terminated. If all parties to the contract have the right to unilaterally terminate the completely unexecuted contract and there is no need to compensate the other parties in the contract, the contract shall be deemed to not exist.

In this case, because both parties have to pay significant and substantial liquidated damages for breach of contract, the contract period is likely to be equal to the 3 years agreed in the contract. This is because the legally binding rights and obligations exist in the entire contract for 3 years.

# [Question 21] How to evaluate the impact of contract termination clauses and liquidated damages when determining the duration of the contract?

Answer: If the contract stipulates that either party can terminate the contract at any time without cost, then the contract can only be regarded as a contract concluded on a period-by-period (year/month) basis. If there is a significant penalty for breach of contract, regardless of whether both parties to the contract or only the customer has the right to terminate the contract, the duration of the contract is likely to be consistent with the contract terms. If only the customer can terminate the contract without cost, then this right will be regarded as a customer's option to renew the contract, and when it gives the customer significant rights, it will be regarded as a performance obligation.

How to judge whether the liquidated damages are significant? Generally speaking, liquidated damages exceeding 30% of the transaction price can be regarded as significant.

# [Question 22]How to determine the timing or starting point of revenue recognition when the contract is signed after the work is done first?

Answer: In practice, there is a situation where the company signs the contract after doing the work first. For example, the product has been delivered to the customer, or the product or service that requires a period of construction has been started, but no contract has been signed. The standard stipulates that the prerequisite for revenue recognition is the establishment of the contract, and the rights and obligations of both parties must be clarified, as well as the terms of payment, etc., that is, the first step of the “five-step method” model should be satisfied. Therefore, the above-mentioned circumstances should be based on the principle of late contract signing and commodity delivery or construction activities, as the time point (a time point for performance) or the starting point (a period of time for performance) of revenue recognition.

# [Question 23] What conditions should be met at the same time for the separation of performance obligations?

Answer: One is that the customer can benefit from the product itself or the use of the product with other easily available resources; the second is that the company's commitment to transfer the product to the customer can be distinguished from other commitments in the contract.

The following situations cannot be distinguished separately, That is：

The company needs to provide major services to integrate the product and other products promised in the contract into the combined output agreed in the contract and transfer it to the customer,

This product will significantly modify or customize other products promised in the contract,

This commodity is highly related to other commodities promised in the contract.

# [Question 24] Is the performance obligation equal to the contractual obligation assumed by the enterprise as stipulated in the contract?

Answer: The performance obligation refers to the promise that the company transfers clearly distinguishable commodities to the customer in the contract. Performance obligations include not only the explicit commitments in the contract, but also the commitments that the customer reasonably expects the company will perform when the contract is concluded due to the company's publicly announced policies, specific statements, or past customary practices.

The contractual obligations assumed by the enterprise as stipulated in the contract cannot be simply equivalent to the performance obligations under the income standards:

First, the initial activity carried out by the enterprise to fulfill the contract does not usually constitute a performance obligation, unless the activity transfers the promised goods to the customer.

Second, contractual obligations usually include guaranteed quality assurance, which will not be recognized as a performance obligation under the income standard.

Third, in addition to the above two types of contractual obligations, when there is more than one contractual obligation, it is necessary to consider whether the contractual obligations themselves are clearly distinguishable. If it can be distinguished by itself, it is necessary to further consider whether there is a major integration, major modification or customization between the various contractual obligations (ie, goods or services), and whether there is a high degree of relevance. The transfer of a series of substantively the same and the same transfer mode of the promise of clearly distinguishable commodities to customers should also be regarded as a single performance obligation.

Fourth, when an enterprise recognizes a promise in a contract, it needs to consider whether there is a valid expectation from the customer's point of view that is, it is expected that the enterprise will provide a product or service. The concept of performance obligations also includes presumed performance obligations based on factors other than written contracts (such as past business practices, industry norms). For example, for telecommunications companies to provide mobile phones for free, car manufacturers to provide repairs for free, and supermarkets to provide points, etc., it needs to be regarded as a purchase by the customer, and consideration will be allocated to these performance obligations.

Therefore, the scope and quantity of performance obligations are not necessarily equivalent to the obligations stipulated in the contract.

# [Question 25] Can the system integration business be split into multiple performance obligations (such as the split of hardware and software products)? Is it possible to confirm income according to the time period method?

Answer: System integration usually refers to the business of combining software, hardware and communication technology to solve information processing problems for users. The separate parts of the integration are originally independent systems, and the parts of the integrated whole can be mutually connected. Work in an organic and coordinated manner to give full play to the overall benefits and achieve the goal of overall optimization. Due to the above-mentioned characteristics of system integration, it is usually difficult to meet the conditions for the separation of performance obligations, that is, a single component often cannot bring economic benefits to customers, so in most cases, system integration is regarded as a performance obligation.

If the system integration is a "turnkey" project, it can be understood as a kind of "combined output", which can only play a role after the overall completion and acceptance. In the process of enterprise construction, the customer can neither obtain nor consume the enterprise performance The economic benefits of the company cannot control the products under construction during the performance of the company, so the revenue is generally recognized according to the time point method (unless the products produced during the performance of the company have irreplaceable uses, and the company has the right to collect payments for the part of the contract that has been completed so far).

# [Question 26] Can the engineering contractor separate the design service, equipment supply, and construction and installation engineering (EPC) into separate performance obligations?

Answer: The separation of performance obligations should meet two conditions, that is, the customer can benefit from the product itself or from the use of the product with other easily available resources, and the company's commitment to transfer the product to the customer can be separately distinguished from other commitments in the contract.

In practice, the general contractor needs to coordinate and be responsible for the overall quality, safety, cost and schedule of the services and projects (single commitment) it has contracted, so as to be able to deliver to customers in accordance with the time and quality specifications agreed in the contract.

The contractor needs to provide significant services and integrate these individual commitments as inputs into a combined output before they can be delivered to the customer. This shows that the individual commitments in the contract cannot be distinguished separately. Therefore, generally speaking, the design services, equipment supply, construction engineering and installation engineering in the general contract of the project should be regarded as a performance obligation.

# [Question 27] Is the gift a separate performance obligation?

Answer: For corporate promotions such as ‘’buy one get one free’’, ‘buy big, give small gift’, ‘’sale of goods’ and ‘gift of goods’ are both promises in the contract and should be regarded as two performance obligations. Accounting should be done in a manner similar to bundling sales, that is, according to the relative proportion of the stand-alone selling prices of the goods sold and the gifts, the contract consideration should be apportioned and recognized as revenue. The cost of the goods sold and the bonus gifts are converted into operating costs, and the cost of the gifts should not be separately recognized as sales expenses.

Samples, trial packs, gifts, etc., freely presented by the enterprise for promotional purposes, can be given without the recipient performing certain obligations (such as purchasing a certain value of goods) (such as the so-called "come and give it"), at this time the gift Costs should be recognized as sales expenses, revenue and carry-over costs are not recognized. Because the cost of gifts at this time does not correspond to the inflow of economic benefits, the conditions for revenue recognition are not met.

# [Question 28] From the perspective of cost-effectiveness, is it unnecessary to judge whether a non-significant product or service constitutes a separate performance obligation?

Answer: The FASB clearly stipulates that if some promised goods or services are not important in terms of a contract signed with a customer (no matter whether they are separate or combined, the amount or nature is not important), the company does not need to judge the Whether the product or service constitutes a performance obligation (but does not apply to the customer’s additional purchase options).

The IFRS15 revenue standard does not make clear provisions (exemptions), but the importance is a principle that all standards apply. For example, the sales contract stipulates that the product is installed by the customer after delivery, but it is not complicated. The company needs to provide technical guidance or training to the customer. Although it constitutes a single performance obligation, it is not significant and does not require a separate performance obligation to be judged.

# [Question 29] How should auto parts manufacturers participate in the R&D and production of molds and provide customers with parts related revenue?

Answer: After the auto parts manufacturer participates in the mold development, production and purchase, the ownership of the mold is sold to the customer, but the right to use still belongs to the part manufacturer. In practice, there are usually the following two situations.

Scenario 1: The customer generally signs a separate mold purchase contract with the component manufacturer. The customer provides the technical requirements for the mold. The auto component manufacturer contacts the mold supplier to purchase and make the mold. The customer conducts separate inspection and acceptance of the mold and pays mold costs when the mass production conditions are met. The contract usually stipulates that the ownership of the mold belongs to the customer, but the right to use belongs to the auto parts manufacturer.

Although auto parts manufacturers sign separate contracts with customers for molds, and customers individually accept molds, the customers benefit from the parts and components, not from the mold itself in order to obtain the mold, and the customer cannot use it with other easily available resources. Therefore, it is inclined to not regard the development and production of molds as a separate performance obligation, and should constitute a performance obligation together with the sales of parts and components. Relevant costs should be capitalized and included in inventory or other non-current assets as contract performance costs when the conditions are met.

Scenario 2: Auto parts manufacturers do not participate in the development of molds, but only purchase molds on behalf of customers. After customers take back the molds, they can continue to use them, and it is easier for customers to change parts manufacturers. This situation may indicate that the customer can benefit from the mold, and the manufacture of the mold may be more appropriate as a separate performance obligation. In this case, the auto parts manufacturer needs to judge whether it is the main responsible person or the agent based on the specific contract.

For other practical situations, we can refer to the above two situations for analysis and judgment based on specific circumstances.

# [Question 30] What conditions should be met to confirm income according to the time period method?

Answer: To use the time period method to recognize income, one of the following conditions must be met.

First, the customer obtains and consumes the economic benefits brought by the enterprise's performance at the same time as the enterprise performs the contract;

Second, customers can control the products that are being built during the company’s performance;

Third, the goods produced during the performance of the company have irreplaceable uses, and the company has the right to collect payments for the cumulative performance obligations that have been completed so far during the entire contract period.

The revenue standard no longer adopts a period or a time point for revenue recognition according to different requirements of business models or types. Instead, all businesses need to first consider whether one of the above three conditions is met. If one of them is met, revenue needs to be recognized within a period of time, otherwise revenue should be recognized at an appropriate point in time.

# [Question 31] When the time period method is met, can revenue be confirmed by the point method?

Answer: If one of the three conditions for revenue recognition in the time period method is met, revenue recognition should be made within a time period based on the performance progress, unless the performance progress cannot be reasonably determined. The revenue standard does not give companies the right to confirm revenue within a time period or at a certain point in time when they meet the conditions for recognizing revenue within a time period.

# [Question 32] Revenue is recognized according to the time period method, and what should be done if the performance progress cannot be reasonably recognized?

Answer: For the performance obligations performed within a certain period of time, only when the contract rate can be reasonably determined, the revenue should be confirmed according to the contract performance schedule. If an enterprise cannot obtain the reliable information required to determine the progress of its performance, it cannot reasonably determine the progress of its performance obligations. When the performance progress cannot be reasonably determined, if the company has already incurred cost estimates that can be reimbursed, the revenue should be confirmed according to the amount of the cost incurred until the performance progress can be reasonably determined.

# [Question 33] How to understand the first condition for fulfilling the contract within a period of time, "the customer obtains and consumes the economic benefits brought by the enterprise's performance at the same time as the enterprise performs the contract"?

Answer: The customer obtains and consumes the economic benefits brought by the enterprise's performance at the same time as the enterprise performs the contract. In more complicated situations, the hypothetical method can be adopted, that is, it is assumed that when replacing with another enterprise to continue to perform the remaining performance obligations, there is essentially no need to re-execute the work that the enterprise has completed so far.

When judging whether other companies do not actually need to re-execute the work that the company has completed so far, it should be based on the following two premises:

First, it does not consider potential restrictions that may prevent the company from transferring the remaining performance obligations to other companies, including contract restrictions or Practical feasibility restrictions;

Second, it is assumed that other companies that continue to perform the remaining performance obligations will not enjoy the benefits of any assets that the company currently controls and which are still controlled after the remaining performance obligations are transferred to other companies.

# [Question 34] Manufacture large-scale equipment or production lines for the customer’s production and business premises; is it a situation where "customers can control the products under construction during the performance of the enterprise"?

Answer: The Company uses its own technology to build production lines or integrated equipment at the customer's site, such as building a welding production line in the workshop of an automobile manufacturer, and building an intelligent detection line in the workshop of a home appliance manufacturing company. Because the construction of production lines is often complicated, customers cannot lead and participate in construction activities. If the company defaults, it cannot continue construction on the basis of the completed part. Therefore, before the construction is completed, it cannot bring economic benefits to the customer, and the customer cannot control the performance of the company. The production line under construction in the process, therefore, does not meet the requirements for revenue recognition using the time period method.

The key to judging that "customers can control the products under construction in the course of the enterprise's performance" is whether customers can lead the use of construction products and obtain almost all economic benefits from them, and should not be judged only by the space where the products are constructed.

# [Question 35] When understanding the third condition of revenue recognition in the time period method, are only customized goods and services eligible for "irreplaceable"?

Answer: Due to contract restrictions, the company cannot easily use it for other purposes in the process of product creation or improvement, or due to actual restrictions, the completed product cannot be easily used for other purposes. Therefore, the company's performance creates an asset with irreplaceable use.

Customization is a consideration, but not a decisive factor. That is, in some cases, goods may be standardized, but they may still have irreplaceable uses, because the contractual agreement restricts the enterprise from reassigning the use of goods. For example, the pre-sold real estate in the real estate sales contract is a standardized commodity specially "designated" by the customer, which meets the condition of "irreplaceable use", but it is difficult to meet the condition of eligible collection rights, so revenue cannot be confirmed according to the time period method.

[Question 36] What conditions need to be met for the time period method to recognize the income of "the right to receive payment for the performance obligations that have been accumulated to date during the entire contract period"?

Answer: During the entire contract period, the enterprise has the right to collect payment for the performance obligations that have been completed so far (hereinafter referred to as the qualified collection right), which means that the enterprise has the right to accumulate to date when the contract is terminated due to the customer or other parties. The completed part of the contract can receive compensation for its incurred costs and reasonable profits, and the right is legally binding. Eligible collection rights should meet the following four conditions at the same time:

First, the termination of the contract must be caused by the customer or other parties, not by the company itself;

Second, the amount that the enterprise is entitled to collect should be roughly equivalent to the accumulated selling price of the goods that have been transferred to the customer so far. The amount should compensate for the cost and reasonable profit that the enterprise has incurred. The reasonable profit for compensation does not necessarily have to be equal to the contract. The overall gross profit level;

Third, the right is legally binding. It must consider not only the provisions of the contract, but also the applicable laws and regulations, supplementing or overriding the previous judicial practices, judicial interpretations, and the results of similar cases, etc.；

Fourth, at any point in the entire contract period, all enterprises should have this right. Eligible right to receive payments does not represent the right of the enterprise to unconditionally receive payments during the entire contract period, but during the entire contract period, when the contract is terminated due to customer reasons, Companies need to have an enforceable right to receive payments for the performance portion that has been accumulated to date.

# [Question 37]What are the common contract terms that affect the judgment of "qualified collection rights"?

Answer: The amount that the enterprise has the right to receive should be roughly equivalent to the accumulated selling price of the goods that have been transferred to customers so far, including cost and reasonable profit.

If the contractual enterprise has the right to receive the money that is the nature of the guarantee money or merely compensates for the cost that the enterprise has already incurred or the profit that may be lost, it is not considered to meet the conditions of the "qualified right of collection".

Scenario 1: The contract did not clearly confirm any compensation for breach of contract by the customer. Generally, if there is no contract stipulating any compensation for breach of contract by the customer, the conditions for eligible collection rights are not met.

Scenario 2: The contract agreement is as if the customer breaches the contract, Enterprises can receive compensation equivalent to direct economic losses.

In this scenario, the enterprise has the right to collect the cost, which does not include the reasonable profit, and does not meet the qualified collection rights conditions.

Scenario 3: If the customer breaches the contract, the company can only get compensation equivalent to the costs incurred and 10% of the total contract price. If the compensation amount of 10% is significantly different from the normal profit level of a similar contract (for example, 30%), it indicates that the contract terms do not meet the "cost plus profit" eligible collection rights conditions. It is impossible to estimate a reasonable profit, and it is generally not a reason for satisfying this condition.

Scenario 4: On the contract start date, if the company has received the entire contract consideration that is non-refundable "in any case," it can generally show that the company has an enforceable right to collect payments for the accumulated performance part that has been completed so far.

# [Question 38] The contract stipulates a "milestone" acceptance, how to judge the "qualified right of collection"?

Answer: If both parties (customers) agree to organize "milestone" acceptance and final inspection, and pay in stages according to the contract, the advance payment ratio is 5% of the contract price, and the payment ratio at the time of "milestone" acceptance is 65% of the contract price (It is divided into several small milestones). The payment ratio in the final inspection stage is 30% of the contract price. If Company B breaches the contract, it shall pay a penalty of 10% of the contract price. The agreement did not meet the "eligible right to receive payments" conditions because the contractual payment progress may not match the company's performance progress.

Company B pays in stages in accordance with the contract, and the advance payment is only 5%. The subsequent progress payment is only paid when the relevant milestones are reached. If Company B breaches the contract, only a penalty of 10% of the contract price is required.

It shows that Company A cannot accumulate the completed performance part at any point in the entire contract period to receive payments that can compensate for its incurred costs and reasonable profits.

# [Question 39] Does the loss-making contract affect the judgment of "qualified collection rights"?

Answer: The judgment of loss contract generally does not affect Judgment on "the right to receive payment for the performance obligations that have been completed so far during the entire contract period".

# [Question 40] In some special industries, how to judge the "qualified collection right"?

Answer: The shipbuilding, design, and real estate industries often judge "eligible collection rights" in the following situations.

Scenario 1: Shipbuilding contract.

The shipbuilding enterprise has signed a shipbuilding contract with the customer, and the entire contract only includes one performance obligation, that is, the design and construction of the ship according to the customer's requirements. During the construction process, the customer cannot control the ships under construction. If a shipbuilding company wants to sell the ship to other customers, significant renovation costs will be incurred. Therefore, the ship has an irreplaceable use. The two parties agreed that if the customer unilaterally terminates the contract, he only needs to pay the shipbuilding company a liquidated damage equivalent to 30% of the total contract price.

It shows that the shipbuilding enterprise cannot have the right to collect the amount of money that can cover its incurred costs and profits for the part of the contract that has been accumulated to date during the entire contract period.

Scenario 2: Design contract.

The contract is designed to collect payment in installments, and the customer requests to terminate or cancel the contract due to non-enterprise reasons.

If the enterprise has not started the design work, the deposit paid by the customer will not be refunded or the customer will pay the enterprise liquidated damages;

If the design work has already started, the client should calculate the design fee based on the actual amount of work completed by the company.

When the amount of completed work is less than half, the design fee shall be paid according to half of the design fee for that stage;

More than half of the time, the design bill will be paid for the entire amount of the design fee at that stage.

Under this circumstance, the enterprise has the right to receive costs and reasonable profits, and within the entire contract period, it satisfies the conditions of "the entire contract period has the right to collect payments for the accumulated performance obligations to date".

Scenario 3: Real estate production and sales contract. The International Accounting Standards do not stipulate that real estate companies cannot use the time period method to confirm their income.

For example, the Hong Kong listed company Country Garden has adopted the time period method to confirm revenue for some real estate development projects. However, based on the legal environment and business practices related to the real estate industry, for example, real estate companies are not allowed to sell before they obtain the pre-sale permits, and the owners may be restricted from the right to exercise when they breach the contract. In practice, if the owner defaults, the developer can re-sell the commercial house without paying additional costs. That is, the commercial house is not irreplaceable in fact, especially in the real estate market where the seller's market is the mainstay. Even if the off-plan housing has an irreplaceable use through contract restrictions, it may not meet the condition of “the right to collect payment for the performance part that has been completed so far”, unless the off-plan housing is sold in full or the payment progress of the off-plan housing matches the progress of the housing construction, and the The money received is not refundable and is supported by relevant laws and regulations. Therefore, real estate companies should not use the time period method to confirm their income.

The real estate enterprise builds on the customer’s land according to the customer’s design for a house, if the contract is terminated; the built part belongs to the customer. This situation may satisfy the requirement that "the customer can control the products under construction during the performance of the enterprise" and the time period method should be used to confirm revenue.

# [Question 41] How to confirm revenue for customized software development services?

Answer: If the two parties’ custom-made software contracts exist in the following agreements or facts, the revenue should be confirmed according to the time-point method:

First, if the software developer is replaced, other software developers cannot use the work completed by their predecessors and need to re-execute the software customization work;

Second is that customers cannot reasonably use the semi-finished products formed during the development process and obtain almost all of the economic benefits from them, that is, customers cannot control the semi-finished products in the process of software developers' performance;

Third is that the enterprise cannot accumulate the completed performance part at any point in the entire contract period to receive payments that can cover its incurred costs and reasonable profits.

# [Question 42] If the contract is terminated without the right to receive the remaining professional services, how is revenue confirmed?

Answer: When an enterprise provides professional services to customers, if the contract stipulates that when the contract is terminated due to the customer or other parties, the collected money does not need to be returned, and the company has no right to collect the remaining money, but can obtain compensation for the direct expenses such as travel expenses incurred. The performance obligation is usually performed at a certain point in time. Revenue should be recognized when the performance is completed.

For example, when a securities company signs a contract with a client, when a client applies for an initial public offering of stocks, it will provide including application documents for the client in accordance with the law, and securities issuance and fundraising.

The collection of documents is checked and sponsored opinions are issued and other sponsorship services are provided. The client pays a 10% sponsorship fee after signing the contract, and 50% sponsorship fee after the IPO application is accepted. The remaining 40% sponsorship fee is paid after the IPO is completed. If the public offering approval is not passed, the client does not need to pay the remaining amount, and the paid fee does not need to be refunded. According to relevant regulatory requirements, sponsors should prudently check the issuer based on the information obtained in the due diligence process, and make independent judgments on the information provided and disclosed content. The sponsor’s working papers should be kept independently for at least 10 years. When a sponsor is replaced, the new sponsor needs to re-execute the sponsoring work that the original sponsor has completed, and the client needs to perform the application procedures again.

It is assumed that the contract does not cover other services such as underwriting services and continuous supervision after listing. The various services promised in the sponsorship contract are inseparable performance obligations at the contract level, and the sponsor services provided by the securities company do not meet the conditions for fulfilling the performance obligations within a certain period of time, which belong to the performance obligations performed at a certain point in time.

# [Question 43] What are the limitations of using the output method to measure the progress of contract performance?

Answer: The production method is a method to determine the progress of the contract based on the value of the goods that have been transferred to the customer to the customer.

The progress of the contract can usually be determined based on the actual measurement of the completion progress, the evaluation of the achieved results, the milestones reached, the time progress, the completed or delivered products and other output indicators.

The guidelines for the application of income standards are clearly stipulated, when the selected output indicator cannot measure the product whose control right has been transferred to the customer, the output method should not be used.

For example, when a product in the production process belongs to the customer before its completion or delivery, if the product is important to this contract or financial statements, the completed or delivered product should not be used when determining the progress of the contract as an output indicator.

This is because the control right of the products in the production process has also been transferred to the customers, and these products are not included in the measurement of the production indicators. Therefore, this indicator does not truthfully reflect the progress of the products that have been transferred to customers.

If the enterprise transfers the control of important commodities to the customer between the milestones agreed in the contract, it may well indicate that the method of determining the progress of the contract based on the milestones that has been reached is not appropriate.

# [Question 44] When the investment method is used to measure the progress of contract performance, what are the circumstances that cannot be included in the progress of the contract?

Answer:

The first is that the cost incurred does not reflect the progress of the contract, if it is consumed abnormally;

The second is that the costs incurred are not in proportion to the obligation to perform the contract, such as the cost of goods or materials that have not been installed, used or consumed during construction;

The third is the purchase of goods or materials from third parties that are not deeply involved in the design and manufacture of goods or materials, and the amount of money is significant, and the customer has first obtained control.

# [Question 45] When the input method is used to measure the progress of contract performance, when is the revenue of goods or materials purchased from a third party recognized? How to confirm?

Answer:

For goods or materials purchased by an enterprise from a third party, if all the following conditions are met:

First, the product or material cannot be clearly distinguished, that is, it does not constitute a single performance obligation;

Second, the customer first obtains the control right of the product or material, and then accepts the service related to it;

Third, the cost of the commodity or material is significant relative to the estimated total cost;

Fourth, the enterprise purchases the product or material from a third party without deep involvement in its design and manufacturing. As far as the performance obligation includes the product, the enterprise is the main responsible person.

At this time, for the goods or materials purchased by the enterprise from a third party, when the customer obtains the control right, the transfer revenue is confirmed according to the purchase cost.

For example, if an enterprise installs and repairs an office building for its customers, the elevators purchased from a third party arrive at the construction site but have not been installed. The customers have checked and accepted them and are in their own custody. The procurement cost of elevators accounts for more than 30% of the estimated total cost.

Assume that the company recognizes revenue according to the time period method, and uses the input method to measure the progress of the contract. The cost of the electrical appliances not installed by the enterprise does not constitute a single performance obligation, and there is no construction process, so it should not be included in the performance progress, but the transfer revenue can be confirmed according to the purchase cost when the customer gains control.

# [Question 46] Regarding the performance obligations performed at a certain point in time,How to judge the transfer of control?

Answer:

When judging whether the control right of a product has been transferred, an enterprise should analyze it from the perspective of the customer, that is, whether the customer has obtained the control right of the related product and when the control right has been obtained.

Obtaining the right to control goods also includes the following three elements:

The first is ability. A company can only confirm revenue when the customer has the current rights, is able to direct the use of the product, and obtain almost all of the economic benefits from it.

The second is to lead the use of the product.

The third is to obtain almost all of the economic benefits.

When judging whether a customer has obtained control over the product, the company should consider the following signs:

The first is that the enterprise has the current right to receive payment for the product, that is, the customer is obligated to pay the current payment for the product;

The second is that the company has transferred the legal ownership of the product to the customer, that is, the customer already has the legal ownership of the product;

The third is that the enterprise has transferred the product in kind to the customer, that is, the customer has already taken possession of the product in kind;

Fourth, the company has transferred the main risks and remuneration of the ownership of the product to the customer.

That is, the customer has already obtained the main risks and remuneration for the ownership of the commodity;

Fifth, the customer has accepted the product;

Sixth, there are other signs that the customer has obtained control of the product.

In practice, it is necessary to make comprehensive judgments based on the nature of the transaction and the terms of the contract. Companies should also evaluate from the perspective of customers, not just consider the company's own views.

# [Question 47] What conditions should be met when confirming revenue for "after-sales escrow product"?

Answer:

First, the arrangement must be of commercial nature. If the customer requires this arrangement;

Second is that the merchandise belonging to the customer must be able to be individually identified. For example, the merchandise belonging to the customer must be stored in the designated place alone;

Third is that the commodity can be delivered to customers at any time;

Fourth, companies cannot use the product on their own, or provide the product to other customers.

# [Question 48] When the product (equipment) needs to be checked and accepted, what are the impacts of different acceptance terms on the timing of revenue recognition?

Answer: The following three situations are common in the acceptance of goods (equipment) in practice.

Scenario 1: When an enterprise can objectively determine that it has transferred the control of the product to the customer in accordance with the standards and conditions stipulated in the contract, the customer acceptance is only a routine procedure and does not affect the customer’s ability to determine the point of control of the product.

Scenario 2: When an enterprise can objectively determine that it has transferred the control of the product to the customer in accordance with the standards and conditions stipulated in the contract, the customer acceptance is only a routine procedure and does not affect the customer’s ability to determine the point of control of the product.

Scenario 3: When an enterprise cannot objectively determine whether the goods it transfers to a customer meets the conditions stipulated in the contract, the enterprise cannot believe that the control of the goods has been transferred to the customer before the customer accepts it.

If the company sends the product to the customer for trial or evaluation, and the customer does not promise to pay any consideration before the end of the trial period, the control of the product is not transferred to the customer before the customer accepts the product or before the end of the trial period.

# [Question 49] What is the nature of the "ready to provide" performance obligation? Are these performance obligations performed within a period of time?

Answer: Be ready to provide performance obligations at any time, it refers to the guarantee that customers can obtain the relevant goods or services when they need it, rather than the promise to provide specific goods or services themselves.

For example, after-sales maintenance is provided at any time, and the fitness club provides services for members at any time. If the performance obligation that you are ready to provide at any time is a service, it is usually performed within a certain period of time (in the past, it is amortized to confirm revenue based on the straight-line method). If it is a framework agreement that promises to supply goods, the specific quantity of goods shall be taken as the performance obligation based on the actual purchase order submitted by the customer.

# [Question 50]How does "relevant costs incurred or to be incurred can be reliably measured" affect revenue recognition?

Answer: The "view of control rights" of the new revenue guidelines is more based on the customer's perspective. As long as the customer controls the product, the revenue should usually be confirmed. Whether the cost can be measured reliably or not belongs to the scope of the internal control and management of an enterprise. It is rare that the product has been sold without knowing the cost.

If there are reasons such as tentative prices with suppliers, it is usually possible to estimate the amount of costs. In this situation, the revenue standard no longer counts the relevant incurred costs reliably as one of the conditions for revenue confirmation.

# [Question 51] If the contract contains multiple performance obligations, what are the methods for allocating the transaction price to each individual performance obligation?

Answer: The first is the stand-alone selling price method, which is the price at which goods are sold separately to similar customers in a similar environment;

The second is the market adjustment method, which is based on the market price of a commodity or similar commodity, taking into account the cost and gross profit of the company and making appropriate adjustments to determine the price;

The third is the cost-plus method, which determines the stand-alone selling price based on the estimated cost of a commodity plus its reasonable gross profit;

The fourth is the residual value method, which determines the single selling price based on the residual value of the contract transaction price minus the observable single selling price of other commodities in the contract. It should be noted that the residual value method is only allowed in limited circumstances.

# [Question 52] When determining the transaction price, Is it to consider the condition that "the consideration that is entitled to be obtained due to the transfer of goods to the customer is likely to be recovered" for each contract or the entire contract combination?

Answer: In practice, when an enterprise evaluates each contract in the contract combination, it is considered that its contract consideration is likely to be recovered.

However, based on historical experience, the company may not be able to recover all the consideration in the contract combination. At this time, companies should consider that these contracts meet the condition that "the consideration that they have the right to obtain due to the transfer of goods to customers is likely to be recovered", and use this as a basis to estimate the transaction price.

At the same time, companies should consider whether the contract assets or receivables confirmed under these contracts are impaired.

For example, there are 100 contracts in a contract combination, and the contract price of each contract is 100 Yuan. Historically, the accounts receivable collection rate of the contract combination is 95%, and the transaction price of each contract should be 100 Yuan. At this time, revenue should be confirmed at the contract price of 10,000 Yuan. In addition, based on the information that the historical recovery rate is 95%, the company will consider the impairment of confirmed contract assets or receivables based on the expected credit loss method.

# [Question 53] What are the forms of variable consideration? How to make the best estimate?

Answer: The forms of variable consideration include discounts, rebates, refunds, incentives, performance bonus, performance penalty, price concessions, right to return or other items, etc.

The best estimate of the variable consideration should be based on the expected value or the most likely amount of money. The expected value is calculated based on the amount of consideration that may occur and related probabilities.

If the company has a large number of contracts with similar characteristics, and based on this, when it is estimated that the contract may produce multiple results, the expected value can usually be used to estimate it. The most likely amount of money is the single amount most likely to occur in a series of possible considerations.

# [Question 54] Is the transaction price specified in the revenue standard equal to the contract price?

Answer: When the contract consideration method is variable consideration, or the contract price agreed upon between the enterprise and the customer is a fixed price, but the customer may be offered a discount to the customer, the enterprise has the right to charge the contract price at the lower price.

Whether an enterprise provides a price discount to a customer is an explicit agreement, a reasonable expectation, or whether the enterprise intends to provide a price discount to the customer when it signs the contract with the customer, it should be considered when estimating the transaction price.

# [Question 55] In the "open contract" of military products, the transaction price has not yet been finalized; does it meet the revenue recognition conditions?

Answer: In the military "open contract", the company has already delivered the product to the customer (military), and the control of the product has been transferred, but the customer has not yet finalized the price. The contract price is a tentative price.

Due to the special nature of the military product contract, it does not mean that the economic benefits of selling goods cannot flow into the enterprise. Under other conditions that satisfy the revenue recognition, the enterprise should determine the transaction price and recognize revenue in accordance with the conventional practice.

# [Question 56] Regarding contracts that contain embedded derivatives or foreign currency transactions, How to determine the transaction price?

Answer: Contains embedded derivative tools or stored in foreign currency transactions in practice often see the following three situations.

Scenario 1: When an enterprise signs a bulk commodity sales contract with a customer, it usually agrees on a delayed pricing clause (for example, the pricing mechanism is the spot transaction price of the bulk commodity in the London market in the fourth month after the contract start date). If the actual transaction price determination date is before the transfer of control of the commodity, the delayed price clause is closely related to the pending sales contract of the commodity, and therefore should be regarded as a variable consideration and included in the commodity transaction price.

And if the actual transaction price determination date is after the transfer of the control of the commodity, it should be used as an embedded derivative tool, and it is judged whether it should be separated from the main contract and measured at fair value and its changes are included in the current profits and losses.

Situation 2: The Company produces a commodity for the customer and agrees. If the company can deliver within 30 days, it can get an additional 100 shares of the customer’s stock as a reward. The price of the stock was 5 Yuan per share on the contract start date. Due to the lack of experience in executing similar contracts, the company estimated that the fair value of the 100 shares included in the transaction price would not meet the restrictions ("It is very likely that no significant reversal of accumulated revenue will occur"). Therefore, the enterprise should not include the fair value of the 100 shares of 500 Yuan in the transaction price.

On the 25th day after the contract start date, the company delivers the product to the customer and obtains 100 shares. The price of the stock at this time is 6 Yuan per share. The enterprise should recognize the change in the fair value of the stock (non-cash consideration) due to reasons other than the form of consideration, that is, 500 Yuan (5×100) as income, and the change due to the form of consideration, that is, 100 Yuan (600- 500) included in the gains and losses from changes in fair value.

The revenue guidelines do not clearly stipulate the measurement of foreign currency sales revenue.

Situation 3: Generally, when a foreign currency transaction is initially confirmed, the spot exchange rate on the date of the transaction should be used to convert the foreign currency gold amount into the accounting standard currency gold amount; It can also be converted at an exchange rate determined by a reasonable method according to the system and similar to the spot exchange rate on the transaction date.

Therefore, when confirming the foreign currency sales and income, the enterprise should use the spot exchange rate on the day of the transfer of control rights, that is, the confirmation day of the receipt for conversion.

If the company confirms its revenue within a certain period of time, the conversion rate of the recognized revenue is different in each period, and the total contract revenue amount converted into the functional currency is also constantly changing.

# [Question 57] How to account for sales rebates, quantity discount incentives, promotion incentives, and cash discounts?

Answer: Under the original income criteria, the sales rebates given to customers by companies based on the number of products sold, the amount of money, or other methods, some are used as sales discounts to offset revenue, and some are regarded as sales promotion expenses and included in sales expenses.

According to the revised revenue standard, the rebate (quantity discount incentive) corresponding to the current contract sales amount should be considered as a variable consideration when the customer meets a certain set sales amount, which should be considered when determining the contract price.

When estimating the variable consideration, consideration should be given to the requirement that the accumulated confirmed income will most likely not be subject to a major reversal.

If the contract stipulates that when the company transfers the goods to the customer, the customer will give the customer a certain preferential benefit for providing promotion services. In this situation, the enterprise should pay the customer the consideration in order to obtain other clearly distinguishable goods or services from the customer.

For example, when an enterprise supplies goods to a supermarket, the sales promotion incentives given by the supermarket as a result of the promotion activities should be confirmed in a manner consistent with other purchases by the enterprise, and the purchased services shall be used as sales.

If the consideration that the enterprise pays to the customer exceeds the fair value of the service obtained from the customer, the excess is used as the customer consideration to offset the transaction price.

If the fair value cannot be reasonably estimated, the enterprise should offset the transaction price in full with the consideration payable to the customer.

Cash discount refers to the deduction of the contract price provided by the enterprise to the customer in order to encourage the customer to pay within the prescribed time limit. When an enterprise sells the same goods, and there is a difference in the sales price due to the different payment time of the customer, it should consider whether such a contract includes a major financing component. If the major financing component is not included, and the customer has not provided any identifiable goods and services to the company, the cash discount or the under-received amount shall be used as the customer offset against the transaction price to be paid.

When the above-mentioned payable customer consideration is used to offset the transaction price for accounting treatment, the enterprise shall offset the current income at the time when it confirms the relevant income and payment (or promises to pay) the customer consideration which is later.

# [Question 58] How to distinguish between income deduction and impairment of accounts receivable?

Answer: The contract price has been changed or adjusted due to the reasons for the provision of goods or services, or there is a change in the estimate of the amount of the recoverable price, which should be regarded as an income deduction.

For example, the goods sold by the enterprise or the services provided by the enterprise itself do not meet the contract requirements, and it provides customers with commercial discounts and sales discounts.

Due to the customer's credit risk, it is very likely that the payment cannot be recovered, and the payment should be tested for impairment, and provision for bad debts should be made based on the results of the impairment test.

# [Question 59] What are the situations in which there is a time interval between the transfer of goods by the company and the payment by the customer, but does not include a major financing component?

Answer : The first is that customers pay upfront payments for goods or services, and the time point when these goods or services are transferred to customers is determined by the customers themselves, such as telephony prepaid cards and point rewards;

The second is that the major components of the transaction consideration are variable, and the amount or time of the consideration is not controlled by the customer or the enterprise. For example, the transaction consideration is a plate tax based on the amount of sales;

The third is that the difference between the promised consideration and the cash selling price of the commodity or service is due to other reasons other than financing, such as receivables from customers for guarantee funds.

# [Question 60] Does the green energy subsidy granted by the government include a major financing component?

Answer: If the power generation company can determine it based on relevant policies and historical experience，It will obtain the registration approval of the catalog, which usually indicates that the power generating company has no other performance obligations, and the subsidy can be included in the transaction price.

Although in practice, this part of the subsidy is usually approved by the power generation company to obtain the registration and approval of the renewable energy electricity price additional fund subsidy catalog (hereinafter referred to as the "catalog"), and then the subsidy funds will be allocated to the electricity purchaser by the relevant state department, and then the electricity purchaser Pay to power generation companies. The time for power generation companies to apply for the catalog is uniformly arranged by the relevant state departments, and the time interval between online approval and catalog registration approval is often more than one year. This time interval is the necessary time for the implementation of the above procedures. It is not the enterprise providing financing benefits to the relevant state departments. Therefore, in practice, it is believed that the renewable energy tariff subsidy received by the power generation enterprise does not have a significant financing component.

In addition, the company is engaged in the production and sales of new energy vehicles. As part of the sales consideration of new energy vehicles, the time lapse between the collection of new energy vehicle subsidies and the sale of new energy vehicles and the confirmation of the revenue may exceed one year. If the relevant facts and circumstances show that the main reason for the time interval is that the relevant state departments need to perform the relevant approval procedures, and the time interval is the necessary time to perform the above procedures, its nature is not to provide financing benefits, and the same is true It can be considered that there is no significant financing component in the new energy vehicle subsidies and other funds obtained by the company.

# [Question 61] Under the supply chain finance model, does the price paid by the customer include a major financing component?

Answer: Under the supply chain finance model, the actual price paid by the customer is “direct procurement cost + capital cost”. In practice, it is generally considered that a financing cost of 5% or more is a major financing component.

# [Question 62] How to account for sales with sales return clauses?

Answer: When the sales return rate can be reasonably estimated, revenue is recognized based on the expected amount of consideration (excluding the expected return due to sales returns) due to the transfer of goods to the customer, and the expected return due to sales returns is recognized as payable Return payment.

At the same time, the cost corresponding to the expected return of the goods (deducting the expected return cost) is confirmed as the return cost receivable, and the return rate is reassessed on the date of the asset liability schedule.

# [Question 63] What is the basis for distinguishing between the main responsible person and the agent?

Answer: An enterprise judges whether it has control over the goods (or services, or combined products) before transferring the products (or services, or combined products) to customers to determine whether it is the principal responsible person or the agent at the time of the transaction.

The revenue standard stipulates the conditions under which a company can control the product before transferring it to its customers, including:

1．After a third party obtains the control rights of commodities or other assets then transfer them to customers;

2．Be able to lead a third party to provide services to customers on behalf of the company;

3．After a third party obtains the right to control the product, it provides a significant service to integrate the product with other products into a combination of output and transfer it to the customer.

In practice, when making judgments, companies should comprehensively consider all relevant facts and circumstances. Including but not limited to:

1. The enterprise undertakes the main responsibility for the transfer of goods to customers;

2. Before or after the transfer of the product, the enterprise has undertaken the main risk of the inventory of the product;

3. The enterprise has the right to determine the price of the goods traded on its own;

4. Other relevant facts and circumstances.

The above-mentioned related facts and circumstances only support the evaluation of control rights. It cannot replace the evaluation of control rights, nor can it override the evaluation of control rights, let alone a separate or additional evaluation.

# [Question 64]How to confirm the income of commissioned processing in the form of purchase and sale contract?

Answer:

The company (the commissioning party) and the unrelated third-party company (the processing party) sign a sales contract to "sell" the raw materials to the processing party and entrust it to perform processing. At the same time, it signs a purchase contract with the processing party to buy back the processed goods.

In this case, the company should judge whether the processing party has obtained the control right of the raw materials to be processed based on the contract terms and the nature of the business, that is, whether the processing party has the right to direct the full economic use of the raw materials and the benefits.

E.g.

Whether the nature of the raw material is unique to the product of the entrusting party？

Does the processing party have the right to use or dispose of the raw materials according to their own will?

Whether it bears the risk of damage to the raw material due to reasons other than its improper management？

Whether to bear the risk of changes in the price of the raw materials？

Is it possible to obtain remuneration related to the ownership of the raw material?

If the processing party has not obtained control of the raw materials to be processed, the raw materials still belong to the inventory of the entrusting party, and the entrusting party should not confirm the income from the sale of raw materials, but should treat the entire business as a purchase and purchase entrusted processing service.

Correspondingly, the processing party actually provides the entrusted processing service for the client, and it should confirm the entrusted processing service fee income according to the net amount.

# [Question 65]In the joint operation model of the retail department store industry, is the revenue recognition based on the gross method or the net method?

Answer: The joint operation model is a business model commonly used in the retail and commodity industry.

Under this business model, the supplier sells products to customers at the counter allocated by the retail store, and the retail store settles with the supplier based on the agreed share ratio, and some of the suppliers have promised to the store to receive the guarantee.

The retail store signs a contract with the supplier, agreeing on their rights and obligations. Before the goods are sold to customers, all the rights belong to the supplier, and the supplier is responsible for the protection of the goods and bears the risks of damage and loss of the goods.

Suppliers have the right to decide on the shelf and off-shelf time of goods, as well as the exchange of goods between different stores or counters. Commodity prices are mainly set by suppliers, and sometimes need to be reviewed by the retail store.

The counter salesperson is directly appointed by the supplier, but needs to receive the training of the retail store, follow the management requirements of the retail store, and be supervised by the retail store. The retail store provides suppliers with business premises and corresponding comprehensive management services, supervises the goods entering the store, and provides unified cashier services.

If the goods sold by the supplier in the store have quality problems, the retail store is responsible for the first compensation, and then according to the agreement with the supplier to seek compensation from the supplier.

In practice, although the retail store issues sales vouchers to customers according to the sales amount of the merchandise, when confirming receipts, it should be based on the principal responsible person and agent’s confirmation of the original amount of receipts when confirming receipts.

Under the above-mentioned joint operation model, customers directly purchase goods at the supplier’s counter. Prior to this, all rights to the goods belong to the supplier, and the supplier has the right to lead the sales and sales activities of the goods. It also obtains the economic benefits of selling the goods, and also bears the losses caused by the slow-moving or discounted sales of the goods.

On the contrary, the retail store cannot decide how to sell these products before the products are sold to customers, cannot do it themselves or ask suppliers to use the products for other purposes, and cannot prohibit the suppliers from using the products for other purposes.

In some cases, although the retail store may have the right to intervene in the goods sold by the supplier, its main purpose is to maintain the retail store’s business location and image. It does not mean that the retail store can dominate the sales of these products.

Therefore, a specific product is controlled by the supplier before it is sold to the customer, and the supplier has the right to direct the use of the product and obtain its economic benefits; the retail store does not obtain the control right of the product, and its identity is to assist the supplier in selling the specific product and should be Recognize as an agent and confirm income based on the net amount.

In addition to retail department store business, supply chain companies that perform purchases or sales on behalf of foreign trade import and export or cross-border business companies, bulk commodity distribution or medical and drug distribution companies, E-commerce platform companies and companies that rely on e-commerce platforms to develop e-commerce businesses should refer to the above principles and analysis.

# [Question 66]When software development companies sell software products through the operating platform, should they confirm revenue according to the gross method or the net method?

Answer: Companies use agents (third-party platforms) to sell to end customers, and they are universal in industries such as software and games.

According to the revenue standard, the principal responsible person should confirm the revenue to the customer according to the total amount of the consideration received or receivable.

However, through practical observations, some companies continue to confirm revenue based on the net amount when the new revenue standards are first implemented for the above business model, and individual companies have changed from net amount to total confirmed revenue.

The specific reason may be that the main responsible person does not know the final price of the platform sold to customers, and it is difficult to confirm the revenue based on the total amount.

According to the revenue standard, this situation should be estimated as variable consideration. If it is impossible to estimate, in practice, revenue can only be recognized according to the amount distributed by the operating platform.

# [Question 67]Should the expected recoverable amount be recognized as income or debt restructuring gains and losses after bankruptcy and reorganization?

Answer: For example, the company signs a contract with the customer about a price of 10 million Yuan, and the payment should be paid within 3 months from the date of delivery. The company delivered the goods to the customer as scheduled.

At this time, the customer has a serious capital turnover problem, and the corporate management expects that only 6 million will be recovered, and the sales revenue and accounts receivable will be confirmed according to this amount. In the next year, the customer went bankrupt and reorganized, and the company declared a debt of 10 million Yuan in accordance with the agreement of the sales and sales contract, which was confirmed by the court. According to the bankruptcy reorganization plan, the client repays the company's creditor's rights through debt-to-equity swaps, and the accounts receivable of RMB 10 million received a fair value of client shares of RMB 9 million. The company’s unrecognized contract price of 3 million Yuan in previous years should be recognized as income instead of debt restructuring gains and losses after bankruptcy and reorganization.

According to the regulations of the income standard, the contract should be continuously evaluated. When the contract no longer meets the relevant conditions of "probably recoverable", it should stop recognizing revenue, and only when the subsequent contract conditions are met again or when the company no longer has the remaining obligation to transfer goods to the customer, and has already charged the customer The consideration that has been collected can only be recognized as revenue when the consideration does not need to be refunded, but the revenue that has been recognized before this should not be adjusted.

# [Question 68] What accounting title is used to calculate the product quality maintenance cost (guaranteed after-sales service) accrued by the company?

Answer: The new revenue standard clearly defines those after-sales services are divided into warranty-type warranty and service-type warranty.

When the enterprise accrues the guarantee-type warranty, the control right of the product has been transferred to the customer, and the product sales and income have been confirmed, and the guarantee-type quality guarantee will be transferred to the product after the transfer of the control and expenditure. It does not belong to the scope that occurs for the purpose of fulfilling the contract.

Therefore, under the new income standards, the warranty-type premiums accrued by companies are consistent with the original income standards and are reported in the "Sales Expenses".

# [Question 69] What is included in the intellectual property license? Under what circumstances is the granting of intellectual property licenses a performance obligation performed within a certain period of time?

Answer: Common knowledge property rights include software and technology copyright, video and audio Music copyright, franchise rights, patent rights, trademark rights, and other copyrights.

Intellectual property license grants that meet the following conditions at the same time are of the nature of the right of access (as opposed to the right of use confirmed by the time-of-day method).The income should be confirmed according to the time period method:

The first is the contract requirement or the customer can reasonably expect that the enterprise will have a major impact on the intellectual property rights from the event;

The second is that the event will have a favorable or unfavorable impact on customers;

The third is that the event will not lead to the transfer of a certain product to customers.

# [Question 70] How to identify activities that could have “significant influence” on intellectual property granted to an entity?

Answer: The activities undertaken by an entity will have a significant impact on intellectual property under one of the following conditions: First, these activities are expected to significantly change the form (i.e. the design or content) or function (i.e. the ability to perform a certain task) of the intellectual property; Second, the customer’s ability to benefit from the intellectual property is largely derived from or depends on these activities, in other words, these activities is likely to change the value of the intellectual property.

# [Question 71] Under the scenario where multiple periods (years) of licensure are granted to an entity, how does the new revenue recognition approach differ from what was outlined in the former version of the standard?

Answer: Under the old standard, revenue can be confirmed in installments according to terms under certain contract. It is crucial to determine whether during a period of time or at a point of time a transaction is completed or an agreement fulfilled. If a license is related to the right to use the intellectual property of a certain entity and the intellectual property has already existed at the time of the grant of the license, there will be no software for activities that have a significant impact, revenue should be fully recognized at the time of grant of the intellectual property. For on-premises annuity contract, the customer pays the same software fee every year during the contract period. Under the old revenue standard, if a contract or an agreement requires to collect the usage fee in installments, the revenue should under most circumstances be recognized calculated according to collection time and amount or method specified in the contract. On-premises annuity contract is deemed under the revenue standards to comprise two separate obligations to fulfill--the grant of software license, under which the initial authorization of the software license can be confirmed at a time if the initial authorization of the software license meets certain conditions; and the software assurance service, under which the revenue is recognized in installments according to certain contract terms. If the guarantee service is so simple that it incurs almost no cost and the transaction price is difficult to allocate into installments, it could be not regarded as a separate performance obligation given its low level of materiality.

# [Question 72] How to account for the payment of intellectual property license fees based on actual sales or usage?

Answer: The revenue should be recognized at the later of time when the customer’s subsequent sales or usage actually occurs and time when the company fulfills the relevant performance obligations. This is an exception for estimating variable consideration and can only be used in the following two scenarios:

1. Royalties are only related to the authorization of intellectual property rights;

2. Royalties are related to both the intellectual property rights and other commodities, but the part related to intellectual property rights occupies a dominant position.

For example, a football club authorizes a company to use its name and logo on various products designed and produced by it for 2 years. Assume that the granted intellectual property license is an obligation to be fulfilled in a certain period of time, and it is agreed upon in the contract that the contract consideration consists of two parts: a royalty with a fixed amount of 2 million yuan and a commission amounted to 5% of actual sales of the products mentioned above. The commission should be recognized as revenue when the sales actually occur.

# [Question 73] How is the point redemption (reward) accounted for?

Answer: The redemption of points is essentially a “sale with extra purchase options given to the customers". It is necessary to evaluate whether the option provides the customer with a major right. If it constitutes a major right, it should be treated as a single performance obligation. The price paid by the customer under the contract is actually used to purchase two separate products: one is the product originally purchased by the customer under the contract; the other is the right of purchasing additional products for free or at a discounted price. The selling party should allocate the transaction price between these two commodities and recognize revenue when the customer exercises the extra option to obtain control of the related products or when the option expires, as it is related to the products to be purchased in the future.

# [Question 74] How to evaluate whether an additional purchase option is a major right?

Answer: If the customer can obtain the additional purchase option only under the premise of signing a specific contract, and the customer can enjoy a discount that exceeds that are enjoyed by other customers in the same region or market by exercising the option to purchase additional goods, the option is usually considered as to provide customers with a major right. However, if the price at which the customer exercises the option to purchase a commodity fairly reflects the selling price of the commodity, the option should not be regarded as a major right. For example, a telecommunication company signs a contract with a customer to sell a mobile phone and a two-year communication service that provides 200 minutes of voice service and 4 gigabytes of data per month, and charges a fixed monthly fee. The customer can purchase additional minutes and data at an agreed-upon price in any month based on his/her needs. If this price is the same as the price other customers purchase their services with, the additional purchase option does not constitute a major right and the company does not need to split the transaction price. The corresponding accounting treatment is required only when the option to purchase additional services is exercised.

# [Question 75] In the case when a company provides customers with the option to renew the contract, under what circumstances can we simplify the accounting process?

Answer: In the case that a company provides its customer with an option to renew the contract which constitutes a major right, if the customer exercises the right to purchase additional goods that are similar to the goods purchased under the original contract, and the company will provide the additional goods in accordance with the original contract terms, the company may not need to estimate the fair selling price of the option, but directly include into the original contract the quantity of additional goods it is expected to provide and the corresponding amount of consideration expected to be collected and perform corresponding accounting treatments. This is a simplified processing method that facilitates practical operations. For example, a company signs a one-year contract with a customer to sell product A to the customer at a price of 2,000 yuan per piece. The quantity is unlimited. The customer can choose to renew the contract for one year on the same terms as the original contract when the contract expires. The price of this product is usually increased by 20% every year. Since customers exercising the renewal option can purchase product A at the original contract price, the company believes that the renewal option provides customers with a major right and meets the conditions for simplified processing. Therefore, the company may not need to allocate the transaction price of the original contract to the renewal option, but directly confirm the revenue of product a sold under the original contract and the renewed contract at a price of 2,000 yuan per piece.

# [Question 76] Can the initial fees charged to customers such as initial installation fee, entrance fee, connection fee, etc. that do not needs to be refunded be recognized as a one-time revenue at the time of collection?

Answer: The revenue standard requires that revenue be recognized when a company performs its contract. The initial installation fee, entrance fee, connection fee and other fees are not essentially free charges, but part of the consideration charged for the transfer of goods or services to the customer. The company should not recognize revenue before the performance of the contract.

# [Question 77] The non-refundable initial fee such as the club membership registration fee is used as compensation during the contract preparation process. How to account for it?

Answer: The initial activity that a company carries out to fulfill the contract usually does not constitute a performance obligation, unless the activity transfers promised goods to the customer. In practice, companies may carry out some administrative preparation for the purpose of entering into contracts. These preparations do not transfer any promised goods to the customer, and therefore do not constitute a single performance obligation. For example, if a club establishes a file for registered members, the registration does not transfer the promised goods to the member, so it does not constitute a single performance obligation. Before revenue is recognized, the registration should be recognized as an asset or included in profit and loss in the current period according to relevant standards on contract performance costs. And the company should not consider these costs when determining the progress of the contract, as these costs do not reflect the company’s progress of transfer of products to customers.

# [Question 78] How to account for deposits in stored-value cards and expired tickets, etc. that have not yet been returned?

Answer: In some cases, the advance payment collected by the company does not need to be returned, but the customer may forfeit all or part of its contractual rights, such as the use right of stored-value cards. If the company expects to be entitled to the amount related to the contractual rights forfeited by the customer, it shall recognize the aforesaid amount as revenue in proportion in the way the customer exercises its contractual rights; otherwise, the company can only convert this liability into revenue when the possibility of the customer requesting the company to fulfill the remaining performance obligations is extremely low. When determining whether it is expected that the company is going to be entitled to an amount related to the contractual rights forfeited by the customer, the company should consider including the estimated variable consideration into the transaction price restriction requirement. If according to relevant laws and regulations the payment received by the company related to the customer's unexercised rights must be transferred to other parties (for example, it is required that unclaimed property be handed over to the government), the company should not recognize it as revenue.

# [Question 79] What are the contract costs regulated by revenue standards?

Answer: The contract cost regulated by the revenue standard includes two types: contract performance cost and contract acquisition cost. Contract performance costs. A company may incur various costs in order to perform the contract. The company should analyze these costs. If it falls within the scope of other accounting standards for business companies, it should perform accounting treatment in accordance with the relevant company accounting standards; it does not fall within the scope of other company accounting standards and meets the following requirements at the same time If there are three conditions, it should be recognized as an asset as the contract performance cost: first, the cost is directly related to a current or expected contract; second, the cost increases the company’s future performance (including continued performance) performance obligations The third is that the cost is expected to be recovered. Contract acquisition cost. If the incremental cost incurred by the company for obtaining the contract is expected to be recovered, it shall be recognized as an asset as the cost of obtaining the contract. However, if the asset amortization period does not exceed one year, it can be included in the current profit and loss when it occurs. The contract acquisition cost is the relevant incremental cost of obtaining the contract, which is usually not related to fulfilling the performance obligation. The sunk cost cannot be recognized as the contract acquisition cost, for example, the rate difference, bidding fee, and the preparation of bidding materials will occur regardless of whether the contract is obtained or not. The relevant expenses, etc., shall be included in the current sales expenses when incurred, unless these expenses are clearly borne by the customer. In addition, the additional commission that a company needs to pay due to the renewal of an existing contract or a contract change is also an incremental cost incurred to obtain the contract.

# [Question 80] How to amortize and account for the sales commission directly related to the contract?

Answer: If the incremental cost incurred by the company to obtain the contract is expected to be recovered, the sales commission should be recognized as an asset as the contract acquisition cost, in the same basis for the recognition of commodity revenue related to the asset (that is, at the time when the performance obligation is fulfilled, or according to the performance progress of the performance obligations), it will be amortized and included in the sales expenses. The sales commission directly related to the contract usually meets the conditions of capitalization. If the sales commission directly related to the contract includes the contract renewal commission, it should be amortized during the respective contract period. Although in practice, the difficulty of renewing the existing contract may be lower than that of obtaining the original contract, it may still indicate that the commission levels of the two contracts are equivalent. The commission paid when the original contract is obtained is irrelevant with the expected future contract, and the commission can only be amortized during the term of the original contract. The sales commission directly related to the contract includes multiple performance obligations, which are fulfilled at different time points or time periods. When determining the amortization method of the asset, the company can allocate the value of the asset to each performance obligation based on the relative proportion of the transaction price allocated by each performance obligation, and amortize the commission on the same basis that the performance obligation (clearly distinguishable goods) revenue is recognized; or, the company can consider all performance obligations contained in the contract and adopt an appropriate method to determine the completion of the contract, that is, it should best reflect that the asset is gradually “consumed” through the process of transferring related commodities, and amortize the asset on this basis. Under normal circumstances, the results of the above two methods may be similar, but the second method does not need to specifically allocate the cost of obtaining the contract to various performance obligations.

# [Question 81] Is it appropriate for a manufacturing company to recognize the performance-related expenditures incurred after the signing of sales contract as "contract performance costs", while the expenditures incurred before as “work – in – progress”?

Answer: The key for determining how is the cost accounted for is which accounting standard apply. The contract performance cost for which the revenue standard is applicable and that meets the conditions for recognition as an asset is accounted for as “contract performance cost”. Unfinished manufacturing costs incurred by the company for which the” Inventory standards" is applicable are accounted for as “work – in – progress”. Whether a sales contract has been signed is not a consideration in determining the applicable revenue standards or inventory standards for the expenditures incurred. In practice, “contract performance costs” are often used to account for costs related to contracts in which revenue is recognized using the time-of-day method, such as construction and service related expenses. While for a contract that recognizes revenue at a certain point in time, the inventory standard must be met in order to capitalize its manufacturing cost, which is usually accounted for as “work – in – progress”.

# [Question 82] How are contract performance costs and contract acquisition costs presented in the balance sheet?

Answer: The contract performance cost recognized as an asset according to the revenue standards, and of which the amortization period at the time of initial recognition does not exceed one year or a normal business cycle, is presented as "inventory" in the balance sheet; those with an amortization period that exceeds one year or a normal business cycle are presented as “other non-current assets”. If the contract acquisition cost is recognized as an asset according to the revenue standards, and the amortization period at the time of initial recognition does not exceed one year or a normal business cycle, it shall be presented as “other current assets” in the balance sheet; if the amortization period at the time of initial recognition is more than one year or a normal operating cycle, it shall be presented as “other non-current assets” in the balance sheet. According to “standards-Presentation of Financial Statements”, a normal business cycle usually refers to the period from the purchase of assets for processing to the realization of cash or cash equivalents. The normal business cycle is usually shorter than one year, and there are several business cycles within one year, but there are also scenarios where a normal business cycle is longer than one year, such as the period of real estate development companies developing real estate development products for sale, shipbuilding companies manufacturing large ships for sale, etc. , which often takes more than a year for the realization of cash or cash equivalents, sale or consumption of products, and should still be classified as current assets.

# [Question 83] When transportation expenses are included in profit and loss, should they be included in operating costs or sales expenses?

Answer: When a company sells goods to a customer, it is agreed that the company needs to deliver the goods to a location designated by the customer. The company needs to determine whether the transportation activity constitutes a single performance obligation based on the timing of the transfer of control of the related goods. Under normal circumstances, the transportation activities that occur before the control is transferred to the customer do not constitute a single performance obligation, but are only activities undertaken by the company to perform the contract. The related costs should be regarded as the contract performance cost, and therefore should be included in the operating cost. The transportation activities that occur after the transfer of control to the customer may indicate that the company has provided a transportation service to the customer, which should generally constitute a single performance obligation. When the revenue of the transportation service is recognized, the corresponding cost should also be included in the operating cost as the contract performance cost.

# [Question 84] Can the performance cost of a contract that expires in more than 1 year or of which the amortization period exceeds 1 year or 1 business cycle at the time of initial recognition and the asset impairment provision accrued after the contract acquisition cost is capitalized be reversed?

Answer: Regardless of whether the confirmed assets related to the contract performance cost or the contract acquisition cost are listed as long-term assets or current assets, if the factors of impairment in the previous period change in the subsequent period and the remaining consideration that is expected to be obtained minus the estimated cost for the transfer of the relevant commodity is higher than the book value of the asset related to the contract cost, the original provision for asset impairment shall be reversed and included in the current period profit and loss, but the book value of the asset after the reversal shall not exceed the book value of the asset on the reversal date under the assumption that no impairment provision is made.

# [Question 85] When the input method is used to recognize revenue within a period of time, can the related interest expenses incurred be capitalized?

Answer: During the contract period, the company recognizes revenue and confirms contract assets or accounts receivable according to the progress of performance. Contract assets or accounts receivable represent the company’s rights to collect consideration from customers and are assets that require a long process of acquisition, construction or production activities to reach their intended usable or saleable status, that is, assets that meet the capitalization conditions under "Standard-Borrowing Costs". Under the input method, the actual costs incurred are carried forward and related revenues are recognized. Except for uninstalled materials, there is basically no inventory after the transfer of control rights. Therefore, borrowing costs should be recognized as expenses when incurred and included in financial expenses in the current period.

# [Question 86] Should fixed asset depreciation expenses related to the operation of the hotel and other service industries are accounted for as operating costs or expenses?

Answer: The hotel mainly earns its revenue by providing room service, and the provision of room service directly depends on the hotel property (including land) and furniture and other related assets. Thus, the depreciation and amortization of the room service related assets is the fulfillment of the contract with the customer and the service cost incurred should be accounted for as operating cost, instead of expense (administrative expenses).

# [Question 87] Is it appropriate to list all advances from customers as contract liabilities?

Answer: The contract liability is used to account for the obligation to transfer the goods to the customer for the consideration that has been received or receivable from the customer. The value-added tax in the price received or receivable does not meet the definition of contract liabilities and should not be accounted for as contract liabilities. When the received price has not yet reached the statutory tax liability, it should be accounted for as "tax payable-tax to be transferred". In addition, if the advance receipt cannot correspond to the contract, it should not be reported as a contract liability. Payments collected by agents that are not commissions cannot be reported as contract liabilities. For example, an e-commerce platform acts as an agent in commodity trading transactions, only providing platform and settlement services for merchants and consumers, and collecting commissions. Therefore, only the commission part is recognized as contract liabilities, and the remaining part is the payment collected by the e-commerce platform on behalf of the merchants. , As other payables, to be paid to the corresponding merchants when consumers consume in the future.

# [Question 88] How to distinguish between contract assets and accounts receivable?

Answer: Contract assets refer to the right of a company to receive consideration after transferring goods to customers, and this right depends on factors other than the passage of time. Accounts receivable are owned by the company and are unconditional (that is, only depending on time elapsed) right to charge customers for consideration. When distinguishing contract assets and accounts receivable, attention should be paid to the following: First, the rights and obligations reflected are different. Contract assets or contract liabilities have residual rights or obligations. The rights and obligations in the customer contract complement each other. The right to collect consideration from the customer depends on the company's performance. At the same time, the company will only perform the contract when the customer continues to pay the price. The accounts receivable have no (significant) remaining rights and obligations, that is, they have the unconditional right to collect payments. Second, the risks of contract assets and accounts receivable are different. Both of them face credit risks, but the contract assets also face other risks, such as performance risks. The third is that the distinguish of the two must comply with the “Standards-Financial Statement Presentation”. Companies should adopt the general principles of financial statement presentation to determine whether they should separately present contract assets and contract liabilities in financial statements.

# [Question 89] The contract stipulates that the payment can only be made after the invoice is issued. Is the consideration confirmed by the company listed as contract assets?

Answer: The following two scenarios are common in practice when it comes to the scenario where the customer would only make the payment after an invoice is issued.

Scenario 1: In the contract between the company and the customer, at the request of the customer, it is generally agreed that after the product is delivered, the company needs to issue an invoice to the customer at the price agreed in the contract before the customer pays the contract price. Because the subject of the contract is a relatively simple and general product, usually after the company has performed the relevant performance obligations in the contract, before issuing an invoice for the customer, the company's business personnel will communicate with the customer over the phone to determine the invoiced amount and issue a VAT invoice to the customer.

Scenario 2: After the product is delivered, the company needs to issue an invoice to the customer at the price agreed in the contract, and at the same time deliver all product-related materials, such as the certificate of origin, quantity and quality certificate, and instruction manual, before the customer pays the contract price.

The other factors that distinguish between accounts receivable and contract assets referred to in the revenue standards refer to clear conditions that affect collections. Although companies are required to provide customers with invoices, product certificates, etc., as agreed in the contract, they do not constitute contractual obligations for performance obligations. These are only common practices in commodity and service transactions and are relatively easy to implement. Also, invoices are statutory entry documents required by tax laws and regulations, so they do not meet the definition of "depending on other factors other than the elapse of time" in the definition of contract assets. When companies and customers use verbal or other forms to confirm the settlement amount and confirm revenue, receivables rather than contract assets should be recognized.

# [Question 90] Should the variable consideration part estimated by the company be listed as contract assets?

Answer: Some major customers of a company may choose to settle their accounts on a monthly basis. They do not require that invoices be issued in advance as a condition of contract payment, but ask to settle the previous month’s amount in the first ten days of next month. Customers often propose to lower the price in response to product quality and other aspects and that settlement price be deducted on the basis of the contract price, but the deduction amount is relatively small proportionate to the settlement amount (less than 5%). Under this circumstance, the variable consideration component included in the revenue recognition amount of the current month is relatively small, and the settlement is also in the first ten days of the next month, which is not distant from the current month. Based on the principle of materiality, the revenue can still be recognized as receivables at the same time. Whether significant variable consideration is listed as contract assets is still inconclusive. We should pay attention to relevant guidelines issued in the future from the relevant regulatory agencies.

# [Question 91] The contract stipulates that payment can only be made after reconciliation or settlement. Should the consideration confirmed by the company before reconciliation be listed as contract assets?

Answer: The following two scenarios are common in practice in order to agree on reconciliation or settlement.

Scenario 1: The law firm provides clients with legal consulting services and charges on time. The contract stipulates that a bill will be issued on the 25th of every month, with the client's confirmation before the end of the month. After that, an invoice is issued to the client, and the client will pay within 10 days upon receipt. At the end of each month, the law firm prepares bills and sends them to clients based on the consultation duration of each client in that month, but some clients would confirm it after 1-2 months. In this case, it is necessary to consider whether the trial settlement is substantive or formal. If it is a substantive settlement, that is, the process by which both parties agree on the performance obligations, the consideration should generally be reported as a contract asset before settlement; if it is a formal settlement, it can be reported as a receivable when revenue is recognized. The service unit price of a law firm is relatively clear, and the length of service is not likely to cause confusions. The reconciliation process is only a process and procedure as well as the confirmation process of both parties' claims and debts. Therefore, the consideration should be listed as receivables while confirming revenue.

Scenario 2: The construction company adopts the "cost method" under the "input method" to confirm revenue. The right of control is continuously transferred in accordance with the fulfillment progress of the contract. Both parties to the contract need to settle regularly, but the settlement progress may be inconsistent with the contract performance progress. Before reconciliation of the settlement (assessment) and confirmation of quality and workload, the company does not have the unconditional right to receive payments. Therefore, this type of settlement is a substantive settlement, and the revenue corresponding to the confirmed revenue before settlement should not be receivables but contract assets.

# [Question 92] For the renewable energy subsidies granted by the government, should the consideration confirmed before the catalog registration approval be reported as contract assets or accounts receivable?

Answer: The following two scenarios are common in practice for state-granted renewable energy subsidies.

Scenario 1: The renewable energy subsidy is included in the electricity fee receivable by the power generation company. The time for power generation companies to apply for the catalog is uniformly arranged by the relevant state departments, and the time interval between online approval and catalog registration approval is often more than one year. Before the approval of the catalog registration, the power generation company has no other performance obligations. The collection of this payment depends only on the passage of time, and can be listed as "accounts receivable" under normal circumstances.

Scenario 2: New energy automobile manufacturing companies will obtain corresponding subsidies from the government for selling cars. This subsidy would not be granted before the cars sold have traveled 20,000 kilometers. Also, the new energy vehicle manufacturing company does not have the "unconditional right to collect payments" before this requirement is met. So the right to collect contract payments should be listed as contract assets and transferred into accounts receivable when the conditions of "unconditional right of collection" are met in subsequent periods.

# [Question 93] The contract stipulates a guarantee of assurance. When recognizing contract revenue, should the quality guarantee consideration be reported as contract assets or accounts receivable?

Answer: Whether the company's deposit of quality assurance can be paid back depends on whether the company can solve relative quality problems in accordance with the contract. That is, the deposit of quality assurance bares not only credit risks, but also potential obligations and risks, thus is not a right to receive contract consideration unconditionally and therefore should be listed as contract assets.

# [Question 94] The amount of project settlement approved by the customer is greater than the revenue confirmed by the company. Should a contract liability be accounted for?

Answer: The act of a company building a certain construction for the customer meets the conditions for recognizing revenue within a period of time. According to revenue standards, contract liabilities include both the consideration received by the company and the consideration receivable, and the obligation to transfer goods to customers. Therefore, the company should recognize the revenue according to the progress of the contract performance, the amount over the recognized revenue should be debited to accounts receivable and credited to contract liability.

# [Question 95] What are the newly-added accounts for booking and reporting involved in the new revenue standards?

Answer: The newly-added accounts under the new revenue standard are generally balance sheet-related items, shown in the following table:

|  |  |  |
| --- | --- | --- |
| Account name | Expires within 1 year or the amortization period at initial confirmation is less than 1 year or 1 business cycle | Expires after 1 year or the amortization period at initial confirmation exceeds 1 year or 1 business cycle |
| Contract assets (reporting account) | reported as "contract assets" | reported as "other non-current assets" |
| Contract liabilities (reporting account) | reported as "contract liabilities" | reported as "other non-current liabilities" |
| Contract acquisition costs | reported as "other current assets" | reported as "other non-current assets" |
| Contract performance costs | reported as "inventory" | reported as "other non-current assets" |
| The cost of return of receivables | reported as "other current assets" | reported as "other non-current assets" |
| Estimated liabilities-return payables | reported as "other current liabilities" | reported as "estimated liabilities" |

# [Question 96] If there is a loss contract in the construction industry, how should the estimated loss is accounted for?

Answer: According to the original construction contract standards, if the estimated total cost of the construction contract exceeds the total contract revenue, a contract loss will be formed, and a loss provision should be accrued, with a debit to "asset depreciation loss" and a credit to "inventory depreciation reserve". If the expected loss exceeds the impairment loss or there is no underlying asset such as inventory, the excess part or the expected loss as a whole shall be recognized as an estimated liability in accordance with the " Standards -Contingent Events", with a debit to "Non-operating expenses" and a credit to the "Estimated Liabilities" account. Under the revenue standard, the expected loss is a contingent event, and the “Standards -Contingent Events “is applicable. When there is an underlying asset, the underlying asset shall be tested for impairment and the impairment loss shall be recognized in accordance with the regulations, with a debit to "Impairment loss" and credit to “allowance for inventory impairment” and "allowance for contract performance cost impairment". If the estimated loss exceeds the impairment loss or there is no underlying asset such as inventory, the excess should be recognized as an estimated liability, debit the "cost of goods sold/cost of sale" and credit the "estimated liability".

# [Question 97] Should asset impairment losses be accrued for contract assets?

Answer: According to Article 46 of the " Standards --Recognition and Measurement of Financial Instruments", contract assets should be based on expected credit losses, and credit impairment losses should be accrued.

# [Question 98] How to distinguish contract liabilities and financial liabilities?

Answer: Contract liabilities are the obligation of a company to transfer goods to customers for the consideration received or receivable from customers and follow the revenue standards; while financial liabilities are the unavoidable obligation of a company to deliver cash or other financial assets to other parties and follow the financial instrument standards. For example, if the point rewards granted by a company to a customer constitute a separate performance obligation, and the customer purchases the company’s goods or services, it is a contract liability; if the customer chooses to redeem the goods or services sold by other parties, the company is responsible for the obligation to pay the price of related goods to other parties and recognize contract liabilities when it receives the contract price. When the customer actually exchanges the goods or services of other parties, the point exchange obligation is relieved and should be reclassified from contract liabilities to financial liabilities.

# [Question 99] Is it possible that the convergence of standards may cause the financial statements of the same company in the two accounting periods before and after the change in the revenue standards to be incomparable?

Answer: According to the revenue standard, the cumulative impact of contracts that have not been completed on the first execution date will be adjusted, and the information in the comparable period will not be adjusted. The resulting problem is that for the same contract, the cumulative amount of revenue recognized in the income statement before and after the application of the revenue standard may be greater than the total amount of the contract. For example, for a contract value of 1 million yuan, the company used the percentage of completion method to recognize revenue of 500,000 yuan in the previous period to which the new revenue standard was applied in. After the revenue standard was revised, the revenue recognition policy was revised to be based on the point-in-time method. The entire contract revenue of 1 million yuan is recognized in the first accounting period in which the new standard is applied. This matter is a one-time issue for the first adoption of the revenue standard. The main reason for this is that the comparable period information is not adjusted. This is for the purpose of reducing the cost of the company’s first implementation of the revenue standard. Retrospective adjustment to the opening balance of the comparison period is not required.

Therefore, in practice, it can be handled in accordance with the connection method required by the revenue standard.

If the impact of one of the above indicators exceeds 10% in any year of the reporting period, the enterprise shall assume that since the beginning of the reporting period, it will fully implement the new revenue guidelines and prepare a pro forma consolidated financial statement (consolidated balance sheet and consolidated profit statement).

# [Question 100] When a company confirms the performance progress under the time period method, it adopts the output method under the original revenue standard and plans to adopt the cost method during the convergence between standards. Is this adjustment a change in accounting estimates or a change in accounting policies?

Answer: This adjustment is one of the changes in the accounting policy of the new revenue standard and the original revenue standard. Therefore, it is different from general accounting estimate changes and is a change in accounting policies.