**Test revenue transactions (Steps 1 to 5)**

Audit procedures

User guide

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# Overview

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| This document is designed to assist teams in the appropriate, effective and efficient use of the procedures in the ‘IFRS – Substantive Tests’ cabinet that are used to document our substantive testing of revenue transactions recognized by entities when applying **IFRS 15 ‘Revenue from contracts with customers’**.  **The document includes the following three elements:**    Detailed user guidance to help engagement teams to understand the detailed documentation expectations when using the procedure **“Test** **Revenue Transactions (Steps 1 to 5) (CAS 540)”**  Frequently asked questions related to designing an effective revenue testing approach covering a limited selection of subject matters where teams often seek clarification when auditing revenues accounted for using IFRS 15  Decision tree to support engagement teams in selecting the appropriate revenue transactions testing procedures |

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| **Using the IFRS 15 Revenue Transaction Testing procedures – General Reminders** | **Test Revenue Transactions (Steps 1 to 5) Procedure Decision Tree** |
| We design our approach to testing revenue transactions based on a number of considerations, including our understanding and evaluation of the revenue and receivables business process, our review of significant revenue contracts, and our determination of testing populations and testing/sampling units for each revenue type.    Designing an effective and efficient approach to testing revenue transactions typically requires the involvement of senior members of the engagement team who possess a detailed practical knowledge of the requirements of the applicable financial reporting framework. Consider referring to the [PwC: Accounting and Financial Reporting Guide for Revenue from Contracts with Customers](http://cmsprd.oag-bvg.gc.ca/intranet/audit/documents/Accounting_and_Financial_Reporting_Guide_for_Revenue_from_Contracts_with_Customers.PDF).  To the extent the entity's recognition of revenue involves management estimation, in addition to the transaction testing procedures we would also need to design and perform the appropriate steps in the procedure over the identified accounting estimates.    Expected working practices when using the IFRS 15 Revenue Transaction Testing procedures   * + Do not delete or hide columns in the results templates. This helps to prompt you to complete all applicable procedures.   + Do not delete or hide tabs/worksheets unless prompted to do so by a message in the template as they might be needed when rolling forward the documentation to future periods   + Add any additional columns when needed to appropriately reflect your audit documentation   + When a single item in the sample requires more than one row to document the testing, simply add the necessary rows (e.g., a transaction selected for testing may have multiple performance obligations that need more than a single row to document Step 2). | The program “*Revenue from contracts with customers*” found in the “*IFRS – Substantive Tests*” cabinet includes 3 separate procedures to test revenue transactions recognized under IFRS 15.   * Test revenue transactions (Steps 1 to 5) – Single performance obligation satisfied at a point in time – [Revenue type] (CAS 540) * Test revenue transactions (Steps 1 to 5) – Single performance obligation (or a series of distinct goods or services) satisfied over time – [Revenue type] (CAS 540) * Test revenue transactions (Steps 1 5) (CAS 540) |

The following decision tree can be used to determine which procedures to use in your circumstances. To assist with selecting the appropriate procedure, each of the first two procedures in the list above includes an initial procedure to determine whether the revenue type you are auditing reflects the conditions needed for the procedure to be applicable. Depending on the entity’s circumstances, we may use a combination of the procedures listed above for different revenue types. It is important that each of the conditions for use of the procedure in this first step is appropriately/accurately documented in the selected procedure for the revenue type to be tested so that we can verify that the procedure you have selected is the right one for the circumstances. We also consider whether any other procedures need to be used to perform substantive procedures over other relevant assertions for which there is an assessed risk of material misstatement related to revenue (e.g., procedures covering matters such as revenue cut-off or contract liabilities).

Understand the nature of contracts and the types of revenue determined by management

Number of performance obligations

Single performance obligation

Multiple performance obligations

How will the performance obligation be satisfied?

How will the performance obligation be satisfied?

Over time ***(Note 1)***

At a point in time ***(Note 1)***

Over time ***(Note 1)***

At a point in time ***(Note 1)***

Use audit procedure

***“Test revenue transactions (Steps 1 to 5) (CAS 540)”***

Use audit procedure

***“Test revenue transactions (Steps 1 to 5) – Single performance obligation (or a series of distinct goods or services) satisfied over time – [Revenue type] (CAS 540)”***

Use audit procedure

***“Test revenue transactions (Steps 1 to 5) – Single performance obligation satisfied at a point in time – [Revenue type] (CAS 540)”***

Some at a point in time and some over time

Over time

At a point in time

Over time

At a point in time

Test revenue transactions

(Steps 1 – 5) – Single performance obligation satisfied at a point in time

Test revenue transactions (Steps 1 -5) – Single performance obligation (or a series of distinct goods or services) satisfied over time

Test revenue transactions

(Steps 1 to 5)

Test revenue transactions (Steps 1 – 5) – Multiple performance obligations each satisfied at a point in time

***Note 1*** – Indicates procedures that may be applicable depending on the nature of the revenue type and the terms and conditions of the contract with the customer.

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| **Refer to** [**Appendix**](#_Appendix) **– Analysis of categories of procedures included in each of the Test Revenue Transactions (Steps 1 to 5) (CAS 540) procedures for additional details of areas covered by each of the three procedures and examples of scenarios when each of the procedures is to be used.** |

# Overall Procedures

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| **Procedure Number/Procedure Column Header** | **Guidance** |
| 1-2 | Obtain detailed listing of revenue transactions, agree balances to the general ledger, test significant reconciling items and verify completeness of the detailed listing. |
| 3-4 | Determining the appropriate sampling unit requires consideration of the nature of the underlying contracts for each revenue type (e.g. Individually Significant Tailored Contracts versus High Volume Low Value Transactions with Standardized Terms and Conditions). Common scenarios include the following:   * Scenario 1 – If the terms of individually significant revenue contracts are tailored on a customer by customer basis (ie. not standardized) then we need to perform step 1 onwards by selecting a sample of contracts. * Scenario 2 – If revenue results from a high volume of low value transactions with standardized contractual terms and conditions that are never modified, then we can perform steps 1 and 2 in the procedure based on the standard contractual terms and conditions. When we perform steps 3, 4 and 5 we focus on the detailed performance obligations/transactions and therefore our sampling unit is at this level and our testing population will be the detailed listing of individual performance obligations/transactions. However, in this scenario when performing the procedures in steps 3, 4 and 5, we remain alert to any indicators that the contractual terms and conditions for each transaction selected for testing are not aligned with the standardized terms and conditions tested in steps 1 and 2. * Scenario 3 – If contracts can be categorized into groups with the same terms and conditions, then the tests in Steps 1 and 2 could be performed for each grouping as a whole. Testing in steps 3, 4 and 5 would still need to be performed on individual performance obligations/transactions across each of the groupings. Where contracts are categorized into groups, consider the guidance in [OAG Audit 7044.1](http://localhost/intranet/financial-audits/manual/7044-1.shtm) (Step 2) when evaluating whether an appropriate population has been identified for testing. For example, if the different groups of contracts are not subject to common processes and controls, it is likely appropriate to define each of the identified groups as separate testing populations. |

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| **Procedure Number/Procedure Column header** | **Guidance** |
| **Sample Selection tab** | Use this tab to document the items selected for testing by reference to the entity’s detailed revenue listing that was tested for completeness in the Overall Procedures section.  Refer to [OAG Audit 7040](http://localhost/intranet/financial-audits/manual/7040.shtm) for guidance on designing and performing an effective and efficient test of details. Our preferred approach for tests of details is targeted testing as it provides the opportunity to exercise significant judgment over what items are to be tested, however for revenue it is typically necessary to perform additional procedures over the untested balance, and we typically select these items using non-statistical sampling. |

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| [**Step 1**](#_Results_Template_(Step) | [**Step 2**](#_Results_Template_(Step_5) | [**Step 3**](#_Results_Template_(Step_2) | [**Step 4**](#_Results_Template_(Step_3) | [**Step 5**](#_Results_Template_(Step_4) |

# Results Template (Step 1) – Identify the Contract

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| The first step of testing is to evaluate management's identification of contracts for the items selected. Note that across different locations and industries a revenue contract may take different forms (e.g., purchase order, email communication, receipt of sale) and may not be a signed, formal contract. Consider applicable laws and regulations around the definition of a contract.  **Reminder**  An entity is to account for a contract with a customer that is within the scope of IFRS 15 only when all of the following criteria are met   * The parties to the contract have approved the contract and are committed to perform their respective obligations; * The entity can identify each party’s rights regarding the goods or services to be transferred; * The entity can identify the payment terms for the goods or services to be transferred; * The contract has commercial substance (i.e., the risk, timing or amount of the entity’s future cash flows is expected to change as a result of the contract); and * It is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. |

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| **Procedure Number/Procedure Column header** | **IFRS 15 paragraph (where applicable)** | **Guidance** |
| Documentation of selections (per detailed listing) |  | **Document details** of the selected population contracts by reference to the entity’s detailed listing of revenue transactions. |
| Identification of contracts | IFRS 15.9 | Perform procedures to evaluate management’s determination that each selected contract is within the scope of IFRS 15. The existence of the contract that meets all of the criteria listed in IFRS 15.9 (covered by the columns in the testing table in the results template (Step 1)) is critical to the ability to recognize revenue in accordance with IFRS 15. |
| Combination of contracts | IFRS 15.17 | Perform procedures to identify if contracts have been appropriately considered as a single or as separate contracts for the purposes of revenue recognition. The appropriateness of this decision might impact the appropriateness of identification of performance obligations and the consideration attributable to each of the performance obligations. |
| Contract modification | IFRS 15.18 to 21 | Consider whether management has appropriately addressed the accounting implications if there have been **contract modifications**.  Document details of contract modifications in the same worksheet as the Step 1 Results template, in the table “Test contract modifications (where applicable)” below the main procedures. Perform procedures to evaluate if management appropriately treated the modification as a separate contract or as a modification of the existing contract.  Specific consideration needs to be given to any contract modifications that were made before IFRS 15 was effective and before the beginning of the earliest period presented in the financial statements. As part of the transition to IFRS 15, an entity might have chosen a practical expedient allowing it not to retrospectively restate revenues for such contracts. In this case, the entity considers all performance obligations and consideration in the contract as it exists at transition, determines how much of the obligation has been performed and what is yet to be performed, and recognize the cumulative effect of initially applying the Standard as an adjustment to the opening balance of retained earnings. |
| **Procedure Number/Procedure Column header** | **IFRS 15 paragraph (where applicable)** | **Guidance** |
| License | IFRS 15.B52 | IFRS 15 includes specific financial reporting requirements and considerations for licensing agreements. When the contract establishes a license to the intellectual property of an entity, for example software and technology, then document the key dates related to these. Where the revenue type includes licenses, the procedures contain a number of specific procedures that need to be performed across several of the 5 steps. |
| Principal versus agent assessment | IFRS 15 B34 to B38 | If a third party is involved in providing goods or services to the customer, evaluate how the entity has assessed factors or considerations to identify the nature of the promise and indicators of control, and to determine if the entity is acting as a principal or agent in the arrangement. These factors will significantly impact how the entity should recognize revenue.  If the entity is acting as a principal, it recognizes as revenue the ‘gross’ amount paid by the customer for the specified good or service. The entity also records a corresponding expense for the commission or fee that it has to pay to any agent, in addition to the direct costs of satisfying the contract.  An entity is an agent if it does not control the specified goods or services before they are transferred to the customer. If the entity is an agent, it records as revenue the commission or fee earned for facilitating the transfer of the specified goods or services (the ‘net’ amount retained). It records as revenue the net consideration that it retains after paying the principal for the specified goods or services that were provided to the customer. |

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| [Step 1](#_Results_Template_(Step) | [Step 2](#_Results_Template_(Step_1) | [Step 3](#_Results_Template_(Step_2) | [Step 4](#_Results_Template_(Step_3) | [Step 5](#_Results_Template_(Step_4) |

# Results Template (Step 2) – Identify the Performance Obligations in the Contract

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| **Reminder:**  A performance obligation is defined as a promise in a contract with a customer to transfer to the customer either   * A good or service (or a bundle of goods or services) that is distinct; or * A series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.   **Note – For each of the performance obligations/transactions selected for testing on the 'Sample Selection' tab, perform the procedures below. (Please refer to FAQ 1 at the end of this document for further consideration about the sampling unit.)** |

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| **Procedure Number/Procedure Column header** | **IFRS 15 paragraph (where applicable)** | **Guidance** |
| Documentation of selections | IFRS 15.22 | **Document details** of the selected sample of items.  Some of the details documented in Step 1 are repeated here but here you also need to describe the nature of the underlying performance obligations. |
| Distinct goods or services | IFRS 15.26 to 30 | Evaluate management's determination of the distinct goods and/or services for each item selected for testing. One or more performance obligations may be identified within each contract.  A good or service that is promised to a customer is distinct if both of the following criteria are met:   * The customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (i.e., the good or service is capable of being distinct); and * The entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (i.e., the promise to transfer the good or service is distinct within the context of the contract).   Goods and services that are not distinct are bundled with other goods or services in the contract until a bundle of goods or services that is distinct is identified. The bundle of goods or services, in that case, is a single performance obligation. |
| Other performance obligations | IFRS 15.22 to 30 | Determine if there are any other performance obligations in the contract.  If you identify additional promises, consider if the entity treated the additional promises as a separate performance obligation or has combined with others and whether such treatment is correct. |

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| **Procedure Number/Procedure Column header** | **IFRS 15 paragraph (where applicable)** | **Guidance** |
| Shipping and handling activities | IFRS 15.95 to 98  IFRS 15.B34 to B38 | If the contract includes **shipping/handling** of goods to a customer, evaluate management’s determination as to whether shipping/handling occurred before or after the customer obtained control of the good(s).   * If shipping occurred before control was transferred, then it is part of the entity’s selling activities of its own inventory. The entity will need to account for these selling costs accordingly. * If shipping occurred after control was transferred, then the entity needs to assess whether it’s a distinct service from the sale of the goods. In most cases the shipping would be a separate promised service to the customer (i.e., a separate performance obligation). If a third party is involved in shipping and handling, the entity will also need to assess whether it acts as the principal or agent for the shipping and handling services |
| Licenses | IFRS 15.B52 to B56 | If any licenses were identified in Step 1, perform procedures in the second table in Step 2 to evaluate the resulting performance obligations.  In this second table, **document the details** of the selected sample of licenses. When licenses are sold with other non-license tangible goods or services, procedures need to include evaluating management’s determination as to whether the licenses are a distinct performance obligation. This testing also needs to address whether the license is a right to access or a right to use IP and also whether there are any entity-imposed restrictions to consider. If the license is not a distinct performance obligation, procedures need to include evaluating management’s determination of whether the combined performance obligation is satisfied at a point in time or over time. |

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| [Step 1](#_Results_Template_(Step) | [Step 2](#_Results_Template_(Step_1) | [Step 3](#_Results_Template_(Step_2) | [Step 4](#_Results_Template_(Step_3) | [Step 5](#_Results_Template_(Step_4) |

# Results Template (Step 3) – Determine the Transaction Price

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| **Reminder**  The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties. When determining the transaction price, an entity considers the effects of all of the following  a. Variable consideration  b. Constraining estimates of variable consideration  c. The existence of a significant financing component in the contract  d. Non-cash consideration  e. Consideration payable to a customer  **Note – For each of the performance obligations/transactions selected for testing on the 'Sample Selection' tab, perform the procedures below.** |

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| **Procedure Number/Procedure Column header** | **IFRS 15 paragraph (where applicable)** | **Guidance** |
| Documentation of selections |  | **Document details** of the selected sample of items.  In circumstances where the sampling unit is determined to be the contract, and the contract contains more than one performance obligation, then testing in this step needs to be performed for each performance obligation (see column E in the testing table). |
| Fixed consideration | IFRS 15.47 | If consideration per the contract is **Fixed**, then document the details of this for each performance obligation. |
| Variable consideration | IFRS 15.50 to 59 | If consideration per the contract is **Variable**, then document the details of the nature of the variable consideration for each performance obligation. If not explicitly stated in the contract, then the entity would need to estimate the amount. We also need to consider if there is any indication that the customer would have a valid expectation arising from the entity’s customary business practices that the entity would accept an amount of consideration less than the price per the contract (implicit variable consideration).  Note that if a contract includes variable consideration then additional procedures for step 3 are relevant. This includes verifying that relevant procedures for testing the variable consideration are added, such as:   * Test contract liabilities – Variable consideration balances (e.g., discounts, rebates, right to return) (CAS 540) * Test revenue transactions from royalties (CAS 540) * Test sales discounts * Test sales returns |
| Constraint(s) on variable consideration | IFRS 15.56 to 58 | When variable consideration is identified, assess whether management considered the probability that a significant reversal in the amount of cumulative revenue recognized would not occur when the uncertainty related to the variable consideration is subsequently resolved – in doing this, management needs to consider both the likelihood and the magnitude of a possible revenue reversal. |
| **Procedure Number/Procedure Column header** | **IFRS 15 paragraph (where applicable)** | **Guidance** |
| Assessment of whether a significant financing component exists | IFRS 15.60 to 63 | The procedures are directed at considering whether a “**significant financing component**” exists and therefore whether the transaction price requires adjustment and testing of the adjustment. The determination of whether a financing component is significant should be made at the contract level. A determination is not required of the effect on the financial statements of all contracts collectively.  In determining the transaction price, an entity shall adjust the promised amount of consideration for the effects of the time value of money if the timing of payments agreed to by the parties to the contract (either explicitly or implicitly) provides the customer or the entity with a significant benefit of financing the transfer of goods or services to the customer.  Note that column AE in the testing table addresses a **practical expedient** pursuant to which the entity may have elected not to adjust the transaction price if the period between when the entity transfers the promised good or service to a customer and when the customer pays for that good or service will be one year or less. |
| Fixed or Variable non-cash consideration | IFRS 15.66 to 69 | If **non-cash consideration** is identified (either **fixed** or **variable**) in the contract, then the entity needs to measure this at fair value, and we need to test this fair value. Consider engaging a specialist or an auditor’s expert if there is a material fair value measurement. |
| Consideration payable | IFRS 15.70 to 72 | If the entity pays consideration to the customer (e.g., cash back, credit coupons) this needs to be treated as a reduction in transaction price unless the payment to the customer is in exchange for goods or services transferred to the entity, and the amount paid for those goods or services is not in excess of the market value of those goods or services.  If the consideration payable contains a variable amount, consider whether the entity estimated the transaction price (including assessing whether the estimate of variable consideration is constrained) in accordance with the requirements applicable for variable considerations. |

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| **Procedure Number/Procedure Column header** | **IFRS 15 paragraph (where applicable)** | **Guidance** |
| Amounts collected on behalf of third parties | IFRS 15.47 to 49 | Where the entity is acting as an agent on behalf of a third party, we need to verify that **amounts collected by the entity on behalf of that third party** are excluded from the transaction price. A common example of collections on behalf of third parties is sales tax collected from a customer on behalf of a tax authority. |
| Total Consideration |  | Having considered the previous procedures in step 3, **recalculate** the total consideration receivable under the contract for each performance obligation selected for testing. |

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| [**Step 1**](#_Results_Template_(Step) | [**Step 2**](#_Results_Template_(Step_1) | [**Step 3**](#_Results_Template_(Step_2) | [**Step 4**](#_Results_Template_(Step_3) | [**Step 5**](#_Results_Template_(Step_4) |

# Results Template (Step 4) – Allocate the Transaction Price to the Performance Obligations

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| **Reminder**  The objective when allocating the transaction price is for an entity to allocate the transaction price to each performance obligation (or distinct good or service) in an amount that depicts the amount of consideration to which the entity expects to be entitled in exchange for transferring the promised goods or services to the customer.  **Note – For each of the performance obligations/transactions selected for testing on the 'Sample Selection' tab, perform the procedures below.** |

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| **Procedure Number/Procedure Column header** | **IFRS 15 paragraph (where applicable)** | **Guidance** |
| General | IFRS 15.22 | If none of the contracts selected have more than one performance obligation (based on testing in Step 2) then the entity will not need to allocate the transaction price and Step 4 will not be necessary. |
| Documentation of selections |  | **Document details** of the selected sample of items.  The details documented in Steps 1 to 3 can be repeated here and the determined selling price and the allocated consideration taken for the entity’s detailed revenue listing should be added to the documentation. |
| Performance obligation out of scope of IFRS 15 | IFRS 15.5 | Evaluate management’s determination as to whether the performance obligation being tested is **within the scope** of IFRS 15 or another standard. |
| Observable evidence of stand-alone selling price | IFRS 15.76 to 83 | Evaluate management’s identification of **stand-alone selling prices** for each performance obligation subject to testing.  The stand-alone selling price is the price at which an entity would sell a promised good or service separately to a customer. The best evidence of a stand-alone selling price is the observable price of a good or service when the entity sells that good or service separately in similar circumstances and to similar customers. A contractually stated price or a list price for a good or service may be (but shall not be presumed to be) the stand-alone selling price of that good or service.  If a stand-alone selling price is not directly observable, an entity shall estimate the stand-alone selling price. A separate procedure “*Test stand-alone selling price*” from the program “*Revenue from contracts with customers”* found in the “*IFRS – Substantive Tests*” cabinet is to be added to the audit file and used to document our testing. |

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| **Procedure Number/Procedure Column header** | **IFRS 15 paragraph (where applicable)** | **Guidance** |
| Allocation of discount | IFRS 15.81 to 83 | Except when there is observable evidence that the entire discount relates to one or more, but not all, performance obligations, assess whether the entity allocated a discount proportionately to all performance obligations in the contract.  If there is observable evidence that the entire discount relates to one or more, but not all, performance obligations, a discount is allocated entirely to one or more performance obligations in a contract. The entity needs to allocate the discount before using the residual approach (see IFRS 15.79(c)) to estimate the stand-alone selling price of a good or service in Step 3. |
| Allocation of variable consideration | IFRS 15.84 to 86 | If the contract includes **variable consideration**, evaluate whether the entity has properly allocated it; either to the whole contract (i.e., all performance obligations) or only those performance obligations for which consideration is variable. |

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| [**Step 1**](#_Results_Template_(Step) | [**Step 2**](#_Results_Template_(Step_1) | [**Step 3**](#_Results_Template_(Step_2) | [**Step 4**](#_Results_Template_(Step_3) | [**Step 5**](#_Results_Template_(Step_4) |

# Results Template (Step 5) – Test Revenue Recognized

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| **Reminder**  An entity recognizes revenue when (or as) it satisfies a performance obligation by transferring a promised good or service to a customer (which is when the customer obtains control of that good or service). The amount of revenue recognized is the amount allocated to the satisfied performance obligation. A performance obligation may be satisfied at a point in time (typically for promises to transfer goods to a customer) or over time (typically for promises to transfer services to a customer). For performance obligations satisfied over time, an entity recognizes revenue over time by selecting an appropriate method for measuring the entity’s progress towards complete satisfaction of that performance obligation.  **Note – For each of the performance obligations/transactions selected for testing on the 'Sample Selection' tab, perform the procedures below.** |

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| **Procedure Number/Procedure Column header** | **IFRS 15 paragraph (where applicable)** | **Guidance** |
| Procedures (Step 5) | IFRS 15.35 to 38 | Determine for each performance obligation identified in step 2, if the entity transfers control **over time** or **at a point of time**.  An entity satisfies a performance obligation and recognizes revenue over time, if one of the following criteria is met:   * The customer simultaneously receives and consumes the benefits provided by the entity’s performance as the entity performs; * The entity’s performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or * The entity’s performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.   If a performance obligation is not satisfied over time, an entity satisfies the performance obligation at a point in time.  Consider the level of supporting documentation to corroborate the entity’s determination as to how transfer of control occurs and how revenue should be recognized. |
| Documentation of selections |  | **Document details** of the selected sample.  The details documented in Steps 1 to 4 can be repeated here. |
| Performance obligations satisfied over time | IFRS 15.35 to 38 | Determine for each performance obligation identified in step 2, if the entity transfers control **over time** or **at a point of time**. The procedures which follow in this step are dependent on which form of control transfer is applicable. |

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| **Procedure Number/Procedure Column header** | **IFRS 15 paragraph (where applicable)** | **Guidance** |
| Output/Input methods of measurement | IFRS 15.B14 to B19 | For any performance obligations satisfied over time, the entity needs to apply a single, consistent method of measuring progress for each performance obligation, either an output-based method or an input-based method. Our testing is designed to address whether the entity’s method is appropriate in light of the nature of the goods and/or services that underlie the performance obligations.   * **Output methods** are based on direct measurements of the value to the customer of the goods or service and include methods such as surveys of performance completed, appraisals of results achieved, milestones reached, time elapsed and units produced or delivered. * **Input methods** are based on an entity’s efforts or inputs to the satisfaction of a performance obligation, for example, resources consumed, labor hours expended, costs incurred, time elapsed or machine hours used. |
| Performance obligations where the entity is unable to reasonably measure its progress toward satisfaction | IFRS 15.45 | When the entity **may not be able to reasonably measure the outcome** of a performance obligation, determine whether the entity recognized revenue only to the extent of the costs incurred until such time that it can reasonably measure the outcome of the performance obligation. |
| Performance obligations satisfied at a point in time | IFRS 15.38 | If performance obligations are satisfied at a point in time, the entity needs to determine when control is transferred. Note that receipt of cash alone typically will not be indicative of transfer of control. Therefore, when testing point in time revenue recognition it will generally be insufficient to simply test whether cash was received from the customer and other indicators of the transfer of control will need to be tested. |

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| **Procedure Number/Procedure Column header** | **IFRS 15 paragraph (where applicable)** | **Guidance** |
| License – Testing period of recognition | IFRS 15.B56 | If we are testing licenses, then we need to perform some procedures to test if the entity determined the license transfers to a customer either at a point in time or over time. In making this determination, an entity would consider whether the nature of the entity’s promise in granting the license to a customer is to provide the customer with either:   1. A right to access the entity’s intellectual property as it exists throughout the license period; or 2. A right to use the entity’s intellectual property as it exists at the point in time at which the license is granted. |
| Royalties – Testing period of recognition | IFRS 15.B63 | If we are testing royalties, we need to perform some procedures to test if the entity recognized revenue for a sales-based or usage-based royalty promised in exchange for a license of intellectual property only when (or as) the later of the following events occurs:   1. The subsequent sale or usage occurs; and 2. The performance obligation to which some or all of the sales-based or usage-based royalty has been allocated has been satisfied (or partially satisfied). |

**Carrying forward work performed that remains relevant to future audits**

The detailed contract understanding documented in the procedure(s) used to document our revenue transaction testing is typically carried forward to the following period’s audit.

We may also consider adding copies of significant multi-period revenue contracts to the audit file to carryforward to future period audits.

# FAQ’s

**Related to designing an effective revenue testing approach covering a limited selection of subject matters where teams are often seeking clarification**

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| What factors need to be considered to determine the most appropriate sampling unit when designing a test of revenue transactions? |

In designing a revenue transaction test we consider our understanding of the entity’s revenue types obtained when performing risk assessment procedures, including our review of significant revenue contracts with customers. As noted in [OAG Audit 7044.1](http://localhost/intranet/financial-audits/manual/7044-1.shtm) (Step 2), we select a sampling unit (e.g., performance obligations/transactions or individual contracts) that we believe will lead to the most effective and efficient sampling application and that is relevant to our test objective. The appropriate sampling unit will depend on the characteristics of the entity’s revenue contracts and associated transactions and consideration of management’s unit of accounting. A key factor in this determination is whether it is expected to be effective to assess the entity’s application of the accounting requirements of IFRS 15 at a transactional line item level, or if considering all transactions within individual contracts is expected to be more effective. It is typically most effective and efficient to select a sampling unit that is consistent with what management has determined to be the entity’s unit of accounting.

**Individually Significant Contracts with Customer-Specific Terms and Conditions**

If an entity has individually significant revenue contracts with customers that are tailored to include customer and transaction-specific terms and conditions, the sampling unit is more likely to be the contract. For example, an entity may have individual contracts with customers to develop software solutions customized for the needs of each customer (e.g. highly tailored Statement of Work to facilitate effective integration with the customer’s system). Such contracts are often individually financially significant, may be tailored uniquely to each customer, and may not be accounted for correctly without understanding items such as the following for each contract selected for testing – performance obligations, selling price allocations, activity to date, activity yet to come, possible change clauses, discount clauses or implicit performance obligations. As a result, in these circumstances, individual contracts would typically be the most appropriate sampling unit.

**High Volume, Low Value Transactions with Standardized Terms and Conditions**

If an entity has a large volume of low value transactions with standardized terms and conditions that are rarely, if ever, modified, the sampling unit will likely be the performance obligations/individual transactions rather than the entire contract. For example, an online retailer may only have one type of contract and revenue stream. The terms and conditions are spread across multiple source documents including the online sales order form, the website and the invoice. If the team has understood these contractual terms properly, then it is often possible to test the appropriate accounting treatment at an individual transaction level without the need to evaluate all transactions occurring under the given sales order, invoice or arrangement with the given customer. Similarly, a manufacturer of tangible goods that sells the same products repetitively to wholesalers may have only one standardized set of terms and conditions such that testing at the transaction level may be the most effective and efficient approach.

When the transaction/performance obligation is the sampling unit, a second test may be necessary to validate elements of the transaction which require analysis at the contract level with all transactions for a given customer. For example, if there is a rebate discount earned by the buyer when they purchase items over a certain volume, we will likely need to design and perform a test at the customer level to check the discount has been appropriately taken into account given the volume of sales. However, this test of variable consideration will typically be performed separate from other transaction-level tests and therefore does not necessitate a change in the sampling unit for these other tests.

**Testing population considerations**

If a testing population is identified that includes both of the types of revenue arrangements described above, it may be that the population has been identified at a too high level and therefore is not homogeneous. Consider the guidance in OAG Audit 7044.1 (Step 2) when evaluating whether an appropriate population has been identified for testing.

** Contracts categorized into groups with the same terms and conditions**

If contracts can be categorized into groups with the same terms and conditions, we perform procedures related to the identification of contracts and performance obligations separately for each of the identified groups. Beyond these two initial steps, we perform testing of the transaction price, price allocation and revenue recognition at the performance obligation/transaction level, spread across the different groups. Where contracts are categorized into groups, consider the guidance in OAG Audit 7044.1 (Step 2) when evaluating whether an appropriate population has been identified for testing. For example, if the different group of contracts are not subject to common processes and controls, it is likely appropriate to define each of the identified groups as separate testing populations.

Based on the facts and circumstances consider the need to perform procedures to validate our determination of the level of similarity of terms and conditions across the testing population.

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| I’m considering performing revenue CAATs – which of the revenue transaction testing procedures do I use to document the testing? |

**As a reminder, the use of a Revenue CAAT that analyzes journal entries at the general ledger level will only be effective in the following circumstances**

* Recognition of revenue and accounts receivable is straightforward, for example for revenue types with single performance obligation (as opposed to multiple);
* Revenue is predominantly settled through receipt of cash and journal entries predominantly follow an expected journal entry flow;
* We have a thorough understanding of the revenue process;
* We plan to obtain moderate or high substantive evidence over cash;
* We plan to obtain moderate or high substantive evidence over accounts receivable;
* There is limited history of audit adjustments related to revenue;
* No material risks of fraud in revenue recognition have been identified other than the presumed risk of fraud in revenue recognition, and appropriate procedures have been performed to address the presumed risk of fraud.

For revenue types with multiple performance obligations or where cash is not a proxy for the appropriate amount of revenue to be recorded, it may not be appropriate to use Revenue CAATs as the scripts are not designed to test multiple performance obligations or validate accuracy when the price is an amount other than the cash received.

As a result, it may be appropriate to perform revenue CAATs for revenue types that demonstrate the characteristics that would align to use of the procedure ‘Test revenue transactions (Steps 1 to 5) – Single performance obligation satisfied at a point in time’ but it may be less common to perform revenue CAATs for revenue types where one of the other two revenue testing procedures is appropriate to the circumstances.

Refer to [**OAG Audit 7593**](http://localhost/intranet/financial-audits/manual/7593.shtm)for further details.

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| Do I need to add and complete the procedure ‘Test completeness of revenue transactions from sale of goods’ to perform a specific substantive test over the completeness of revenue? |

As with any FSLI, the nature, timing and extent of testing we perform over a particular assertion depends on the assessed risk of material misstatement. The nature, timing and extent of substantive testing needs to be responsive to our assessment of the level of inherent risk related to the completeness of revenue. We also consider the results of any testing of the design and operating effectiveness of relevant controls in determining the level of controls reliance before planning the extent of our substantive testing over the completeness of revenue. For example, if controls such as “Invoices are automatically generated on shipment” or “Manual comparison between control totals of invoices generated to total shipments” have been implemented by the entity and are operating effectively, we may plan to obtain a low level of evidence from substantive tests. On the other hand, where we have assessed an elevated or significant risk related to revenue completeness and we do not plan to test the operating effectiveness of related controls, we may perform a standalone test of detail over the completeness of revenue by selecting items from the population of documents which originate the revenue transactions. Where delivery notes/shipping documents or similar do not exist (i.e., an entity that provides services) then an assessment of the documentation that evidences a sale will need to be performed. For example, for a legal firm that bills and recognizes revenue as time is incurred, a test might encompass checking that time recorded on timesheets has been recognized as revenue.

**Depending on the assessed risk and our understanding of the entity’s revenue streams, we may consider performing one, or a combination, of the following substantive procedures over the completeness of revenue**

1. Substantive tests of details of the completeness of revenue transactions, such as selecting items from the population of documents which should initiate revenue recognition (e.g., dispatch notes/shipping documents) and checking they have been recorded in the revenue account in the general ledger. When performing such a test we also need to test the completeness of the population from which we are selecting items (e.g., checking/testing the sequential numbering of dispatch notes/shipping documents).

When performing this type of test, often the most appropriate selection approach for a normal risk would be an accept-reject test seeking low assurance with no exceptions expected, documented in the procedure ‘Test completeness of revenue transactions from sale of goods’. In the event that an exception is identified we would reject the test and request that management correct the entity’s recognized revenue, before we perform a new completeness test.

1. Examination of significant revenue contracts (during planning and while performing revenue testing). When using this as a test of completeness, it is important to document the work and how it provides evidence of completeness in light of our understanding of the entity’s revenue types.
2. Substantive testing of the cutoff assertion. Although cut-off testing alone will typically not provide sufficient appropriate audit evidence over completeness throughout the entire period because the test focuses only on transactions near the balance sheet date
3. External confirmation procedures. The level of audit evidence obtained from such a procedure would depend on a number of factors including the subject matter of the confirmation requests (e.g., revenue versus accounts receivable), the type of confirmation request (i.e., specific balance or open request) and the period covered by the request (e.g., full period revenue or period-end accounts receivable balance). In most cases, external confirmation of accounts receivable alone will not provide sufficient appropriate audit evidence over completeness of revenue throughout the entire period.
4. Substantive analytical procedures

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| How can we design an effective and efficient testing approach for cost-plus arrangements? |

Cost-plus arrangements are commonly used within and between entities under common ownership or control to effectively manage the allocation of profits of the operations and group tax strategies and also to protect downstream entities from losses due to adverse economic conditions.

A common example where such arrangements might be in place are entities responsible for manufacturing of products sold exclusively to the group. Such production entities might have no or very limited influence on the size of the orders and pricing and may primarily be responsible for managing the quality and efficiency of manufacturing and controlling the costs of running the local operation. In such arrangements it is not uncommon for the group to provide the entity with a pricing adjustment at the end of the year to ensure the entity achieves budgeted margin despite variability in production volumes and costs.

**If these or similar circumstances are present in the entity we are auditing, we need to carefully consider the impact on our audit given that**

1. Revenue reported by the entity in the financial information would not necessarily reconcile to revenue recognized for the full year based solely on the individual transactions recognized during the year
2. There is no universal approach to calculate the expected annual revenue adjustment due to the variety of the cost bases applied by different entities (e.g., full cost model or specific cost calculations for each individual item)
3. The calculation of the period end adjustment might be subject to estimation uncertainty (e.g., related to cost allocation)
4. Existence of such arrangements can be indicative of complex tax planning structures. Where this is the case, collaboration with others, such as the group engagement team and tax specialists is typically appropriate.

**An effective revenue audit approach in this scenario may consist of each of the following**

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| Performing revenue transactions testing at the individual transaction or contract level depending on the determined revenue sampling unit (see FAQ 1, above addressing determination of an appropriate sampling unit). This testing would need to be performed based upon the contractual terms in place during the year without regard to the potential year end revenue adjustment, and | Performing additional testing of the period end adjustment, including considering the following   * Testing of the method used to determine the adjustment and whether it is consistent with any contractual arrangements * Obtaining an appropriate level of audit evidence over any data used in the period-end adjustment * Obtaining an appropriate level of audit evidence over assumptions used in the calculation of the adjustment (e.g., cost allocations). |

# Appendix

**Analysis of categories of steps included in each of the Test Revenue Transactions (Steps 1 to 5) procedures**

**Example of scenario when this procedure would be applicable**

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| **Existing procedures** | | **New procedure** |
| **Test revenue transactions (Steps 1 to 5) (CAS 540)** | **Test revenue transactions (Steps 1-5) – Single performance obligation satisfied at a point in time - [Revenue type] (CAS 540)** | **Test revenue transactions (Steps 1-5) – Single performance obligation (or a series of distinct goods or services) satisfied over time - [Revenue type] (CAS 540)** |
| To be used in all scenarios not covered by the specific revenue arrangements specifically addressed by the other revenue procedures (e.g., single performance obligation satisfied at a point in time) | An entity manufactures and sells distinct products which are considered a single performance obligation which is satisfied at a point in time, being the point of delivery to the customer.  Shipping and handling activities are the responsibility of the entity and control of the goods does not transfer to the customer until the goods are received by the customer (i.e., shipping and handling activities are not considered to be a separate performance obligation). | **Single performance obligation satisfied over time:** An entity is a freight railway entity that enters into a contract with a shipper to transport goods from location A to location B. The shipper has an unconditional obligation to pay for the service when the goods reach location B.  **Series of distinct goods:** An entity has a contract to produce and deliver 50 trains over a 36-month period. The product is fully developed such that design services are not included in the contract. It is concluded that each unit is a distinct good. An individual unit meets the criteria to be recognised over time because it has no alternative use and the manufacturer has the right to payment for performance to date (that is, the right to payment as the goods are manufactured). |

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|  | **Test revenue transactions (Steps 1 to 5) (CAS 540)** | **Test revenue transactions (Steps 1-5) – Single performance obligation satisfied at a point in time - [Revenue type] (CAS 540)** | **Test revenue transactions**  **(Steps 1-5) – Single**  **performance obligation (or**  **a series of distinct goods or**  **services) satisfied over time - [Revenue type] (CAS 540)** |
| Summary scenario to which each procedure applies | | |  |
| **Performance obligations satisfied at a point in time** | Multiple performance obligations | Single performance obligation |  |
| **Performance obligation (or a series of distinct goods or services) satisfied over time** | Multiple performance obligations |  | Single performance obligation |
| **Combination of performance obligations satisfied at a point in time and over time in one transaction** | Multiple performance obligations |  |  |
| General procedures | | |  |
| **Obtaining detailed listings, agreeing totals and testing mathematical accuracy** | Yes | Yes | Yes |
| **Verifying completeness** | Yes | No specific step in each of those procedures. The existing steps in those procedures require the auditor to reconcile the detailed listing to general ledger to ensure completeness of the list subject to testing. | |
| **Determining sampling Unit** | Yes | No specific steps but procedures covers individual invoice and contract level testing. | |
|  | **Test revenue transactions (Steps 1 to 5) (CAS 540)** | **Test revenue transactions (Steps 1-5) – Single performance obligation satisfied at a point in time - [Revenue type] (CAS 540)** | **Test revenue transactions (Steps 1-5) – Single performance obligation (or a series of distinct goods or services) satisfied over time - [Revenue type] (CAS 540)** |
| [Step 1 – Identify the Contract](#_Results_Template_(Step) | | |  |
| **Identification of the contract** | Yes | Yes | Yes |
| **Identification of components out of scope for IFRS 15** | Yes | Out of scope for these procedures based on preconditions to use those procedures | |
| **Combination of contracts** | Yes | Yes | Yes |
| **Contract modifications** | Yes | Out of scope for these procedures based on preconditions to use those procedures | |
| **Identification of licensing agreements** | Yes | Out of scope for these procedures based on preconditions to use those procedures | |
| **Principal versus agent assessment** | Yes | Yes | Yes |
| [Step 2 – Identify the Performance Obligations in the Contract](#_Results_Template_(Step_5) | | |  |
| **Identification of performance obligations** | Yes | Yes | Yes |
| **Testing the appropriateness of shipping and handling activities** | Yes | Yes | Yes |
| **Testing licensing agreements** | Yes | Out of scope for these procedures based on preconditions to use those procedures | |

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|  | **Test revenue transactions (Steps 1 to 5) (CAS 540)** | **Test revenue transactions (Steps 1-5) – Single performance obligation satisfied at a point in time - [Revenue type] (CAS 540)** | **Test revenue transactions (Steps 1-5) – Single performance obligation (or a series of distinct goods or services) satisfied over time - [Revenue type] (CAS 540)** |
| [Step 3 – Determine the Transaction Price](#_Results_Template_(Step_2) | | |  |
| **Fixed consideration** | Yes | Yes | Yes |
| **Variable consideration (explicit and implicit)** | Yes | Yes | Yes |
| **Testing of the significant financing component** | Yes | Out of scope for these procedures based on preconditions to use those procedures | |
| **Fixed non-cash consideration** | Yes | Out of scope for these procedures based on preconditions to use those procedures | |
| **Variable non-cash consideration** | Yes | Out of scope for these procedures based on preconditions to use those procedures | |
| [Step 4 – Allocate the Transaction Price to the Performance Obligations](#_Results_Template_(Step_3) | | |  |
| **Testing of standalone selling price** | Yes | Out of scope for this procedure based on preconditions to use this procedure | Yes – only to allocate variable consideration for series of distinct goods or services |

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|  | **Test revenue transactions (Steps 1 to 5) (CAS 540)** | **Test revenue transactions (Steps 1-5) – Single performance obligation satisfied at a point in time - [Revenue type] (CAS 540)** | **Test revenue transactions (Steps 1-5) – Single performance obligation (or a series of distinct goods or services) satisfied over time - [Revenue type] (CAS 540)** |
| [Step 5 – Recognize revenue](#_Results_Template_(Step_4) | | |  |
| **Performance obligations satisfied over time** | Yes | Out of scope for this procedure based on preconditions to use this procedure | Yes |
| **Performance obligations satisfied at a point in time** | Yes | Yes | Out of scope for this procedure based on preconditions to use this procedure |
| **License** | Yes | Out of scope for this procedure based on preconditions to use this procedure | |
| **Royalties** | Yes | Out of scope for this procedure based on preconditions to use this procedure | |