

Accounting for non-cash consideration in terms of IFRS 15

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IFRS 15, Revenue from Contracts with Customers came into effect for years commencing on or after 1 January 2018, with many entities having fully adopted the new Standard at this point. One of the more practical issues which entities are likely to encounter is the accounting requirements for non-cash consideration.

Consideration for the sale of goods can be received in cash as well in a form other than cash. IFRS 15 provides specific guidance when it comes to determining the transaction price for contracts in which a customer promises consideration in a form other than cash.

Note: The requirements for accounting for non-cash consideration **are** prescribed by IFRS 15. The determination of the fair value of the non-cash consideration to be accounted for must be done in accordance with IFRS 13.

If a customer provides goods and/or services to assist an entity in fulfilling its contract, the entity should assess whether it obtains control of such goods or services. In the event that the entity does obtain control of such goods and services, the goods and services will be considered to be non-cash consideration and should be accounted for as such.

This document will provide a brief snapshot regarding the treatment which IFRS 15 prescribes when accounting for non-cash consideration.

1. What is non-cash consideration?

Non-cash consideration can typically be defined as consideration which is received or receivable by the customer which is in a form other than cash.

Examples of non-cash consideration typically include:

- Shares
- Material, equipment and labor
- Contribution of assets from the customer for the purposes of the contract being met where the entity gains control of these assets.

2. How should non-cash consideration be measured?

IFRS 15 prescribes that an entity shall measure the non-cash consideration (or promise of non-cash consideration) at fair value

as defined in IFRS 13. Therefore, the fair value of such the non-cash consideration (or promise of non-cash consideration) should be as at the measurement date of the transaction, which would typically be the transaction date. It is therefore extremely important to ensure that your client has accounted for the fair value of any non-cash consideration receivable at the correct date.

Note that if an entity cannot reasonably estimate the fair value of the non-cash consideration, the entity shall measure the consideration indirectly by reference to the stand-alone selling price of the goods or services promised to the customer (or class of customer) in exchange for the consideration.

3. How should subsequent changes in fair value of the non-cash consideration receivable be accounted for?

If the fair value of the non-cash consideration promised by a customer varies for reasons other than only the form of the consideration (for example, the fair value could vary because of the entity performance), an entity shall apply the requirements in paragraphs 56 – 58 of IFRS 15.

Remember to take note of the following important points when accounting for non-cash consideration:

- ❖ The general rule to follow is that if the consideration in the contract is received or is to be received in a form other than cash, the entity will measure such non-cash consideration at fair value, as defined in IFRS 13.
- ❖ The requirements of IFRS 13 with regards to the measurement therefore need to be applied when accounting for non-cash consideration.
- ❖ It is also crucial to note that, in accordance with IFRS 13, fair value is market-based measure of an exit price that is receivable and NOT an entity-specific value.
- ❖ Therefore, an entity's intention with regards to any non-cash consideration received (for example, an asset) is not relevant for the purposes of determining its fair value.