



Financial Reporting Council

FRS 102 Factsheet 10

Revenue from Contracts with Customers

November 2024

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8th Floor, 125 London Wall, London EC2Y 5AS

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1. Introduction

Section 23 *Revenue from Contracts with Customers* of FRS 102 was completely rewritten as part of the Periodic Review 2024 to be based on the principles in IFRS 15 *Revenue from Contracts with Customers*. The *Periodic Review 2024 amendments*, including the new Section 23, are effective from 1 January 2026 (early application is permitted). Guidance on the initial application of the amendments is provided in [Factsheet 9 Initial application of the Periodic Review 2024 amendments](#). This factsheet has been prepared to provide a high-level overview of the new revenue accounting requirements.

Revenue is income arising in the course of an entity's ordinary activities. The objective of Section 23 is for an entity to recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. There are more disclosure requirements in the new Section 23 compared to previously, which are intended to provide more useful information to users of financial statements about the nature, amount and timing of revenue and cash flows arising from an entity's contracts with customers.

Scoping

Section 23 applies to contracts¹ with customers², with some exceptions. As set out in paragraphs 23.1 and 23.2 of FRS 102, the requirements in Section 23 do not apply to:

- a) lease contracts within the scope of Section 20 *Leases*;
- b) contracts within the scope of FRS 103 *Insurance Contracts*;
- c) financial instruments and other contractual rights or obligations within the scope of Section 9 *Consolidated and Separate Financial Statements*, Section 11 *Basic Financial Instruments*, Section 12 *Other Financial Instruments Issues*, Section 14 *Investments in Associates* and Section 15 *Joint Arrangements*;
- d) non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers. The types of non-monetary exchanges in scope of Section 23 have changed from the previous requirements, which may result in some entities needing to change or develop accounting policies³; and
- e) incoming resources from non-exchange transactions for public benefit entities (see Section 34 *Specialised Activities*).

¹ Agreements between two or more parties that create enforceable rights and obligations.

² Parties that have contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration.

³ Previously, paragraph 23.6 excluded the recognition of revenue when goods or services were exchanged for goods or services of a similar nature and value, or in a situation when the goods or services were dissimilar but the transaction lacked commercial substance.

A contract with a customer may be partially within the scope of Section 23 and partially within the scope of other sections (e.g. a lease contract that includes the provision of services). If the other section specifies how to separate or initially measure any parts of the contract, then the separation or measurement requirements in that section shall be applied. Otherwise, Section 23 shall be applied to separate or initially measure those parts of the contract.

2. The five-step revenue recognition model

	Key FRS 102 references
<p>Section 23 contains a single comprehensive framework for revenue recognition.</p>	
<p>The primary issue in accounting for revenue is determining how much revenue should be recognised and when. The revenue recognition model addresses that issue through a structured five-step model:</p> <ul style="list-style-type: none">Step 1 – Identify the contract(s) with a customer.Step 2 – Identify the performance obligations in the contract.Step 3 – Determine the transaction price.Step 4 – Allocate the transaction price to the performance obligations in the contract.Step 5 – Recognise revenue when (or as) the entity satisfies a performance obligation.	23.4
<p>The model is applied consistently to contracts with similar characteristics and similar circumstances.</p>	23.5
<p>The model may be applied to a portfolio of similar contracts (or performance obligations) if the entity reasonably expects that the result of doing so would not differ materially from the result of applying the model to the individual contracts (or performance obligations) within that portfolio.</p>	23.6

Step 1 – Identify the contract(s) with a customer

	Key FRS 102 references																
<p>At step 1, an entity identifies contracts with customers that are in scope of the five-step model.</p> <p>Before accounting for revenue, an entity must first confirm that the contract meets the criteria set out in paragraph 23.7. The criteria indicate that the contract establishes the necessary rights and obligations, and therefore means that the entity will be able to apply the subsequent steps of the model.</p>	23.7																
<p>If the contract meets the criteria at inception, reassessment is only required if there is an indication of a significant change in relevant facts and circumstances.</p> <p>Contracts not meeting the criteria</p> <p>A customer might pay in advance of a contract meeting the criteria set out in paragraph 23.7. If that happens, the entity recognises any consideration received as a liability until those criteria are met.</p> <p>If a contract never meets the criteria, the entity recognises the consideration received as revenue when the criteria in paragraph 23.10 are met. Broadly, these require the contract to be finished or terminated and the amounts received to be non-refundable.</p> <p>Example 1 – contract that never meets the criteria</p> <p>Entity A enters into a contract with a customer and the customer pays a CU1,000 deposit. At the period end date, the criteria in paragraph 23.7 are not satisfied. The amount received is recognised as follows:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 5%;">Dr</td> <td style="width: 40%;">Cash</td> <td style="width: 35%;"></td> <td style="width: 20%; text-align: right;">CU1,000</td> </tr> <tr> <td>Cr</td> <td>Liability</td> <td></td> <td style="text-align: right;">CU1,000</td> </tr> </table> <p>Subsequently, the contract is terminated and the customer agrees to forfeit the deposit. The amount received is recognised as follows:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 5%;">Dr</td> <td style="width: 40%;">Liability</td> <td style="width: 35%;"></td> <td style="width: 20%; text-align: right;">CU1,000</td> </tr> <tr> <td>Cr</td> <td>Revenue</td> <td></td> <td style="text-align: right;">CU1,000</td> </tr> </table>	Dr	Cash		CU1,000	Cr	Liability		CU1,000	Dr	Liability		CU1,000	Cr	Revenue		CU1,000	23.8
Dr	Cash		CU1,000														
Cr	Liability		CU1,000														
Dr	Liability		CU1,000														
Cr	Revenue		CU1,000														
	23.9, 23.10																

Step 2 – Identify the performance obligations in the contract

<p>At step 2, an entity identifies the performance obligations in the contract. A performance obligation is a promise to transfer distinct goods or services to the customer.</p> <p>Many contracts will have a single performance obligation. However, when a contract has more than one performance obligation, the subsequent steps of the revenue recognition model ensure that the revenue associated with each performance obligation is recognised at the appropriate time.</p> <p>Generally, the contract explicitly states the goods or services that an entity promises to transfer. However, in some circumstances, promises may be implied by an entity's customary business practices, published policies or specific statements.</p> <p>Section 23 provides a comprehensive model for revenue recognition and there are no restrictions on the goods or services that an entity might promise in a contract with a customer. Some examples of goods or services that an entity might promise are set out below; the list is not exhaustive:</p> <ul style="list-style-type: none">(a) sale of goods produced by an entity (for example, inventory of a manufacturer);(b) resale of goods purchased by an entity (for example, merchandise of a retailer);(c) resale of rights to goods or services purchased by an entity (for example, a ticket resold by an entity acting as a principal);(d) performing a contractually agreed-upon task (or tasks) for a customer;(e) providing a service of standing ready to provide goods or services (for example, unspecified updates to software that are provided on a when-and-if-available basis) or of making goods or services available for a customer to use as and when the customer decides;(f) providing a service of arranging for another party to transfer goods or services to a customer (for example, acting as an agent of another party);(g) granting rights to goods or services to be provided in the future that a customer can resell or provide to its customer (for example, an entity selling a product to a retailer promises to transfer an additional good or service to an individual who purchases the product from the retailer);(h) constructing, manufacturing or developing an asset on behalf of a customer;(i) granting licences; and	<p>Key FRS 102 references</p> <p>Glossary</p> <p>23.19</p>
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<p>(j) granting options to purchase additional goods or services (when those options provide a customer with a material right).</p>	
<p>A performance obligation may be a distinct good or service, a distinct bundle of goods or services, or a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.</p>	23.17 to 23.20
<p>Paragraphs 23.21 to 23.25 set out how an entity determines if a good or service is distinct, which is the case when both the following criteria are met:</p>	23.21 to 23.25
<p>(a) 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</p> <p>(b) the entity's promise to transfer the good or service is separate from other promises in the contract.</p>	
<p>The assessment is not always straightforward.</p> <p>If a good or service is not distinct, the entity combines it with other goods or services to identify a distinct bundle of goods or services. In some cases, the distinct bundle contains all the goods or services in a contract (and so the contract contains a single performance obligation).</p>	
<p>Step 2 also contains detailed requirements about:</p>	
<p>(a) warranties;</p>	23.26 to 23.28
<p>(b) non-refundable upfront fees; and</p>	23.29 to 23.30
<p>(c) customer options for additional goods and services (sometimes referred to as 'material rights').</p>	23.31 to 23.35
<p>Principal versus agent considerations</p>	
<p>In some contracts, another party is involved in providing goods or services to a customer. For example, an intermediary might market and arrange delivery of goods to customers on behalf of a manufacturer.</p>	
<p>When another party is involved in providing goods or services to a customer, an entity shall determine whether the nature of its promise is to:</p>	23.36
<p>(a) provide the specified goods or services itself—in which case the entity is a principal; or</p>	
<p>(b) arrange for those goods or services to be provided by the other party—in which case the entity is an agent.</p>	

<p>Whether an entity is acting as an agent or as a principal for each performance obligation is fundamental to determining how much revenue the entity recognises, and is based on whether the entity controls the specified good or service before it is transferred to the customer.</p>	23.37
<p>Sometimes significant judgement is required to determine whether an entity is acting as agent or principal.</p>	
<p>An entity that is a principal recognises revenue based on the gross amount of consideration, whilst an entity that is an agent recognises revenue based on its fee or commission; amounts collected on behalf of another party are not revenue for the agent.</p>	23.39 to 23.40

Step 3 – Determine the transaction price

	Key FRS 102 references
<p>At step 3, the entity determines the transaction price of the contract.</p> <p>The transaction price is the amount that will be recognised as revenue: it is the amount of consideration to which the entity expects to be entitled in exchange for transferring goods or services promised to a customer, excluding amounts collected on behalf of third parties (e.g. some sales taxes).</p>	23.41 to 23.42
<h3>Variable consideration</h3> <p>The consideration promised in a contract may include a variable amount (for example, because of some discounts, rebates, refunds, penalties or performance bonuses).</p> <p>The entity shall estimate the variable amount in the transaction price and update that estimate at the end of each reporting period.</p> <p>There are two steps to estimating variable consideration:</p>	23.43 and 23.47
<p>(1) An entity shall first estimate the 'expected value' or 'most likely amount' of variable consideration, depending on which method the entity expects to better predict the amount of consideration to which it will be entitled.</p>	23.44
<p>(2) That estimate shall only be included in the transaction price to the extent that it is highly probable that the entity will be entitled to the cumulative amount of revenue recognised when the uncertainty associated with the variable consideration is subsequently resolved (sometimes referred to as the 'variable consideration constraint').</p>	23.46
<h3>Example 2 – Variable consideration constraint</h3> <p>Entity B agrees to carry out a service for a customer. The contract (which is not part of a portfolio of similar contracts, and so is accounted for as an individual contract) has a single performance obligation that is satisfied over time and the transaction price consists of a CU50,000 fixed element and a CU25,000 variable element to which Entity B will be entitled if it meets specified performance criteria.</p> <p>At the end of the first reporting period, Entity B measures its progress towards completion of the performance obligation at 90%. Entity B also assesses that the most likely amount of variable consideration it will be entitled to is the full amount, because it is more likely than not to achieve the performance criteria.</p>	

<p>Entity B therefore initially estimates the amount of variable consideration to which it will be entitled at CU25,000, which gives a total transaction price of CU75,000. Using that transaction price would suggest that Entity B would recognise CU67,500 as revenue (90% of CU75,000) at the end of the first reporting period. However, Entity B must also consider the variable consideration constraint.</p>	
<p>In this example, Entity B considers that even though meeting the performance criteria is the most likely outcome, that outcome is not highly probable. If Entity B did not meet the performance criteria, then at the end of the contract it would be entitled only to CU50,000 of consideration. Therefore, Entity B constrains the estimate of variable consideration included in the transaction price to zero and recognises CU45,000 of revenue at the end of the first reporting period (90% of CU50,000) .</p>	
<p>In the subsequent reporting period, the entity's progress towards complete satisfaction of the performance obligation reaches 100%. If Entity B has not achieved the performance criteria it recognises a further CU5,000 as revenue (CU50,000 of cumulative revenue). If Entity B has achieved the performance criteria it recognises a further CU30,000 as revenue (CU75,000 of cumulative revenue).</p>	
<p>Further step 3 requirements</p>	
<p>Section 23 contains detailed requirements for specific types of variable consideration, including:</p>	
<p>(a) sales- or usage-based royalties;</p>	<p>23.48</p>
<p>(b) refunds; and</p>	<p>23.49 to 23.50</p>
<p>(c) sales with a right of return.</p>	<p>23.51 to 23.57</p>
<p>Section 23 contains detailed requirements for specific situations that could affect the transaction price, including:</p>	
<p>(a) the time value of money (particularly when payment is expected more than 12 months after the entity satisfies a performance obligation);</p>	<p>23.58 to 23.60</p>
<p>(b) non-cash consideration; and</p>	<p>23.61</p>
<p>(c) consideration (cash or non-cash) payable by the entity to its customer.</p>	<p>23.62 to 23.64</p>

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

	Key FRS 102 references
<p>At step 4, the entity allocates the transaction price determined at step 3 to the performance obligations identified at step 2.</p>	
<p>If a contract contains a single performance obligation, or if all performance obligations in a contract are satisfied at the same point in time, the entity does not usually need to allocate the transaction price, because any allocation would make no difference to the accounting outcome.</p>	23.66
<p>Allocation based on stand-alone selling prices</p> <p>Allocation is based on the stand-alone selling price of each good or service. The stand-alone selling price is the price at which an entity would sell a good or service promised in a contract separately to a customer.</p> <p>An entity shall determine the stand-alone selling price at contract inception of the distinct good or service underlying each performance obligation in the contract. The transaction price is allocated in proportion to those stand-alone selling prices.</p>	23.67 to 23.68
<p>Any discount or variable consideration is, generally, also allocated to all the performance obligations on a relative stand-alone selling price basis.</p>	23.74
<p>Example 3 – Allocation based on stand-alone selling price</p> <p>Entity C determines the transaction price of a contract, under step 3, to be CU15,000.</p> <p>That contract contains three performance obligations, with stand-alone selling prices of CU4,000, CU8,000 and CU5,000 respectively. That is, if the customer had bought those items separately from the entity, they would have cost CU17,000 in total. Therefore the contract price contains a discount of CU2,000, which must be allocated amongst the performance obligations.</p> <p>Entity C allocates the transaction price to the performance obligations based on their relative stand-alone selling prices as follows:</p> <p>Performance obligation 1: $\frac{\text{CU4,000}}{(\text{CU4,000}+\text{CU8,000}+\text{CU5,000})} \times \text{CU15,000} = \text{CU3,529}$</p> <p>Performance obligation 2: $\frac{\text{CU8,000}}{(\text{CU4,000}+\text{CU8,000}+\text{CU5,000})} \times \text{CU15,000} = \text{CU7,059}$</p> <p>Performance obligation 3: $\frac{\text{CU5,000}}{(\text{CU4,000}+\text{CU8,000}+\text{CU5,000})} \times \text{CU15,000} = \text{CU4,412}$</p> <p>Total transaction price: = CU15,000</p>	

<p>If the stand-alone selling price is not directly observable</p>	23.69
<p>If a stand-alone selling price for a good or service is not directly observable, an entity uses a suitable method to estimate it, taking into account all information that is reasonably available to the entity and applying estimation methods consistently in similar circumstances. For example:</p>	23.69
<ul style="list-style-type: none"> - Adjusted market assessment approach – an entity estimates the price that a customer in the market would be willing to pay for the good or service. 	23.70
<ul style="list-style-type: none"> - Expected cost plus margin approach – an entity forecasts its expected costs and adds an appropriate margin. 	
<ul style="list-style-type: none"> - Residual approach – an entity subtracts the stand-alone selling prices of all the other goods or services from the total transaction price, leaving a balancing figure. This is only permissible when the stand-alone selling price of the good or service is highly variable or uncertain. 	
<p>Further step 4 requirements</p>	
<p>Section 23 contains detailed requirements for specific situations, including:</p>	
<ul style="list-style-type: none"> (a) estimating the stand-alone selling price for a customer’s option (material right) to acquire additional goods or services; 	23.71
<ul style="list-style-type: none"> (b) allocating a discount or variable consideration when the method described above does not depict the amount of consideration to which the entity expects to be entitled; and 	23.73 to 23.74
<ul style="list-style-type: none"> (c) allocating changes in the transaction price, including changes in variable consideration. 	23.75 to 23.77

Step 5 – Recognise revenue when (or as) the entity satisfies a performance obligation

	Key FRS 102 references
<p>At step 5, the entity recognises as revenue the transaction price allocated to each performance obligation at step 4 when, or as, the entity satisfies that performance obligation.</p>	
<p>Performance obligations are satisfied by transferring the promised goods or services to the customer. The approach applied is decided based on how the customer obtains control of that good or service, which occurs either over a period of time or at a point in time. The approach taken for each performance obligation is decided at contract inception.</p>	23.78 to 23.80
<p>Performance obligations satisfied over time</p>	
<p>An entity transfers control of a good or service over time if:</p> <ul style="list-style-type: none"> (a) the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs; (b) the entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or (c) the entity's performance does not create an asset with alternative use to the entity and the entity has an enforceable right to payment for performance completed to date. 	23.81 to 23.84
<p>An entity recognises revenue over time by measuring, at the end of each reporting period, its progress towards complete satisfaction of that performance obligation.</p>	23.98; 23.100
<p>An entity determines an appropriate single method of measuring progress for each performance obligation, such as:</p> <ul style="list-style-type: none"> (a) an output method, such as surveys of work completed, or counts of units delivered; or (b) an input method, such as measures of time elapsed or of costs incurred. 	23.99; 23.101 to 23.104

Example 4 – Revenue recognised over time

Entity D enters into a contract with a customer with a transaction price of CU10,000 that is paid in advance. Entity D initially recognises the amount received as a liability:

Dr	Cash	CU10,000	
Cr	Contract liability		CU10,000

The contract contains a single performance obligation that is satisfied over time. At the end of the first reporting period, using a suitable method, Entity D measures its progress towards completion of the performance obligation at 60% and the entity recognises the following transaction:

Dr	Contract liability	CU6,000	
Cr	Revenue		CU6,000

Part-way through the subsequent period, using the same method, Entity D measures its progress towards completion of the performance obligation at 100% and the entity recognises the following transaction:

Dr	Contract liability	CU4,000	
Cr	Revenue		CU4,000

Performance obligations satisfied at a point in time

If a performance obligation is not satisfied over time, it is satisfied at a point in time.

To determine the point in time at which a customer obtains control of a promised asset, an entity considers indicators of the transfer of control, which include but are not limited to:

- (a) the entity has a present right to payment for the asset;
- (b) the customer has legal title to the asset;
- (c) the customer has physical possession of the asset;
- (d) the customer has the significant risks and rewards of ownership of the asset;
and
- (e) the customer has accepted the asset.

23.85 to 23.87

<h2>Licensing</h2>	<p>23.105 to 23.112</p>
<p>A licence establishes a customer’s rights to the intellectual property of an entity. If a promise to grant a licence is a performance obligation, to determine whether that performance obligation is satisfied over time or at a point in time, an entity shall consider whether the nature of the entity’s promise in granting the licence provides the customer with:</p>	
<ul style="list-style-type: none"> (a) a right to access the entity’s intellectual property as it exists throughout the licence period, in which case the promise to grant the licence is satisfied over time; or (b) a right to use the entity’s intellectual property as it exists at the point in time at which the licence is granted, in which case the promise to grant the licence is satisfied at a point in time. 	
<h3>Further step 5 requirements</h3>	
<p>Section 23 contains detailed requirements for specific situations, including:</p>	
<ul style="list-style-type: none"> (a) bill and hold arrangements; 	<p>23.86</p>
<ul style="list-style-type: none"> (b) consignment arrangements; 	<p>23.86 to 23.87</p>
<ul style="list-style-type: none"> (c) customer acceptance clauses; and 	<p>23.88 to 23.89</p>
<ul style="list-style-type: none"> (d) repurchase agreements. 	<p>23.90 to 23.97</p>

3. Other requirements

Contract costs

	Key FRS 102 references
Costs to obtain a contract	
An entity may incur costs in its effort to obtain a contract with a customer. FRS 102 allows an accounting policy choice to recognise such costs as an asset when they meet the criteria that:	23.113 to 23.115
(a) the costs would not have been incurred by the entity if the contract had not been obtained; and	
(b) the costs are expected to be recovered.	
Even if the entity chooses to recognise such costs as an asset, those that would be amortised over a period of one year or less may be expensed when incurred. Costs that are not recognised as an asset are always expensed when incurred.	23.114
Costs of fulfilling a contract	
An entity shall account for the costs incurred in fulfilling a contract with a customer in accordance with the relevant section of FRS 102 for those costs.	23.116
In certain limited circumstances, Section 23 requires fulfilment costs not addressed by another section to be recognised as an asset and explains how they are subsequently measured. Otherwise, such costs shall be recognised as an expense when incurred.	23.117 to 23.123

Contract balances

	Key FRS 102 references																					
<p>When a contract is in progress, a contract asset or liability arises depending on the relationship between:</p> <ul style="list-style-type: none"> (a) the entity's performance in transferring goods or services to the customer; and (a) the customer's payment (the amount of consideration received, or due, from the customer). 	23.124 to 23.126																					
<p>A contract asset or liability is distinct from a trade receivable. A trade receivable is an entity's right to consideration that is unconditional.</p> <p>Example 5 – Contract balances</p> <p>Entity E enters into a contract with a customer with a transaction price of CU10,000, of which CU5,000 is paid in advance and CU5,000 is due within 30 days of the contract being completed. The contract contains a single performance obligation that is satisfied over time.</p> <p>When the initial payment is received, the entity recognises the following transaction:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 10%;">Dr</td> <td style="width: 70%;">Cash</td> <td style="width: 20%; text-align: right;">CU5,000</td> </tr> <tr> <td>Cr</td> <td>Contract liability</td> <td style="text-align: right;">CU5,000</td> </tr> </table> <p>At the end of the reporting period, Entity E's measure of progress towards completion of the performance obligation is 60%. Entity E recognises the following transaction:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 10%;">Dr</td> <td style="width: 70%;">Contract liability</td> <td style="width: 20%; text-align: right;">CU5,000</td> </tr> <tr> <td>Dr</td> <td>Contract asset</td> <td style="text-align: right;">CU1,000</td> </tr> <tr> <td>Cr</td> <td>Revenue</td> <td style="text-align: right;">CU6,000</td> </tr> </table> <p>As required by paragraph 23.126, Entity E assesses the contract asset for impairment in accordance with Section 11; in this example there is no impairment.</p> <p>Part-way through the subsequent period, the measure of progress towards completion of the performance obligation is 100%. Entity E recognises the following transaction:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 10%;">Dr</td> <td style="width: 70%;">Contract asset</td> <td style="width: 20%; text-align: right;">CU4,000</td> </tr> <tr> <td>Cr</td> <td>Revenue</td> <td style="text-align: right;">CU4,000</td> </tr> </table>	Dr	Cash	CU5,000	Cr	Contract liability	CU5,000	Dr	Contract liability	CU5,000	Dr	Contract asset	CU1,000	Cr	Revenue	CU6,000	Dr	Contract asset	CU4,000	Cr	Revenue	CU4,000	23.127
Dr	Cash	CU5,000																				
Cr	Contract liability	CU5,000																				
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Dr	Contract asset	CU1,000																				
Cr	Revenue	CU6,000																				
Dr	Contract asset	CU4,000																				
Cr	Revenue	CU4,000																				

The contract requires the customer to pay Entity E in full when the performance obligation is complete, so Entity E has a right to the remaining CU5,000 consideration that is unconditional (refer to paragraph 23.127). Entity E recognises the following transaction:

Dr	Trade receivable	CU5,000	
Cr	Contract asset		CU5,000

Further contract balance requirements

Section 23 contains detailed requirements for specific situations, including:

(a)	using different terminology for contract assets, contract liabilities and trade receivables; and	23.128
(b)	customers' unexercised rights, often referred to as 'breakage'.	23.129 to 23.130

Contract modifications

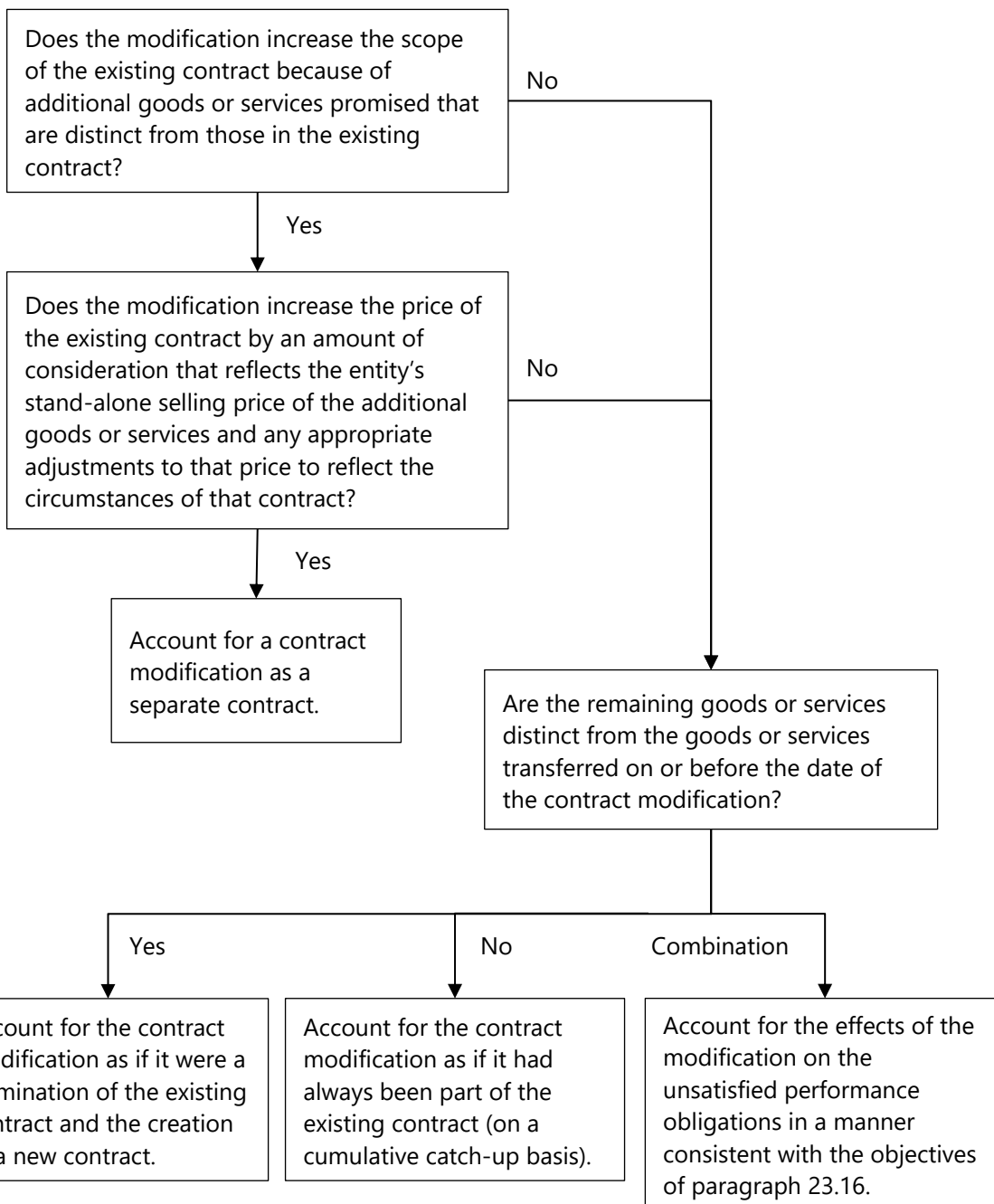
Key FRS 102 references

A contract modification is a change in the scope or price (or both) of a contract that is approved by the parties to the contract.

23.13

The diagram below shows the different approaches to accounting for different types of contract modification.

23.15 to 23.16



Example 6 – Remaining goods or services are distinct

Entity F agrees a contract modification that is not accounted for as a separate contract and where the remaining goods or services are distinct from the goods or services transferred on or before the date of the contract modification.

Immediately prior to the modification, the contract's transaction price was CU10,000 and Entity F was 60% towards complete satisfaction of the performance obligation. Entity F had recognised the following amounts:

Dr	Contract asset	CU6,000	
Cr	Revenue		CU6,000

The consideration included in the estimate of the transaction price for the existing contract that had not been recognised as revenue was CU4,000. That CU4,000 is added to the consideration promised as part of the contract modification to determine the transaction price of the new contract.

Example 7 – Remaining goods or services are not distinct

Entity G and the other party to a contract agree a contract modification that is not accounted for as a separate contract. The remaining goods or services are not distinct from the goods or services transferred on or before the date of the contract modification.

Immediately prior to the modification, the contract's transaction price was CU10,000 and Entity G was 60% towards complete satisfaction of the performance obligation. The entity had recognised the following amounts:

Dr	Contract asset	CU6,000	
Cr	Revenue		CU6,000

As a result of the contract modification, Entity G is required to recognise the effect that the contract modification has on the transaction price, and on its measure of progress towards complete satisfaction of the performance obligation, as an adjustment to revenue at the date of the contract modification.

After the contract modification, the transaction price was CU15,000 and the entity was 50% towards complete satisfaction of the performance obligation. The cumulative revenue to be recognised is CU7,500. Entity G recognises the following adjustment to revenue at the date of the contract modification:

Dr	Contract asset	CU1,500	
Cr	Revenue		CU1,500

23.16(a)

23.16(b)



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