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The standard considers a contract liability as a reference point for accounting coordinates, for transferring control over an asset (goods or services) and determining the moment of recognition of revenue to the seller.

In the fulfillment of the performance obligations in the contract with the customer, assets or liabilities may arise that are directly related to the performance of the terms of the contract by any of the parties to the contract.

Depending on the situation in terms of the fulfillment of the obligation by the entity and payment by the customer, the entity must reflect this contract in the statement of financial condition in the form of a contract asset or a contract liability

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On Recognition of Contract Asset and Contract Liability in the Financial Statements

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The article discusses the terms of reflection of a contract asset and a contract obligation in the financial statements, and the difference from such traditional objects of accounting as trade requirements and trade obligations.

The study of a contract asset or contract obligation is important because it improves general purpose financial statements, providing financial information to the users of financial statements that will be useful for making decisions about the supply of resources to a given entity.

The article deals with the opinions and views of various researchers related to this issue.

Methodology: ISSB discussions, guide-recommendation materials of international audit companies ("Big Four"); scientific articles; analysis, systematization and comparison methods.

Keywords: contracts; financial reporting; revenue from contracts with customers; contract asset; contract liability.

I. Introduction

With the publication of the International Financial Reporting Standard (IFRS) 15 "Revenue from Contracts with Customers", approaches to recognition and methods of measurement of the revenues have changed fundamentally.

The objective of this Standard is to establish the principles that an entity shall apply to report useful information to users of financial statements about total revenue of the entity.

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"By introducing universal criteria for various contracts, IFRS 15 considers more broadly and specifies all possible options for recognizing and evaluating revenue", which is more accurate and consistent than existing standards. (Vardiashvili, M., Maisuradze, M., 2017)

The published standard not only reflects a new approach to the recognition and measurement of revenues, but also considers as an object of accounting a contract with a customer, which generates rights and obligations with a legal force, the protection of which is provided by the legislation. Depending on the situation in terms of the fulfillment of the obligation by the entity and payment by the customer, the entity must reflect this contract in the statement of financial condition in the form of a contract asset or a contract liability. This in turn requires the introduction of new accounts - "Contract asset" and "Contract liability" into the account plan.

We have studied numerous works of foreign and Georgian scientists in the field of practical application of IFRS 15. In the process of working on this article, from a theoretical, methodological and practical point of view, we relied on available internet sources that deal with the reflection of new elements - Contract liabilities and Contract assets in the financial statements. In addition to certain aspects of scientific justification, we used manual-recommendation materials of international audit companies ("Big Four").

When drawing conclusions, we used methods of induction, deduction, analysis and synthesis.

The practical aspect of the research results is that the recommendations presented can be used by companies in the process of compiling financial accounting and reporting

II. Main Part

On the conceptual basis of financial statements, income is seen as an increase in assets, which is the result of the supply of goods and services. In these circumstances, accounting procedures are primarily aimed at determining the time and amount of income recognized in accordance with cost accounting. In other words, traditionally in accounting, to determine the time and amount of recognition of an asset, liabilities, income and expenses, a transaction actually completed was used. The process of distributing the results of

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transactions made between periods was based on two principles (Mariam Vardiashvili, 2022):

- The principle of accrual, which reflects the effects of transactions and other events and circumstances on the economic resources of the accounting unit and the requirements for them in the same periods when this effect occurs, even if the received cash flows and payments are made in another period;
- The principle of prudence, according to which, if the probability of receiving income is low, a reserve is created for expected losses as soon as they become probable.

The moment of recognition and measurement of revenues received from contracts with customers, which is indicated in IFRS 15, is more accurate and unambiguous. "One of the main changes introduced by IFRS 15 is that the entity se must recognize the revenues when it fulfills the performance obligation by transferring the promised goods or services to the customer. The asset is considered transferable when the user gains control over the given asset". (Sabauri, L., Vardiashvili, M., Maisuradze, M., 2022).

This provision shifts the emphasis of revenue recognition from the transfer of title to the asset to the transfer of control over the assets.

This circumstance substantially changes the traditional concept of recognition of economically justified income.

Introduction of the criterion of control over the object of exchange transaction, for the recognition of income, is not only an economic, but a legal justification, as well.

The contract liability reflects the future transfer of ownership of goods or services (Sabauri, L., Vardiashvili, M., Maisuradze, M., 2022). It is the contract liability that must be ensured by the right to protection. Therefore, the contract liability arising from the terms of the contract must be reflected in the systematic accounting of the unit, it must be a reference point in the accounting coordinates for the transfer of control over the asset (goods or services) and determining the moment of recognition of revenue to the seller (VICTOR S. PLOTNIKOV;OLESYA V. PLOTNIKOVA; ANDREY I. SHEVCHUK, 2015).

Based on the foregoing, it can be said that IFRS 15 establishes the procedure for accounting for an individual contract concluded with a customer. However, if it is more convenient, the entity has the right to use this standard in relation to a portfolio of contracts with similar characteristics, if the entity reasonably assumes that, from the point of view of financial statements, the results of applying this standard to a portfolio will not be substantially different from the result of its application to a separate contracts comprising part of the portfolio.

A contract with a customer is an agreement between two or several parties, a legal document that generates certain rights and obligations in an exchange transaction. Legal protection of contract liabilities and contract rights is provided by the legislation. This is an accounting document containing information about contract liabilities, which reflects the right to receive a contract asset and the contract liability to pay for this asset. In this case, as a rule, the contract itself as a document has no measure of value and is not a commodity, except for financial instruments.

> *According to Point 9 of IFRS 15:* Contract is a legal document by which the parties to the agreement have assumed the obligation to fulfill the contractual conditions and which contains information about new accounting element - contract liabilities, which are subject to accounting, recognition and evaluation in case they meet the criteria provided for by the Standard. Therefore, the contract itself can serve as an object of accounting observation (VICTOR S. PLOTNIKOV; OLESYA V. PLOTNIKOVA; ANDREY I. SHEVCHUK, 2015).

By recognizing contract liability as an object of accounting, one must proceed from the fact that contract liability and contract law are inseparable. The buyer and seller enter the market, usually with the intention of concluding an asset purchase/sale contract. Only by executing (signing) the contract do they receive contractual obligations that determine the transfer of ownership of the asset.

In this case, the market acts as an "intermediary", a certain institutional environment in which the intentions of the seller and the buyer acquire a legal form, the content of which is filled with contract liabilities secured by legal protection, as reflected in sub-point "a" of Point 9 of IFRS 15:

1. "The parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations" (ISSB, 2023).
   Sub-points "b" and "c" of Point 9 of IFRS 15 can serve as further confirmation of the need to recognize contract liability as accounting object:
2. The entity can identify each party's rights regarding the goods or services to be transferred;
3. The entity can identify the payment terms for the goods or services to be transferred (ISSB, 2023);

In this case, we are talking about the contractual right to monetary compensation for the transferred goods or services and the contract liability to pay monetary compensation under certain conditions.

It is also worth to note that when it comes to contract liabilities, then, as a rule, this means that the exchange transaction will end in the future.

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More clearly and accurately, the need to recognize contract liabilities obligations as accounting articles is indicated in Point 22 of IFRS 15:

At contract inception, an entity shall assess the goods or services promised in a contract with a customer and shall identify as a performance obligation each promise to transfer to the customer either:

1. A good or service (or a bundle of goods or services) that is distinct; or
2. A series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer (ISSB, 2023)

This part of the standard deals with the identification of the performance obligation, i. e. recognition and evaluation of goods or services promised in a contract with the consumer, which must be identified as a duty to be fulfilled, as a promise to transfer goods or services to the consumer (Nicole L. Cade; Lisa Koonce; Kim I. Mendoza, 2019).

According to Article 105 of IFRS 15: "When either party to a contract has performed, an entity shall present the contract in the statement of financial position as a contract asset or a contract liability, depending on the relationship between the entity's performance and the customer's payment. An entity shall present any unconditional rights to consideration separately as a receivable (ISSB, 2023). In fact, this article introduces the terms "Contract Asset" and "Contract Liability". By using these terms they were separated from traditional demands and obligations.

III. Contract Asset

As noted, the contractual asset is separated from the accounts receivable by IFRS 15. In the financial statements, accounts receivable shows the right to unconditional receipt of payment from the buyer, which arose as a result of the delivery of goods or the provision of services. Unconditional in the sense that only time should pass before making a payment (Nadezhda Kvatashidze, Zeinabi Gogrichiani, 2016).

Prior to the publication of IFRS 15, the term "receivables" was the only term used to refer to consumer debt for goods and services received.

Some contracts with the consumer, may contain two or more obligations to transfer goods or services to the consumer.

When fulfilling a single obligation to the buyer, the seller company does not receive an unconditional right to receive money, since it must first meet another obligation. For example, when the delivery of one product in accordance with the concluded contract is subject to payment only after the provision of additional services or only after the delivery of another product. In such cases, under IFRS 15, the seller must recognize the contract asset.

"Contract Asset is an entity's right to consideration in exchange for goods or services that the entity has transferred to a customer when that right is conditioned on something other than the passage of time (for example, the entity's future performance)" (ISSB, 2023)

In addition, contract assets and liabilities can arise from differences between the moments of creation of unconditional rights to recognition, receipts and compensation of income (Katja van der Kuij-Groenberg, Maarten Pronk, 2019).

For example, a company must build a building for a customer under a contract. The project, which has a total cost of 700,000 monetary units, lasts 9 months and includes two reporting periods. It starts on July 1 and should end at the end of March next year. Under the contract, the customer pays the compensation in full when the project is completed and transferred to the customer.

By the end of the first reporting year, the degree of commitment performance was estimated at 60% using the results method, e. Y. The company must recognize income for this period in the amount of 420,000 monetary units. But, not a demand, but a contractual asset will be recognized in the asset, as long as the company does not have the right to an unconditional demand for remuneration until the completion of the project.

Upon completion of the project, the company has the unconditional right to receive compensation at the total cost. Accordingly, in the accounting records, trade accounts receivable in the amount of 700,000 monetary units will be recorded in debit, and income - in credit, in amount of 280,000 monetary units and at the same time the contract asset in amount of 420,000 monetary units will be recognized.

A contract asset is not a financial instrument, so IFRS 9 is not used here, with only one exception - in in case of impairment (ISSB, 2023). An impairment of a contract asset shall be measured, presented and disclosed on the same basis as a financial asset that is within the scope of IFRS 9" (ISSB, 2023).

So, the entity must measure the contract asset for any impairment, determine the expected credit loss and recognize the loss reserve - exactly like any trade receivables.

The Standard uses the terms "Contract Asset" and "Contract Liability", but does not exclude the use of alternative names in the entity's financial statements. When an entity uses a different name instead of "Contract Asset" it must provide sufficient information for the financial statement user to distinguish between demands and contract assets.

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IV. Contract Liability

IFRS 15 introduces the concept of Performance Obligations. Performance Obligations are each promise to be fulfilled to the consumer, a different good or service (or package of goods and services), which are mainly delivered to consumers according to one and the same scheme (Sabauri, L., Vardiashvili, M., Maisuradze, M., 2022).

Traditionally, liabilities (referring to trade accounts payable) were used to refer to debts arising from trade relations.

According to the conceptual foundations of financial reporting, "liability" is an ongoing duty to transfer economic resources to an enterprise that arises as a result of events that have occurred in the past (ISSB, 2023).

For a liability to exist, the following three criteria must be met:

1. The entity has a duty;
2. Duty is a transfer of an economic resource (see points 4.36-4.41); and
3. This duty is a current duty that exists as a result of past events.

"Contract Liability ty is an entity's obligation to transfer goods or services to a customer for which the entity has received consideration (or an amount of consideration is due) from the customer) (ISSB, 2023).

For example, the company signed an equipment purchase contract on 28 December 2022. In accordance with the terms of the contract, the equipment must l be delivered from 10 February to 21 February 2023. The cost of equipment in the amount of 7 million monetary units must be paid within five working days after delivery (signing of the acceptance certificate). In such a situation, the company that entered into the contract for the purchase of equipment does not recognize the assets or liabilities associated with this contract in its financial statements as of 31 December 2022, since it was not responsible for the fulfillment of its obligations during the reporting period. The obligation to pay 7 million monetary units will be recognized once the equipment is delivered. However, it is important for the user of the financial statements to know the existence of such a contract on the purchase of fixed assets. This will allow him to assess future payments on investment activities, as well as learn about the company's intentions to acquire new fixed assets. Therefore, IAS 16 "Property, Plant and Equipment" fixed assets require disclosure of information about such contracts in financial statements (ISSB, 2023).

In some cases, payments are set by contract in stages. In many cases, the gradual payments received from the customer do not reflect the volume of work performed. Therefore, payments are not automatically recognized as revenue (Sabauri, L., Vardiashvili, M., Maisuradze, M., 2022).

According to Point 106 of IFRS 15, after receiving advance payment from the customer, the entity must recognize the contract liability in relation to its obligations related to the transfer of goods or services, or readiness for the transfer of goods or services in the future, in the amount of advance payment received. The entity shall terminate the recognition of such a contract liability (and recognize the revenues) when it transfers such goods or services and, therefore, fulfills the performance obligation

For example, entity "A" concludes contract with the customer for the manufacture and supply of 1,000 units of product for a total amount of 1 million monetary units. The contract specifies that the customer must pay 40% of the contract value in advance, within 30 days after signing the contract. After 30 days, an invoice is issued to the customer by Entity "A" in the amount of 40% of the value of the contract, as the payment deadline for reimbursement has come. On the basis of this invoice, the company reflects 400,000 monetary units, on the one hand as trade receivables and on the other hand as contract liability (Максим Лесовой, 2013).

Trade accounts receivable will be repaid by depositing the amount, and from the delivery of goods worth the remaining 600,000 monetary units, the unit will recognize income in the total amount, on which the following accounting records are composed:

Debit	Trade accounts receivable	600,000
Debit	Contract liability	400,000
Credit	Revenue	1000,000

In some entities, the customer pays a non-refundable advance payment to the unit, which entitles the customer to receive the goods or services in the future (and obliges the enterprise to be ready to deliver the goods or services), although this right may be left unused by the buyer. Such unused (unrealized) rights are often called "unclaimed rights or unclaimed amounts" (IFRS 15, B 45).

An entity shall recognize a liability (and not revenue) for any consideration received that is attributable to a customer's unexercised rights for which the entity is required to remit to another party (IFRS 15, B 47)

For example, shopping establishments often use gift cards that are not always fully cashed (or redeemed), and/or the tickets sold in advance by airlines are left unused by passengers. When a unit receives compensation attributable to an unrealized right of the customer, the unit must recognize the contract liability in the amount of advance payment

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received from the customer. Income is usually recognized when the unit fulfills its obligation.

Thus, the contract liability is recognized and measured by the amount of the advance payment received or receivable.

V. Conclusion

Thus, IFRS 15 introduces the terms "Contract Assets" and "Contract Liabilities", although an entity may use different terms in its financial statements (ACCA, 2022). The contract liability is recognized when the customer pays the remuneration in advance or when, in accordance with the terms of the contract, the due date for payment of the remuneration has come. Recognition of a contract asset occurs when an entity has fulfilled an obligation, however, the entity cannot recognize receivables until other obligations envisaged under the contract are satisfied with the future activities of the entity.

While a contract asset is a right to reimbursement that depends on the subsequent fulfillment of the rest of the terms stipulated in the contract, receivables are - an unconditional right to reimbursement.

Impairment of both contract assets and accounts receivable shall be measured, reflected and disclosed on the same basis applicable to the impairment of financial assets within the scope of IFRS 9.

For the presentation purposes, contract assets and contract liabilities must be calculated at the contract level and presented separately from each other, jointly. Accounts receivable must be presented separately from contract assets and contract liabilities

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