# Read the substance of the promise

MODULE 3 / APPLICATIONS / 1 OF 2

| Arrangement | Test and accounting direction |
|---|---|
| Right of return | Revenue excludes expected returns; recognise refund liability and a separate recovery asset. Update estimates. |
| Assurance warranty | Only assures compliance with agreed specifications: normally IAS 37. A separately purchasable service warranty is a distinct service. |
| Warranty with extra service | Separate service from assurance when reasonable; otherwise account for both together as one performance obligation. Consider law, term and nature of tasks. |
| Principal or agent | Does the entity control the specified good/service before transfer? Principal recognises gross revenue; agent its fee/commission. Responsibility, inventory risk and pricing discretion are indicators. |
| Customer purchase option | A material right is a separate performance obligation. Allocate using its estimated stand-alone price, considering discounts and exercise likelihood. Ordinary market-priced offers do not automatically create one. |
| Non-refundable upfront fee | Does the fee itself transfer a promised good/service? Administrative setup alone may not. Allocate to the goods/services actually promised, including renewal rights where relevant. |

## Two important distinctions

A warranty is not always a provision, and a non-refundable fee is not always immediate revenue. Identify what the customer receives before deciding the entry.

An entity can be principal for one specified output and agent for another. A contract label or the fact that cash passes through a bank account does not settle control.

CPA Australia FR study guide, sixth edition (October 2022), Module 3. Original Accounting Ahead examples, calculations and design. Guide Part A and IFRS 15 application guidance. AASB 15 (May 2022): standards.aasb.gov.au/aasb-15-may-2022, B20-B43 and B48-B51. Original wording; no source case is reproduced.

# Timing and special terms

MODULE 3 / APPLICATIONS / 2 OF 2

| Arrangement | Decision prompt |
|---|---|
| Unused prepaid rights / breakage | Expected entitlement to breakage is recognised in proportion to exercise, subject to the reversal constraint. Otherwise wait until exercise is remote. Amounts remittable to others remain liabilities. |
| Licence of intellectual property | First assess distinctness. Right to access changing IP can be over time when all conditions apply; a right to use IP as it exists can be point in time. Do not use the label alone. |
| Sales/usage royalties for IP | Apply the special exception when the royalty relates solely or predominantly to an IP licence: recognise only when the later specified event occurs. |
| Consignment | Delivery to the dealer may not transfer control. Consider return rights, control until sale/other event and whether payment is unconditional. |
| Bill-and-hold | In addition to control, require a substantive customer reason, separate identification, readiness for physical transfer and inability of seller to use/direct it elsewhere. |
| Repurchase terms | Forward/call rights and customer put options differ. Consider repurchase price, expected market value, time value and economic incentive; outcome may be lease, financing or sale with return. |
| Customer acceptance | If objective specifications can be verified, formal acceptance may be administrative. Otherwise acceptance can affect when control passes. Trials may remain untransferred until acceptance/expiry. |

Each special arrangement supplements the five-step model. Use the actual contract terms and relevant appendix paragraphs; do not treat a short checklist as a substitute for the full requirements.

CPA Australia FR study guide, sixth edition (October 2022), Module 3. Original Accounting Ahead examples, calculations and design. AASB 15 (May 2022): standards.aasb.gov.au/aasb-15-may-2022, B44-B47, B52-B86. Use the linked 2022 standard for the full conditions and scope.