



## Accounting & Auditing News

### IFRS 15 — *Revenue from Contracts with Customers*: Part 3K – Impact on Healthcare Providers Sector

#### **Is it probable that payment will be received?**

##### **Background**

The new standard requires that there should be a probability 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. In certain jurisdiction, hospitals often provide emergency services to uninsured patients without knowing they will be able to collect their fees.

## **Effect**

In such cases an assessment will have to be made as to whether they meet the criteria for revenue recognition given this uncertainty.

## **How should revenue be allocated to different goods and services identified?**

### **Background**

Given the lack of specific guidance in IFRSs, there was greater room for judgment when identifying the goods and services within a contract and then allocating the revenue to those goods and services identified. Entities may have to amend their current accounting policies as a result of the more detailed guidance in IFRS 15. The new standard requires that the revenue from a contract is to be allocated to each distinct good or service provided on a relative standalone selling price basis, though a 'residual' approach is permitted in limited circumstances.

### **Effect**

This may result in practical implementation issues in the healthcare business, particularly where services are often integrated. Patients may be charged for a number of services. Where it is concluded that certain elements should be accounted for separately, entities will then typically look to the standalone selling price to apportion the relevant amount of transaction price to each distinct element in the contract.

This may change the profile of revenue recognition for some entities and, where an entity has a large volume of customer contracts, there may be some practical challenges to overcome in order to ensure systems are in place to deal with the new requirements.

## **When should variable or uncertain revenues be recognized?**

### **Background**

It is common for Healthcare Providers to render patient services, without knowing how much they will ultimately be paid. It is possible for the transaction price to be different in this situation depending on who is responsible for the payment. Additionally, the amounts ultimately be paid may be adjusted as a result of negotiation or dispute and entities will need to apply judgment to determine whether the adjustment should be accounted for as a concession (i.e. reducing revenue) or as bad debt (i.e. separate expense). There are new specific requirements in respect of variable consideration such that it is only included in the transaction price if it is highly probable that the amount of revenue recognized would not be subject to significant future reversals as a result of subsequent re-estimation.

## Effect

This approach to variable and contingent consideration is different from that previously reflected in IFRSs and, in certain scenarios, will require a significant degree of judgment to estimate the amount of consideration that should be taken into account. Accordingly, the profile of revenue recognition may change for some entities as a result.

**Please contact the Technical Research Group at +63 2 581 9000 local 9088/9165/9078 or e-mail [phtr@deloitte.com](mailto:phtr@deloitte.com) for questions regarding this publication.**



Member of Deloitte Touche Tohmatsu Limited

19th Floor Net Lima Plaza  
5th Avenue corner 26th Street  
Bonifacio Global City, Taguig  
Philippines 1634

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