

## **1. Output Method:**

This method is based on measuring the revenues based on the direct measurement of the value of the good or service delivered to the customer to date, relative to the remaining goods or services promised under the contract. This method depends on some methods such as surveys of performance completed to date, appraisals of results achieved, and milestones reached; for example, the determination of the price of the labor hours expended on the transaction, contract, or agreement. Most audit firms use software applications to estimate labor hours expended on the cumulative engagement, reinforced with a model, provided by the individual responsible for the engagement, to estimate the hours expended on the work, in order to facilitate monitoring the performance of the personnel, when the firm is involved in many engagements.

**One of the output method's disadvantages is that the outputs that are used as a basis for measuring the progress may not be accurately monitored, or the information required to apply this method may not be available to an entity without undue cost, considering the cost/ return factor.**

## **2. Input Method:**

In the input method, revenue shall be recognized on the basis of the entity's efforts or inputs to the satisfaction of a performance obligation, for example, resources consumed, labor hours expended, and costs incurred. In this method, the entity determines the actual performance of the obligation, for example, the actual costs/ total estimated costs incurred to the satisfaction of the contract based on the most recent estimates, and shall allocate the transaction price according to this percentage.

**One of the disadvantages of this method is that there may not be a direct relationship between an entity's inputs and the transfer of control of goods or services to a customer. For example, an entity would not recognize revenue on the basis of costs incurred that are attributable to significant inefficiencies in the entity's performance, such as the costs of amounts of wasted materials or labor hours that will be reflected in the entity's performance of its contractual obligations.**

**The entity (the audit office) shall select the method which leads to the most accurate measurement, and represents the firm's fulfillment of its contractual obligations, taking into account that selecting the appropriate method depends on the nature of the contracted work and the costs incurred thereon.**

### **Contract Revenue**

The contract revenue shall be measured at fair value of the received, or to be received, consideration. The measurement of the contract revenue will be affected by future events that are surrounded by uncertainty, and will typically require reconsideration of the estimates when the events occur, or when uncertainty is diminished. Accordingly, the contract revenue will vary from one period to another for some reasons such as:

- **The agreement between the audit firm and client about the changes in the contract or requirements that cause changes to the contract's revenue in the future.**
- **The probability of an increase in the revenues of contracts with a fixed price.**
- **The contract revenue is associated with a variable indicator such as a change in the production units.**

### **Recognition of the Contract's Revenues and Expenses:**

According to IFRS 15, the revenue shall be measured at fair value of the received, or to be received, consideration. The revenue is typically determined through the sale or service contract, represented by the sales invoice, taking any discounts or rebates into consideration.

### **Case study- The Recognition of Revenues and Expenses of Contracts with Customers:**

Al Faisal for Auditing & Financial Consultancy has concluded an audit contract with "Al Bihar Al Ashra Foodstuff Company" for the year 2021. On May 1, 2021, the audit firm signed an agreement with the client at an amount of JD 5850, in addition to 16% sales tax; the payment terms were as follows:

- Upon signing the agreement, 50% will be paid in addition to 16% sales tax;
  - Upon delivering the financial statements, as on December 31, 2021, 50% will be paid in addition to 16% sales tax.
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### **Implementation procedures:**

1. The agreement between the two parties was duly signed;
2. The client paid 50% of the amount when the agreement was duly signed, in addition to 16% sales tax;
3. The audit firm has issued a receipt voucher, duly showing the amount received;
4. The audit firm initiated the engagement on the software application, based on the initiation notification which clarifies the type of the engagement (**account audit, tax advice, special case audit, internal audit, and/or other special engagement**). The wages paid to personnel and/or engagement partners will be determined according to the hierarchy approved at the audit firm, for example, (executive director, chief audit manager, audit manager, assistant audit manager, chief auditor, auditor, and assistant auditor). Moreover, the price per labor hour was determined for all personnel and was approved by the management after allocating labor hours to the engagement.

### **Note: The internal policy of the audit firm requires the following:**

1. When signing the agreement with any client, the team that will be involved in the engagement shall be determined;
2. The labor hours allocated to the engagement shall be duly estimated;
3. A software application will be used to monitor the conduct of the engagement (**the engagement will be initiated on the software application upon signing the agreement, and shall be locked upon completion**), knowing that a unique number shall be assigned to each engagement (as the firm is involved in many engagements) to facilitate monitoring the progress achieved in each of them.

### **Accounting Procedures:**

The accounting procedures will be performed as follows:

#### **1. When the receipt voucher is issued, one of the following steps may be considered:**

(A) Issuing a receipt voucher and registering it in the records as follows:

dr./ 3393 the bank.... account/ the audit firm

cr./ 2925 the client's account

cr./ 468 to the sales tax account

**Comment on point (a): The audit firm has applied the provision of Article (9) of the General Sales Tax Law by recording the general tax of receiving an amount/ payment from the client.**

(B) The audit firm has issued a tax invoice and a receipt voucher, for which the accounting treatment will be as follows:

1. In case the amount is received under a receipt voucher, the following entries will be recorded:  
dr./ 3393 the bank... account/ the audit firm  
3393 cr./the client's account
2. If a tax invoice is issued, the accounting treatment will be as follows:  
dr./ 3393 the client's account  
cr./ 2925 unrealized revenue - to be presented in the statement of financial position.  
cr./ 468 to the sales tax account

**Here, the customer's liability is zero, because the sales invoice was issued to implement the general sales tax law, and in the above-mentioned example, the first case No. (A) will be adopted.**

## **2. How to determine the revenue of the work performed under this contract**

As we mentioned before, according to the audit firm's policy, the labor hours needed for the work to be accomplished shall be determined. In the above example, the labor hours according to the initiation notification were determined on the software application, estimated by the individual responsible for the engagement, at 130 hrs., so it's now easy to determine the value of the engagement in terms of labor hours as follows:

$$\mathbf{JOD\ 5850 \div 130\ hrs. = JOD\ 45}$$

After the determination of the labor hours needed for the engagement, the responsible individual shall determine the team members, based on the notification received for the engagement, then the work plan will be developed and/or the actual and estimated plans shall be determined. In the above example, the periodic labor hours needed for the engagement were determined as follows:

Month	Actual labor hours	Selling Price per labor hour	Monthly revenues	Accumulated labor hours	Accumulated revenues
May 2021	7	45	315	7	315
June 2021	8	45	360	15	675
July 2021	10	45	450	25	1125
August 2021	12	45	540	37	1665
September 2021	10	45	450	47	2115
October 2021	13	45	585	60	2700
November 2021	12	45	540	72	3240
December 2021	14	45	630	86	3870
January 2022	15	45	675	101	4545
February 2022	8	45	360	109	4905
March 2022	12	45	540	121	5445
April 2022	9	45	405	130	5850
<b>Total</b>	<b>130</b>		<b>5850</b>		

**By the end of each month, the individual responsible for the engagement shall fill out a form that shows the number of labor hours expended on the engagement. Therefore, and to facilitate the above example, the actual labor hours expended on the engagement and the accounting treatment will be as follows:**

### **1- Entry by the end of May 2021**

**Whereas, the revenues from the engagements that were signed with the customer but not completed will be recognized. In our example above, the revenue from the uncompleted engagements = (7 hours x JD 45) = JOD 315.**

Debit	Credit	Account name
315		dr./ Payable for uncompleted work - will be presented in the statement of financial position
	315	cr./ the revenues of the uncompleted work - will be presented in the income statement

### **2- Entry by the end of June 2021**

**The audit firm, for managerial purposes, will extract a monthly income statement to study the firm's financial conditions; the accounting entry will be as follows:**

Debit	Credit	Account name
315		dr./ the revenues of the uncompleted work - will be presented in the income statement
	315	cr./ Payable for uncompleted work - will be presented in the statement of financial position

**Afterward, the revenue's entry for the uncompleted work will be entered in an accumulative manner, i.e., in the following entry the revenues for May 2021 and the revenue of June 2021 will be entered accumulatively as follows:**

Debit	Credit	Account name
675		dr./ Payable for uncompleted work - will be presented in the statement of financial position
	675	cr./ the revenues of the uncompleted work - will be presented in the income statement

**Accordingly, the above processes will be repeated for each month as follows:**

**3- Entry by the end of July 2021 is an entry for the accumulated previous transactions**

Debit	Credit	Account name
675		dr./ the revenues of the uncompleted work - will be presented in the income statement
	675	cr./ Payable for uncompleted work - will be presented in the statement of financial position

**The entry to record the accumulative transactions for the period from May 2021 to June 2021**

Debit	Credit	Account name
1125		dr./ Payable for uncompleted work - will be presented in the statement of financial position
	1125	cr./ the revenues of the uncompleted work - will be presented in the income statement

**4- Entry by the end of August 2021 is an entry for the accumulated previous transactions**

Debit	Credit	Account name
1125		dr./ the revenues of the uncompleted work - will be presented in the income statement

	1125	cr./ Payable for uncompleted work - will be presented in the statement of financial position
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**5- The entry to record the accumulative transactions for the period from May 2021 to August 2021**

Debit	Credit	Account name
1665		dr./ Payable for uncompleted work - will be presented in the statement of financial position
	1665	cr./ the revenues of the uncompleted work - will be presented in the income statement

**6- Entry by the end of September 2021 is an entry for the accumulated previous transactions**

Debit	Credit	Account name
1665		dr./ the revenues of the uncompleted work - will be presented in the income statement
	1665	cr./ Payable for uncompleted work - will be presented in the statement of financial position

**The entry to record the accumulative transactions for the period from May 2021 to September 2021**

Debit	Credit	Account name
2115		dr./ Payable for uncompleted work - will be presented in the statement of financial position
	2115	cr./ the revenues of the uncompleted work - will be presented in the income statement

**7- Entry by the end of October 2021 is an entry for the accumulated previous transactions**

Debit	Credit	Account name
2115		dr./ the revenues of the uncompleted work - will be presented in the income statement
	2115	cr./ Payable for uncompleted work - will be presented in the statement of financial position

**The entry to record the accumulative transactions for the period from May 2021 to October 2021**

Debit	Credit	Account name
2700		dr./ Payable for uncompleted work - will be presented in the statement of financial position
	2700	cr./ the revenues of the uncompleted work - will be presented in the income statement

**8- Entry by the end of November 2021 is an entry for the accumulated previous transactions**

Debit	Credit	Account name
2700		dr./ the revenues of the uncompleted work - will be presented in the income statement
	2700	cr./ Payable for uncompleted work - will be presented in the statement of financial position

**The entry to record the accumulative transactions for the period from May 2021 to November 2021**

Debit	Credit	Account name
3240		dr./ Payable for uncompleted work - will be presented in the statement of financial position
	3240	cr./ the revenues of the uncompleted work - will be presented in the income statement

**9- Entry by the end of December 2021 is an entry for the accumulated previous transactions**

Debit	Credit	Account name
3240		dr./ the revenues of the uncompleted work - will be presented in the income statement
	3240	cr./ Payable for uncompleted work - will be presented in the statement of financial position

**The entry to record the accumulative transactions for the period from May 2021 to December 2021**

Debit	Credit	Account name
3870		dr./ Payable for uncompleted work - will be presented in the statement of financial position
	3870	cr./ the revenues of the uncompleted work - will be presented in the income statement

**By the end of 2021, the revenues account for the uncompleted work will be closed, within the summary of income, and will be accounted for in accordance with the Income Tax Law No. (34) for 2014 and the amendments thereof, as follows:**

**dr./ 3870 the revenues of the uncompleted work - will be presented in the income statement**

**3870 cr./ the revenues of the uncompleted work - will be presented in the income statement**

**10- The entry at the beginning of 2022, the audit firm will re-enter the revenues of the uncompleted work, as follows**



Debit	Credit	Account name
3870		dr./ the revenues of the uncompleted work - will be presented in the income statement
	3870	cr./ Payable for uncompleted work - will be presented in the statement of financial position

**11- The entry by the end of January 2022, is an entry to record the accumulative processes transactions for the period from May 2021 to January 2021**

Debit	Credit	Account name
4545		dr./ Payable for uncompleted work - will be presented in the statement of financial position
	4545	cr./ the revenues of the uncompleted work - will be presented in the income statement

**12- Entry by the end of February 2022 is an entry for the accumulated previous transactions**

Debit	Credit	Account name
4545		dr./ the revenues of the uncompleted work - will be presented in the income statement
	4545	cr./ Payable for uncompleted work - will be presented in the statement of financial position

**The entry to record the accumulative transactions for the period from May 2021 to February 2022**

Debit	Credit	Account name
4905		dr./ Payable for uncompleted work - will be presented in the statement of financial position
	4905	cr./ the revenues of the uncompleted work - will be presented in the income statement

**13- Entry by the end of March 2022 is an entry for the accumulated previous transactions**

Debit	Credit	Account name
4905		dr./ the revenues of the uncompleted work - will be presented in the income statement
	4905	cr./ Payable for uncompleted work - will be presented in the statement of financial position

**The entry to record the accumulative transactions for the period from May 2021 to March 2022**

Debit	Credit	Account name
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5445		dr./ Payable for uncompleted work - will be presented in the statement of financial position
	5445	cr./ the revenues of the uncompleted work - will be presented in the income statement

**14- Entry by the end of April 2022 is an entry for the accumulated previous transactions**

Debit	Credit	Account name
5445		dr./ the revenues of the uncompleted work - will be presented in the income statement
	5445	cr./ Payable for uncompleted work - will be presented in the statement of financial position

**The entry to record the accumulative transactions for the period from May 2021 to April 2022**

Debit	Credit	Account name
5850		dr./ Payable for uncompleted work - will be presented in the statement of financial position
	5850	cr./ the revenues of the uncompleted work - will be presented in the income statement

**Note:**

The above entries, relevant to the cancellation of the revenues item from the uncompleted work, are only for the purposes of supervision and extraction of the monthly income statement, and can be replaced or unregistered. Accordingly, none of them will affect the application of IFRS 15. The movements of the account and revenues of the uncompleted work will be as follows:

**The revenues of the uncompleted work - will be presented in the income statement**

Debit			Credit		
315	cr./ Payable for uncompleted work	5/2021	315	dr./ Payable for uncompleted work	5/2021
675	cr./ Payable for uncompleted work	6/2021	675	dr./ Payable for uncompleted work	6/2021
1125	cr./ Payable for uncompleted work	7/2021	1125	dr./ Payable for uncompleted work	7/2021
1665	cr./ Payable for uncompleted work	8/2021	1665	dr./ Payable for uncompleted work	8/2021
2115	cr./ Payable for uncompleted work	9/2021	2115	dr./ Payable for uncompleted work	9/2021
2700	cr./ Payable for uncompleted work	10/2021	2700	dr./ Payable for uncompleted work	10/2021
3240	cr./ Payable for uncompleted work	11/2021	3240	dr./ Payable for uncompleted work	11/2021
3870	Credit balance as of 31/12/2021	12/2021	3870	dr./ Payable for uncompleted work	12/2021
15705	<b>Total</b>		15705	<b>Total</b>	
3870	cr./ Payable for uncompleted work	1/2022			

4545	cr./ Payable for uncompleted work	2/2022	4545	dr./ Payable for uncompleted work	2/2022
4905	cr./ Payable for uncompleted work	3/2022	4905	dr./ Payable for uncompleted work	3/2022
5445	cr./ Payable for uncompleted work	4/2022	5445	dr./ Payable for uncompleted work	4/2022
1980	Debit balance as of 30/4/2022	5/2022	5850	dr./ Payable for uncompleted work	5/2022
20745	Total		20745	Total	

The payable account of the uncompleted work after depicting the account will be as follows:

**Payable for uncompleted work - will be presented in the statement of financial position**

Debit			Credit		
315	cr./ the revenues of the uncompleted work	5/2021	315	dr./ the revenues of the uncompleted work	5/2021
675	cr./ the revenues of the uncompleted work	6/2021	675	dr./ the revenues of the uncompleted work	6/2021
1125	cr./ the revenues of the uncompleted work	7/2021	1125	dr./ the revenues of the uncompleted work	7/2021
1665	cr./ the revenues of the uncompleted work	8/2021	1665	dr./ the revenues of the uncompleted work	8/2021
2115	cr./ the revenues of the uncompleted work	9/2021	2115	dr./ the revenues of the uncompleted work	9/2021
2700	cr./ the revenues of the uncompleted work	10/2021	2700	dr./ the revenues of the uncompleted work	10/2021
3240	cr./ the revenues of the uncompleted work	11/2021	3240	dr./ the revenues of the uncompleted work	11/2021
3870	cr./ the revenues of the uncompleted work	12/2021	3870	Debit balance as of 31/12/2021	12/2021
15705	Total		15705	Total	
			3870	dr./ the revenues of the uncompleted work	1/2022
4545	cr./ the revenues of the uncompleted work	2/2022	4545	dr./ the revenues of the uncompleted work	2/2022
4905	cr./ the revenues of the uncompleted work	3/2022	4905	dr./ the revenues of the uncompleted work	3/2022
5445	cr./ the revenues of the uncompleted work	4/2022	5445	dr./ the revenues of the uncompleted work	4/2022
5850	cr./ the revenues of the uncompleted work	5/2022	5850	Debit balance as of 30/4/2022	5/2022
20745	Total		20745	Total	

15- The entry to recognize the receipt of the rest of the fees at the end of the agreement will be as follows:

1. dr./ 3393 the bank.... account/ the audit firm  
cr./ 2925 the client's account  
cr./ 468 to the sales tax account

16- The entry to recognize the revenues of 2022 and issuing the sales invoice will be as follows:

dr./ 5850 the client's account  
cr./ 5850 Payable for uncompleted work - will be presented  
in the statement of financial position  
Deleting the engagement from the software application regarding the  
uncompleted work

**Recognition of a cancellation entry and/ or locking a revenues account  
for the uncompleted work will be as follows:**

dr./ 1980 the revenues of the uncompleted work  
cr./ 1980 the revenues of the uncompleted work - revenues from  
the accounts' audit services

**❖ In this case, the engagement will be closed (locked) in the software  
application regarding the uncompleted work**

**However, if the second case No. (b) was adopted, for which an invoice and a  
receipt voucher will be issued at the first payment, as well as an invoice and a  
receipt voucher after completing the work, the accounting entry will be as  
follows:**

**1. On May 1, 2022, when the work is completed, the invoice will be issued and the  
following entry will be registered:**

3393 dr./ 3393 the bank.... account/ the audit firm  
cr./ 3393 the client's account

The statement of receiving the second payment on May 1, 2022.

**2. The entry for issuing the invoice for the second payment will be as follows:**

dr./ 3393 the client's account  
cr./ 2925 unrealized revenue - to be presented in the  
statement of financial position.  
cr./ 468 to the sales tax account

**3. The entry to recognize the revenues of 2022 and issuing the sales invoice will  
be as follows:**

dr./ 5850 unrealized revenue - to be presented in the statement  
of financial position.  
cr./ 5850 Payable for uncompleted work - will be presented  
in the statement of financial position

**4. Recognition of a cancellation entry and/ or locking the revenues account for the uncompleted work will be as follows:**

dr./ 1980 the revenues of the uncompleted work  
 cr./ 1980 the revenues of the uncompleted work - revenues from the accounts' audit services

**Accordingly, the client's account will be presented as follows:**

The client's account	
Debit	Credit
	2925 dr./ the bank.... account/ the audit firm
	2925 dr./ the bank.... account/ the audit firm
5850 cr./ Payable for uncompleted work	
<b>5850 Total</b>	<b>5850 Total</b>

**The unrealized revenues account will be presented as follows:**

Unrealized revenue account - to be presented in the statement of financial position.

Debit	Credit
	2925 dr./ the client's account
	2925 dr./ the client's account
5850 cr./ Payable for uncompleted work	
<b>5850 Total</b>	<b>5850 Total</b>

**❖ Expanded case study: An auditing firm that is involved in several and varied engagements:**

**Al Faisal for Auditing & Financial Consultancy has concluded the agreements for the engagements for 2021; the agreements start from the beginning of February 2022, as follows:**

1. Audit engagement agreement (5 agreements) for an amount of JD 25000;
2. Tax advisory agreements (3 agreements) for an amount of JD 20000;
3. Special engagement agreement (4 agreements) for an amount of JD 24000;
4. Internal audit agreement (one agreement) for an amount of JD 5000;
5. Audit agreement regarding the application of a new accounting standard (one agreement) for an amount of JD 8000.

**The Firm's policy entails that all clients should pay 50% of the value of the work upon signing the agreement, in addition to the sales tax, and 50% upon issuing the financial statements and/or the completion of the work, whichever is earlier.**

**Since the Firm's management is responsible for estimating the labor hours that would be expended on the engagements above, the labor hours were determined as follows:**

1. Labor hours for all agreements were estimated at 1000 hrs.;
2. Labor hours for the tax consultations were estimated at 1250 hrs.;
3. Labor hours for the special engagements were estimated at 2000hrs.;
4. Labor hours for the internal audit engagements were estimated at 500 hrs.;
5. Labor hours for the audit engagements for the application of an accounting standard were estimated at 250 hrs.

**The following information was extracted from the records of the audit firm:**

- a. The audit firm has concluded agreements regarding all the above mentioned engagements. Based on the agreements with the customers, the firm has settled the engagement for auditing the application of a new accounting standard. Therefore, no invoices were issued for that engagement, and no services were provided, according to a letter received from the customer on May 1, 2021, indicating that the customer does not want to apply the standard for the time being.
- b. The work on the agreement of the internal audit was completed during October/ 2021, and the payments were duly received from the customer;
- c. Notifications from the directly responsible person were received showing the expended labor hours; the audit firm will use a software application to monitor the conduct of the engagement, and determine the performance rate relative to the expended hours; the management has previously determined the needed labor hours as follows:

**1. Labor hours needed for all the audit engagements were depicted as follows:**

**Price of selling one labor hour = (JD 25000 ÷ 1000 hrs.) = JD 25/hrs.**

Month	Agreement with client No 1	Agreement with client No 2	Agreement with client No 3	Agreement with client No 4	Agreement with client No 5	Actual labor hours	Selling Price per labor hour	Monthly revenue	Accumulated Revenue from the Agreements
February 2021	15	18	9	0	10	52	25	1300	1300
March 2021	20	15	15	25	0	75	25	1875	3175
April 2021	25	16	12	15	15	83	25	2075	5250
May 2021	16	12	15	25	10	78	25	1950	7200
June 2021	25	14	16	15	10	80	25	2000	9200
July 2021	18	13	18	10	12	71	25	1775	10975
August 2021	25	20	10	15	12	82	25	2050	13025
September 2021	14	28	15	10	20	87	25	2175	15200
October 2021	16	20	16	20	10	82	25	2050	17250
November 2021	25	18	10	15	15	83	25	2075	19325
December 2021	0	18	15	20	10	63	25	1575	20900
January 2022	0	14	15	10	11	50	25	1250	22150
February 2022	0	12	10	5	12	39	25	975	23125
March 2022	0	20	15	5	10	50	25	1250	24375
April 2022	0		10	5	10	25	25	625	25000
<b>Total</b>	<b>199</b>	<b>238</b>	<b>201</b>	<b>195</b>	<b>167</b>	<b>1000</b>		<b>25000</b>	

**2. Labor hours for the tax consultations for all agreements were as follows:**

**Price of selling one labor hour = (JD 20000 ÷ 1250 hrs.) = JD 16/hrs.**

Month	Agreement with client No 1	Agreement with client No 2	Agreement with client No 3	Actual labor hours	Selling Price per labor hour	Monthly revenue	Accumulated Revenue from the Agreements
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February 2021	45	35	35	115	16	1840	1840
March 2021	30	35	30	95	16	1520	3360
April 2021	25	36	35	96	16	1536	4896
May 2021	30	39	45	114	16	1824	6720
June 2021	35	45	25	105	16	1680	8400
July 2021	40	40	39	119	16	1904	10304
August 2021	45	35	37	117	16	1872	12176
September 2021	50	48	28	126	16	2016	14192
October 2021	35	35	30	100	16	1600	15792
November 2021	15	25	36	76	16	1216	17008
December 2021	20	35	22	77	16	1232	18240
January 2022	0	15	25	40	16	640	18880
February 2022	0	20	15	35	16	560	19440
March 2022	0	0	15	15	16	240	19680
April 2022	0		20	20	16	320	20000
<b>Total</b>	<b>370</b>	<b>443</b>	<b>437</b>	<b>1250</b>		<b>20000</b>	

### 3. Labor hours for all the special engagements were as follows:

Month	Agreement with client No 1	Agreement with client No 2	Agreement with client No 3	Agreement with client No 4	Actual labor hours	Selling Price per labor hour	Monthly revenue	Accumulated Revenue from the Agreements
February 2021	65	50	38	58	211	12	2532	2532
March 2021	70	55	25	50	200	12	2400	4932
April 2021	54	45	35	63	197	12	2364	7296
May 2021	45	40	25	65	175	12	2100	9396
June 2021	50	45	36	50	181	12	2172	11568
July 2021	55	65	26	55	201	12	2412	13980
August 2021	50	35	36	50	171	12	2052	16032
September 2021	0	30	25	45	100	12	1200	17232
October 2021	0	45	30	40	115	12	1380	18612
November 2021	0	50	32	55	137	12	1644	20256
December 2021	0	0	28	50	78	12	936	21192
January 2022	0	0	29	65	94	12	1128	22320
February 2022	0	0	25	40	65	12	780	23100
March 2022	0	0	0	50	50	12	600	23700
April 2022	0		0	25	25	12	300	24000
<b>Total</b>	<b>389</b>	<b>460</b>	<b>390</b>	<b>761</b>	<b>2000</b>		<b>24000</b>	

**4. Labor hours for all the internal audit services were as follows:**

Month	Agreement with client No 1	Actual labor hours	Selling Price per labor hour	Monthly revenue	Accumulated Revenue from the Agreements
February 2021	35	35	10	350	350
March 2021	30	30	10	300	650
April 2021	45	45	10	450	1100
May 2021	32	32	10	320	1420
June 2021	45	45	10	450	1870
July 2021	40	40	10	400	2270
August 2021	42	42	10	420	2690
September 2021	36	36	10	360	3050
<b>October 2021</b>	<b>46</b>	<b>46</b>	<b>10</b>	<b>460</b>	<b>3510</b>
November 2021	25	25	10	250	3760
December 2021	30	30	10	300	4060
January 2022	25	25	10	250	4310
February 2022	26	26	10	260	4570
March 2022	28	28	10	280	4850
April 2022	15	15	10	150	5000
<b>Total</b>	<b>500</b>	<b>500</b>		<b>5000</b>	

**Accounting Procedures:**

The accounting procedures will be performed according to the following methods:

**1- When the receipt voucher is issued, one of the following steps may be considered:**

a. Issuing a receipt voucher and registering it in the records as follows:

dr./ XXX the bank.... account/ the audit firm

cr./ XXX the client's account

cr./ XXX to the sales tax account

**Comment on point (a): The audit firm has applied the provision of Article (9) of the General Sales Tax Law by registering the general tax of receiving an amount/ payment from the client.**

b. The audit firm has issued a tax invoice and a receipt voucher, for receiving the first payment; the accounting treatment will be as follows:



**1- In case the amount is received under a receipt voucher, the following entries will be recorded:**

dr./ XXX the bank.... account/ the audit firm  
 cr./ XXX the client's account

**2- If a tax invoice is issued, the accounting treatment will be as follows:**

dr./ XXX the client's account  
 cr./ XXX unrealized revenue - to be presented in the statement of financial position.  
 cr./ XXX to the sales tax account

**Here, the customer's liability will be equal to zero; because the sales invoice was issued to implement the General Sales Tax Law. In the above example, the entry of the receipt voucher for the amount or the invoice will not be presented because this case was explained in the previous case study.**

**2- How to determine the revenue of the performed work under these contracts?**

As we mentioned before, according to the audit firm's policy, the labor hours needed for the work to be performed shall be determined. In the above example, the labor hours according to the initiation notification were determined on the software application, and estimated by the individual responsible for the engagement, so it is now easy to determine the value of the engagement in terms of labor hours as follows:

After the determination of the labor hours needed for the engagement, the responsible individual shall determine the team members, based on the notification received for the engagement, then the work plan will be developed and/or the actual and estimated plans will be determined. In the above example, the periodic labor hours needed for the engagement were determined as follows to facilitate the accounting entry of the engagements:

**1- Entries of February 2021: Entry of the accomplished work for the period from February 2021 to February 2021**

Audit work	Tax Consultations	Special engagements	Audit work	Account name
1300	1840	2532	350	dr./ Payable for uncompleted work - will be presented in the statement of financial position
1300	1840	2532	350	cr./ the revenues of the uncompleted work - will be presented in the income statement

**2- Accounting entries of March 2021 - derecognition of the revenue of the uncompleted work in order to recognize such revenue accumulatively for the period from February 2021 to March 2021.**

Audit work	Tax Consultations	Special engagements	Audit work	Account name
1300	1840	2532	350	dr./ the revenues of the uncompleted work - will be presented in the income statement
1300	1840	2532	350	cr./ Payable for uncompleted work - will be presented in the statement of financial position

**❖ Accounting Entries for the period from February 2021 to March 2021**

Audit work	Tax Consultations	Special engagements	Audit work	Account name
3175	3360	4932	650	dr./ Payable for uncompleted work - will be presented in the statement of financial position
3175	3360	4932	650	cr./ the revenues of the uncompleted work - will be presented in the income statement

**3- Accounting entries of April 2021 - derecognition of the revenue of the uncompleted work in order to recognize such revenue accumulatively for the period from February 2021 to April 2021.**

Audit work	Tax Consultations	Special engagements	Audit work	Account name
3175	3360	4932	650	dr./ the revenues of the uncompleted work - will be presented in the income statement
3175	3360	4932	650	cr./ Payable for uncompleted work - will be presented in the statement of financial position

**❖ Accounting Entries for the period from February 2021 to April 2021**

Audit work	Tax Consultations	Special engagements	Audit work	Account name
5250	4896	7296	1100	dr./ Payable for uncompleted work - will be presented in the statement of financial position
5250	4896	7296	1100	cr./ the revenues of the uncompleted work - will be presented in the income statement

- 4- **Accounting entries of May 2021 - derecognition of the revenue of the uncompleted work in order to recognize such revenue accumulatively for the period from February 2021 to May 2021.**

Audit work	Tax Consultations	Special engagements	Audit work	Account name
5250	4896	7296	1100	dr./ the revenues of the uncompleted work - will be presented in the income statement
5250	4896	7296	1100	cr./ Payable for uncompleted work - will be presented in the statement of financial position

❖ **Accounting Entries for the period from February 2021 to May 2021**

Audit work	Tax Consultations	Special engagements	Audit work	Account name
7200	6720	9396	1420	dr./ Payable for uncompleted work - will be presented in the statement of financial position
7200	6720	9396	1420	cr./ the revenues of the uncompleted work - will be presented in the income statement

- 5- **Accounting entries of June 2021 - derecognition of the revenue of the uncompleted work in order to recognize such revenue accumulatively for the period from February 2021 to June 2021.**

Audit work	Tax Consultations	Special engagements	Audit work	Account name
7200	6720	9396	1420	dr./ the revenues of the uncompleted work - will be presented in the income statement
7200	6720	9396	1420	cr./ Payable for uncompleted work - will be presented in the statement of financial position

❖ **Accounting Entries for the period from February 2021 to June 2021**

Audit work	Tax Consultations	Special engagements	Audit work	Account name
9200	8400	11568	1870	dr./ Payable for uncompleted work - will be presented in the statement of financial position
9200	8400	11568	1870	cr./ the revenues of the uncompleted work - will be presented in the income statement

- 6- **Accounting entries of July 2021 - derecognition of the revenue of the uncompleted work in order to recognize such revenue accumulatively for the period from February 2021 to July 2021.**

Audit work	Tax Consultations	Special engagements	Audit work	Account name
9200	8400	11568	1870	dr./ the revenues of the uncompleted work - will be presented in the income statement
9200	8400	11568	1870	cr./ Payable for uncompleted work - will be presented in the statement of financial position

❖ **Accounting Entries for the period from February 2021 to July 2021**

Audit work	Tax Consultations	Special engagements	Audit work	Account name
10975	10304	13980	2270	dr./ Payable for uncompleted work - will be presented in the statement of financial position
10975	10304	13980	2270	cr./ the revenues of the uncompleted work - will be presented in the income statement

**7- Accounting entries of August 2021 - derecognition of the revenue of the uncompleted work in order to recognize such revenue accumulatively for the period from February 2021 to August 2021.**

Audit work	Tax Consultations	Special engagements	Audit work	Account name
10975	10304	13980	2270	dr./ the revenues of the uncompleted work - will be presented in the income statement
10975	10304	13980	2270	cr./ Payable for uncompleted work - will be presented in the statement of financial position

❖ **Accounting Entries for the period from February 2021 to August 2021**

Audit work	Tax Consultations	Special engagements	Audit work	Account name
13025	12176	16032	2690	dr./ Payable for uncompleted work - will be presented in the statement of financial position
13025	12176	16032	2690	cr./ the revenues of the uncompleted work - will be presented in the income statement

**8- Accounting entries of September 2021 - derecognition of the revenue of the uncompleted work in order to recognize such revenue accumulatively for the period from February 2021 to September 2021.**

Audit work	Tax Consultations	Special engagements	Audit work	Account name
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13025	12176	16032	2690	dr./ the revenues of the uncompleted work - will be presented in the income statement
13025	12176	16032	2690	cr./ Payable for uncompleted work - will be presented in the statement of financial position

**❖ Accounting Entries for the period from February 2021 to September 2021**

Audit work	Tax Consultations	Special engagements	Audit work	Account name
15200	14192	17232	3050	dr./ Payable for uncompleted work - will be presented in the statement of financial position
15200	14192	17232	3050	cr./ the revenues of the uncompleted work - will be presented in the income statement

**9- Accounting entries of October 2021 - derecognition of the revenue of the uncompleted work in order to recognize such revenue accumulatively for the period from February 2021 to October 2021.**

Audit work	Tax Consultations	Special engagements	Audit work	Account name
15200	14192	17232	3050	dr./ the revenues of the uncompleted work - will be presented in the income statement
15200	14192	17232	3050	cr./ Payable for uncompleted work - will be presented in the statement of financial position

**Accounting Entries for the period from February 2021 to October 2021**

Audit work	Tax Consultations	Special engagements	Audit work	Account name
17250	15792	18612	3510	dr./ Payable for uncompleted work - will be presented in the statement of financial position
17250	15792	18612	3510	cr./ the revenues of the uncompleted work - will be presented in the income statement

Therefore, based on the givens of the above case, we find that the internal audit task was accomplished before the deadline, which is 500 labor hours, so a tax invoice will be issued regardless of receiving the payments for the engagement or not, as follows:

**1. Entry for issuing the invoice on 31/10/2021:**

**dr./ 5000 the client/s account**

**cr./:**

**3510- Payable for uncompleted work - will be presented in the statement of financial position**

**1490- Payable for uncompleted work - will be presented in the statement of financial position**

**2. Entry for closing the engagement on the accounting system:**

**dr./3510 the revenues of the uncompleted work - will be presented in the income statement**

**cr./ 3510 the revenues of the uncompleted work - will be presented in the income statement**

**10- Accounting entries of November 2021 - derecognition of the revenue of the uncompleted work in order to recognize such revenue accumulatively for the period from February 2021 to November 2021.**

Audit work	Tax Consultations	Special engagements	Audit work	Account name
17250	15792	18612	0	dr./ the revenues of the uncompleted work - will be presented in the income statement
17250	15792	18612	0	cr./ Payable for uncompleted work - will be presented in the statement of financial position

**❖ Accounting Entries for the period from February 2021 to November 2021**

Audit work	Tax Consultations	Special engagements	Audit work	Account name
19325	17008	20256	0	dr./ Payable for uncompleted work - will be presented in the statement of financial position
19325	17008	20256	0	cr./ the revenues of the uncompleted work - will be presented in the income statement

**11- Accounting entries of December 2021 - derecognition of the revenue of the uncompleted work in order to recognize such revenue accumulatively for the period from February 2021 to December 2021.**

Audit work	Tax Consultations	Special engagements	Audit work	Account name
20900	18240	21192	0	dr./ the revenues of the uncompleted work - will be presented in the income statement
20900	18240	21192	0	cr./ Payable for uncompleted work - will be presented in the statement of financial position

**❖ Accounting Entries for the period from February 2021 to December 2021**

Audit work	Tax Consultations	Special engagements	Audit work	Account name
20900	18240	21192	0	dr./ Payable for uncompleted work - will be presented in the statement of financial position
20900	18240	21192	0	cr./ the revenues of the uncompleted work - will be presented in the income statement

**Here, the engagement will be closed using the following entry:**

Audit work	Tax Consultations	Special engagements	Audit work	Account name
20900	18240	21192	0	dr./ the revenues of the uncompleted work - will be presented in the income statement
20900	18240	21192	0	cr./ the revenues of the unfinished work - will be presented in the income statement

**12- Accounting entries of January 2022- derecognition of the revenue of the uncompleted work in order to recognize such revenue accumulatively for the period from February 2021 to January 2022.**

Audit work	Tax Consultations	Special engagements	Audit work	Account name
20900	18240	21192	0	dr./ Payable for uncompleted work - will be presented in the statement of financial position
20900	18240	21192	0	cr./ the revenues of the uncompleted work - will be presented in the income statement

**❖ Accounting Entries for the period from February 2021 to January 2022**

Audit work	Tax Consultations	Special engagements	Audit work	Account name
22150	18880	22320	0	dr./ Payable for uncompleted work - will be presented in the statement of financial position
22150	18880	22320	0	cr./ the revenues of the uncompleted work - will be presented in the income statement

**13- Accounting entries of February 2022- derecognition of the revenue of the uncompleted work in order to recognize such revenue accumulatively for the period from February 2021 to February 2022.**

Audit work	Tax Consultations	Special engagements	Audit work	Account name
22150	18880	22320	0	dr./ the revenues of the uncompleted work - will be presented in the income statement
22150	18880	22320	0	cr./ Payable for uncompleted work - will be presented in the statement of financial position

**❖ Accounting Entries for the period from February 2021 to February 2022**

Audit work	Tax Consultations	Special engagements	Audit work	Account name
23125	19440	23100	0	dr./ Payable for uncompleted work - will be presented in the statement of financial position
23125	19440	23100	0	cr./ the revenues of the uncompleted work - will be presented in the income statement

**14- Accounting entries of February 2022- derecognition of the revenue of the uncompleted work in order to recognize such revenue accumulatively for the period from February 2021 to March 2022.**

Audit work	Tax Consultations	Special engagements	Audit work	Account name
23125	19440	23100	0	dr./ the revenues of the uncompleted work - will be presented in the income statement
23125	19440	23100	0	cr./ Payable for uncompleted work - will be presented in the statement of financial position

❖ **Accounting Entries for the period from February 2021 to March 2022**

Audit work	Tax Consultations	Special engagements	Audit work	Account name
24375	19680	23700	0	dr./ Payable for uncompleted work - will be presented in the statement of financial position
24375	19680	23700	0	cr./ the revenues of the uncompleted work - will be presented in the income statement

**15- Accounting entries of February 2022- derecognition of the revenue of the uncompleted work in order to recognize such revenue accumulatively for the period from February 2021 to April 2022.**

Audit work	Tax Consultations	Special engagements	Audit work	Account name
24375	19680	23700	0	dr./ the revenues of the uncompleted work - will be presented in the income statement
24375	19680	23700	0	cr./ Payable for uncompleted work - will be presented in the statement of financial position

❖ **Accounting Entries for the period from February 2021 to April 2022**

Audit work	Tax Consultations	Special engagements	Audit work	Account name
25000	20000	24000	0	dr./ Payable for uncompleted work - will be presented in the statement of financial position
25000	20000	24000	0	cr./ the revenues of the uncompleted work - will be presented in the income statement

**16- Here, after completing the entries as shown in the tables above, the following entries will be registered to close the engagements and recognize the revenues:**

**17-**

**Entry for closing the engagement:**



**The entry to recognize the revenues of 2022 and issuing the sales invoice for all the completed engagements:**

Audit work	Tax Consultations	Special engagements	Audit work	Account name
25000	20000	24000	0	dr./ Payable for unfinished work - will be presented in the statement of financial position
25000	20000	24000	0	cr./ Payable for uncompleted work - will be presented in the statement of financial position

**Recognition of a cancellation entry and/ or locking a revenues' account for the uncompleted work will be as follows:**

Audit work	Tax Consultations	Special engagements	Audit work	Account name
4100	1760	2808	0	dr./ the revenues of the unfinished work - will be presented in the income statement
4100	1760	2808	0	cr./ the revenues of the unfinished work - will be presented in the income statement

**❖ Note:**

**Engagement No. (5); which is the audit of the application of a new accounting standard for an amount of JOD 8000 was not included in the entries although the audit firm has estimated the needed labor hours for this engagement. However, no work was performed for this engagement, and the firm did not receive any payments in this regard; therefore, the engagement was not registered in the records of 2021/2022.**

**Presentation and disclosure**

IFRS 15 has introduced some new terminologies regarding the presentation and disclosures in the financial statements. According to IFRS 15, in the statement of financial position, entities shall recognize assets or liabilities relevant to the contracts when the goods and/or services are delivered before receiving the due amount, in this case, we have two options:

**The first Option:** When the entity delivers the goods or provides the service before receiving the due amount, this event will result in an asset or receivables relevant to the contract.

In the circumstances where there are terms, other than receiving the due amount on a specified time in order to deliver the goods or services, this will result in “contract assets”. However, if the time term was not set forth in the contract, regarding receiving the due amount on a specified time in order to deliver the goods or services, “receivables” will be created.

**The Second Option:** When the entity delivers the goods or provides the services after receiving the due amount, this event will result in a liability relevant to the contract.

**This article provides a perception about addressing the income tax law, the sales tax law, and IFRS 15, revenue from contracts with customers, regarding how audit firms recognize revenues for long-term contracts (contracts that span over two financial periods or more). For any discussions or insights about the article, please contact us at: [Info@alfaysal.net](mailto:Info@alfaysal.net).**

