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PRANTHO GLOBAL

DUBAI · LONDON · INDIA

TECHNICAL ACCOUNTING SERIES · VOLUME I · ISSUES 02–04

Revenue & Receivables

Three More Ways to Lose the Top Line.

Off-plan recognition, gross-versus-net presentation and expected credit losses — the three judgements that decide how large a GCC business appears, and whether that appearance survives an audit.

EDITION

2026 · Rev A

COVERAGE

UAE · KSA · QAT · OMN · BHR · KWT

FRAMEWORK

IFRS Accounting Standards

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CLUSTER A · ISSUES 01–04

Revenue & Receivables

This volume contains Issues 02 to 04. Issue 01, long-term contracts under IFRS 15, is published separately and is referenced from Issue 04.

02 CLUSTER A · REVENUE & RECEIVABLES

Real estate and off-plan property sales — over-time recognition, escrow and payment plans

Whether a developer recognises revenue as it builds or only on handover is not a policy choice. It turns on whether the sale contract gives an enforceable right to payment for work performed to date — a question of contract law before it is a question of accounting. Get it wrong and three years of reported profit belongs in a different period.

02 · INDUSTRIES AFFECTED — FREQUENCY RANK

Off-plan residential developers	1
Master developers and land subdividers	2
Mixed-use and commercial developers	3
Branded residences and hospitality	4
Build-to-lease and build-to-rent	5
Contractor-developers (self-build)	6

Ranking reflects observed incidence in engagement and review work, not sector size.

03 · GCC RELEVANCE

UAE · SAUDI · QATAR · OMAN · KUWAIT · BAHRAIN

Solid = high incidence and active regulator focus. **Tinted** = present but lower observed frequency.

LOCAL HOOKS

UAE — Dubai Law 8 of 2007 escrow regime, Law 13 of 2008 interim register (Oqood) and Law 19 of 2020 on developer remedies; RERA project registration and DLD transfer. **KSA** — Wafi off-plan sales licensing and escrow under the Ministry of Municipal and Rural Affairs and Housing. **Qatar** — Law 6 of 2014 on real estate development escrow. **Oman / Bahrain / Kuwait** — developing escrow regimes; enforceable-right analysis varies materially by contract form.

06 · GOVERNING STANDARDS

IFRS 15 · IAS 2 · IAS 23 · IAS 40 · IAS 7 · IAS 12

Core paragraphs: IFRS 15.35(c) and .37 with B9–B13 (enforceable right to payment for performance completed to date); .60–.65 (significant financing component); .70–.72 (non-cash and payments to a customer); .91–.99 (costs to obtain and fulfil a contract); .105–.109 (contract balances). IAS 2 (development property held for sale). IAS 23.8–14 (borrowing costs on a qualifying asset). IAS 7.48 (restricted cash disclosure).

JUDGEMENT RISK RATING

5 / 5 — Critical

The conclusion is binary and applies to the whole project. There is no partial credit: a developer recognising over time when the criteria are not met has misstated every period since first sale, and the correction is a restatement rather than a catch-up.

TYPICAL EBITDA SWING

Moving a project from point-in-time to over-time recognition, or back, typically moves **two to four years of reported profit** between periods. It changes when, not whether, profit is earned — but covenants, tax and valuations are all set on when.

01 The issue, explained

A developer sells apartments off plan. Buyers pay in instalments tied to construction milestones. Cash arrives from day one; the building arrives three years later. The question is when the developer is permitted to report profit on those sales.

Before IFRS 15, the answer for most GCC developers was on handover. The standard changed the test. Where the developer is building an asset with no alternative use — a specific unit, sold, registered to a named buyer — and has an **enforceable right to payment for performance completed to date**, revenue is recognised over time as construction progresses. Several large UAE developers early-adopted precisely because of this, and the effect on reported earnings was substantial.

The trap is that the second limb is a legal conclusion, not an accounting one. It depends on what the sale and purchase agreement actually says happens if the buyer defaults, and on whether the governing law will enforce it. Developers routinely assume the answer without ever obtaining it.

An enforceable right to payment must compensate for performance to date, including a reasonable margin. A right to forfeit a percentage of the price is a penalty, not compensation.

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04 Why it becomes complicated

The enforceable-right test defeats more projects than developers expect

IFRS 15.37 and B9–B13 are specific. The right must entitle the entity, at all times throughout the contract, to an amount that at least compensates for performance completed to date — cost incurred plus a reasonable profit margin — and it must be enforceable. B12 is explicit that a right to recover only costs incurred, or to receive a fixed percentage of the contract price unrelated to the value transferred, does not qualify. Many GCC standard-form sale and purchase agreements give the developer a right to terminate on buyer default, retain a stated percentage of the price and resell the unit. That is a forfeiture clause. On its own it does not establish the right the standard requires, and where it is the only remedy, revenue belongs at a point in time.

> **WHERE THE ANALYSIS HAS TO COME FROM**
>
> B12 requires assessment of the contract terms and any legislation or legal precedent that could supplement or override them. In the UAE that means reading the SPA alongside the applicable escrow and interim-register legislation and the developer remedies available on buyer default. This conclusion should be evidenced by written legal advice on the standard contract form, refreshed whenever the form changes. An accounting memo asserting the conclusion without it will not survive a file review.

Post-handover payment plans carry a significant financing component

A five- or seven-year post-handover instalment plan at nil stated interest is a financing arrangement. IFRS 15.60–65 requires the promised consideration to be adjusted for the time value of money where the timing of payments provides the customer with a significant benefit of financing. The practical consequence is that revenue is recognised at the discounted amount and the difference unwinds as finance income over the payment period. Developers marketing aggressive post-handover plans and recognising the undiscounted headline price are overstating revenue and understating finance income — and the error grows with the length of the plan.

Escrow cash is collected but not available

Under the Dubai escrow regime and its regional equivalents, buyer instalments are paid into a project account and released against certified construction progress, with a portion retained until after completion. That cash is restricted. Presenting it within cash and cash equivalents without disclosure overstates liquidity to every reader of the balance sheet, and IAS 7.48 requires disclosure of significant cash balances not available for general use. Where the retained portion is not available until after the reporting period, current-asset classification is itself questionable.

Cost allocation across phases is where the margin actually moves

Land is bought as a plot and sold as units. Infrastructure, roads, district cooling and shared amenity cost is incurred for a masterplan and consumed by individual phases. The allocation basis — saleable area, expected sales value, or plot ratio — determines the cost of sales for every unit and therefore the margin recognised on every sale. There is no single prescribed method, which is exactly why it must be documented, applied consistently, and revisited when the masterplan changes. A change in allocation basis part way through a project is a change in accounting estimate at best and an error at worst.

Not everything in the contract is the sale of a unit

Post-handover obligations — a defects liability period, a rental guarantee, a service charge waiver, a furniture package, payment of the buyer's DLD transfer fee — may be separate performance obligations under IFRS 15.22–30, or a reduction of the transaction price under IFRS 15.70–72 where they are a payment to the customer. Sales incentives in this market are extensive and are almost always accounted for as marketing cost rather than analysed. Broker commission is a different question again: it is an incremental cost of obtaining a contract, capitalised under IFRS 15.91 and amortised consistently with the transfer of the goods, not expensed on signing.

And the asset itself may be in the wrong balance sheet line

Development property held for sale in the ordinary course is inventory under IAS 2. Property held to earn rentals or for capital appreciation is investment property under IAS 40. Property under construction for future use as investment property is also within IAS 40 and, under the fair value model, is remeasured through profit or loss. Where a developer holds land with no committed development plan and revalues it, the classification and the valuation are both live audit issues — and, as section 14 shows, this is where the largest publicly reported GCC failure in this sector actually arose.

05 Business consequences

EXPOSURE	WHAT ACTUALLY HAPPENS
Audit opinion	An unsupported over-time conclusion is not an estimate the auditor can accept with a caveat. It is either right or wrong. Where it is wrong, every period since first sale is misstated and the auditor will require restatement rather than adjustment.
UAE corporate tax	Taxable income follows accounting profit. A developer recognising over time pays tax on profit years before the unit is handed over and, in a downturn, before it is certain the buyer will complete. A subsequent restatement to point-in-time creates a mismatch between tax already paid and profit later reported.
Lenders and escrow	Project finance is drawn against certified progress and the escrow balance. Overstated revenue with no corresponding escrow release is visible to any lender who reconciles the two, and it is the reconciliation that exposes the problem, not the income statement.
Regulator	RERA and its regional equivalents monitor escrow, project registration and completion. Accounting that diverges from certified construction progress invites scrutiny of the project account, not just the financial statements.
Investors and valuation	Over-time recognition front-loads earnings relative to cash. Analysts and buyers normalise for it. A developer with strong reported EBITDA and weak operating cash flow will be valued on the cash.
Cancellations	Where buyers default in a downturn, revenue already recognised over time must be reversed. The reversal lands in the worst possible period — which is precisely why the constraint and the collectability assessment in IFRS 15.9 matter at the point of sale, not afterwards.

06

Relevant IFRS

STANDARD	PARAGRAPHS	WHAT IT GOVERNS HERE
IFRS 15	9	Collectability — whether the contract qualifies for accounting at all.
IFRS 15	22–30	Distinct performance obligations: unit, fit-out, rental guarantee, amenity.
IFRS 15	35(c), 37, B9–B13	No alternative use and enforceable right to payment. The core test.
IFRS 15	39–45, B14–B19	Measuring progress; input versus output method; uninstalled materials.
IFRS 15	60–65	Significant financing component on post-handover payment plans.
IFRS 15	70–72	Consideration payable to a customer — incentives, fee waivers, guarantees.
IFRS 15	91–99	Broker commission and other costs to obtain or fulfil a contract.
IFRS 15	105–109	Contract asset, contract liability and receivable presentation.
IFRS 15	110–129	Disclosure, including the judgement on timing of satisfaction.
IAS 2	9–33	Development property held for sale: cost, allocation and net realisable value.
IAS 40	7–15, 57–58	Investment property classification and transfers between categories.
IAS 23	8–14, 22	Capitalisation of borrowing costs and suspension during interruption.
IAS 7	48	Disclosure of cash balances not available for general use — escrow.
IFRS 9	5.5.15	ECL on instalment receivables and on contract assets.

07 Step-by-step IFRS treatment

01 Establish the enforceable right to payment, in writing

Obtain legal advice on the standard sale and purchase agreement addressing IFRS 15.B9–B13 specifically: on buyer default, is the developer entitled to an amount that compensates for performance completed to date including a reasonable margin, and is it enforceable? Record the conclusion once, and refresh it whenever the contract form changes.

02 Confirm the asset has no alternative use

Units sold and registered on the interim register to a named buyer normally have no alternative use. Unsold inventory within the same building does not fall in the same analysis — the assessment is per contract, not per project.

03 Identify the performance obligations

Separate the unit from rental guarantees, fit-out packages, extended defects cover and any amenity the buyer receives beyond the unit. Determine which are distinct and allocate on relative standalone selling price.

04 Determine the transaction price and strip out financing

Where a post-handover plan extends materially beyond handover, discount the instalments to present value using the rate that would be reflected in a separate financing transaction between the parties. Recognise the unwind as finance income, not revenue.

05 Deduct consideration payable to the customer

DLD fee payments, service charge waivers and cash-back incentives reduce the transaction price under IFRS 15.70–72 unless they are payment for a distinct good or service received from the buyer.

06 Build the cost model and fix the allocation basis

Allocate land, infrastructure and shared amenity cost across phases and unit types on a documented, consistent basis. Reconcile total budgeted cost to the masterplan every reporting period.

07 Measure progress

Use a cost-input method excluding land and any cost that does not depict transfer of control, or an output method where a reliable one exists. Adjust for uninstalled materials under IFRS 15.B19. Certify progress against the escrow engineer's certificate where one exists.

08 Capitalise and amortise contract costs

Recognise incremental broker commission as an asset under IFRS 15.91 and amortise it on the same basis as revenue. Test it for impairment under IFRS 15.101–104.

09 Present escrow and contract balances correctly

Disclose restricted escrow cash under IAS 7.48. Present contract liabilities where collections exceed revenue recognised and contract assets where the reverse is true, contract by contract without netting across projects.

10 Reassess collectability and cancellations each period

Where buyer default rates rise, reassess IFRS 15.9 for new sales and the constraint for existing ones, and reverse revenue on cancelled units in the period the cancellation becomes probable.

08 Journal entries

WORKED ILLUSTRATION — PROJECT MERIDIAN, OFF-PLAN RESIDENTIAL

INPUT	AED
Contracted sales value — units sold to date	400,000,000
Less: significant financing component on post-handover instalments	(12,000,000)
DLD transfer fee borne by developer (payment to customer)	(8,000,000)
Transaction price	**380,000,000**
Total estimated project cost attributable to units sold	247,000,000
Costs incurred to date on those units	111,150,000
Percentage complete (111.15 / 247.0)	**45%**
Cash collected into escrow to date	160,000,000
Broker commission paid (2% of contracted value)	8,000,000

ENTRY 1 — BUYER INSTALMENTS RECEIVED INTO THE PROJECT ESCROW ACCOUNT

ACCOUNT	DEBIT	CREDIT
Cash — project escrow account (restricted)	160,000,000	—
Contract liabilities — off-plan sales	—	160,000,000

ENTRY 2 — REVENUE RECOGNISED OVER TIME (45% × AED 380.0M)

ACCOUNT	DEBIT	CREDIT
Contract liabilities — off-plan sales	160,000,000	—
Contract asset — unbilled off-plan revenue	11,000,000	—
Revenue from contracts with customers	—	171,000,000
Contract liability fully absorbed; excess recognised as contract asset	**171,000,000**	**171,000,000**

ENTRY 3 — COST OF SALES RELEASED FROM DEVELOPMENT PROPERTY (IAS 2)

ACCOUNT	DEBIT	CREDIT
Cost of sales — development property	111,150,000	—
Development property — work in progress	—	111,150,000

ENTRY 4 — BROKER COMMISSION CAPITALISED AND AMORTISED (IFRS 15.91, .99)

ACCOUNT	DEBIT	CREDIT
Contract cost asset — costs to obtain contracts	8,000,000	—
Cash	—	8,000,000
Amortisation of contract cost assets	3,600,000	—
Contract cost asset — costs to obtain contracts	—	3,600,000
Amortised at 45%, consistent with the transfer of the units	**3,600,000**	**3,600,000**

ENTRY 5 — UNWIND OF THE SIGNIFICANT FINANCING COMPONENT (IFRS 15.65)

ACCOUNT	DEBIT	CREDIT
Contract asset / instalment receivable	2,700,000	—
Finance income	—	2,700,000
Presented in finance income, not revenue	**2,700,000**	**2,700,000**

Where the enforceable-right test is not met, Entries 2 and 3 do not arise at all. Collections remain in contract liabilities and the accumulated cost remains in development property until control transfers on handover.

09 Financial statement impact

STATEMENT	LINE AFFECTED	DIRECTION AND CONSEQUENCE
Balance sheet	Escrow cash; contract liabilities; contract assets; inventory	Escrow cash of AED 160.0m is restricted and disclosed as such. Contract liabilities are fully absorbed and a contract asset of AED 11.0m arises. Development property falls by AED 111.15m.
Profit & loss	Revenue; cost of sales; amortisation; finance income	Revenue AED 171.0m, cost of sales AED 111.15m, contract cost amortisation AED 3.6m — gross margin AED 56.25m. Finance income AED 2.7m sits below the operating result.
Cash flow	Operating	Escrow receipts are operating inflows but are not available. A developer showing strong operating cash flow that sits entirely in restricted escrow has not generated distributable cash, and the note must make that visible.
Point-in-time alternative	All of the above	Under point-in-time recognition none of the AED 171.0m revenue or AED 56.25m margin appears until handover. That is the entire quantum at stake in the enforceable-right conclusion.
Tax	Current and deferred	Over-time recognition accelerates UAE corporate tax by up to three years relative to handover. Model the cash-tax profile before the accounting policy is settled, not after.

10 Disclosure requirements

REFERENCE	WHAT THE NOTES MUST CONTAIN
IFRS 15.123–125	The judgement on timing of satisfaction — specifically the basis for concluding there is an enforceable right to payment for performance completed to date. This is the single most important disclosure in a developer's accounts and the one most often reduced to a sentence.
IFRS 15.126	Judgements in determining the amount of costs to obtain or fulfil contracts, and the amortisation method.
IFRS 15.116–118	Contract asset and contract liability balances and movements, including revenue recognised from the opening contract liability.
IFRS 15.120	Transaction price allocated to unsatisfied obligations and expected timing — effectively the secured backlog.
IFRS 15.128	Closing balances of capitalised contract costs by category and the amortisation and impairment recognised.
IAS 7.48	Escrow and other restricted cash, with the amount and the nature of the restriction.
IAS 2.36	Carrying amount of development property by category, and any write-down to net realisable value.
IAS 1.122, 125	Significant judgements and estimation uncertainty — cost allocation basis, discount rate on financing components, and cancellation assumptions.

THE DISCLOSURE THAT DECIDES THE AUDIT

If the over-time conclusion is the difference between three years of profit and none, the note explaining it cannot be a restatement of IFRS 15.35. It has to say what this developer's contracts provide on buyer default, and why that amounts to compensation for performance rather than a forfeiture. Auditors, regulators and buyers all read this note first.

11 / 12

What the auditor finds · what management got wrong

Common audit observations

- × Over-time recognition applied with no legal analysis of the enforceable right to payment anywhere in the file.
- × The conclusion reached once at IFRS 15 adoption and never revisited despite a changed contract form.
- × Post-handover payment plans of five years or more with no significant financing component recognised.
- × Escrow cash presented within cash and cash equivalents with no restriction disclosure.
- × Broker commission expensed on signing rather than capitalised and amortised.
- × Cost allocation basis across phases changed mid-project with no documented rationale.
- × Contract assets and contract liabilities netted across separate projects.
- × No reassessment of collectability on sales into a falling market.

Common management mistakes

- × Treating over-time recognition as an accounting policy choice made for comparability with peers.
- × Assuming the escrow regime itself creates the enforceable right to payment. It does not.
- × Marketing a post-handover plan on the headline price and booking revenue at the headline price.
- × Recognising DLD fee absorption and service charge waivers as marketing cost rather than a reduction of the transaction price.
- × Reporting escrow receipts to the board as available cash.
- × Loading shared infrastructure cost onto later phases to protect early-phase margin.
- × Deferring the reversal on cancelled units until the unit is resold.
- × Revaluing undeveloped land through profit or loss without establishing that it meets IAS 40.

13

Can it be prevented?

Yes. This issue is prevented by documentation discipline at two moments — contract design and month-end close — rather than by technical skill at year end.

- ✓ **A standing legal memorandum on the SPA.** One document, addressed to IFRS 15.B9–B13, refreshed on every change to the contract form. Without it the over-time conclusion is an assertion.
- ✓ **A revenue decision record per project.** Over-time or point-in-time, with the reasoning, signed at project launch — not reverse-engineered during the audit.
- ✓ **Escrow reconciliation at every close.** Escrow balance, certified construction progress and revenue recognised, reconciled monthly. Divergence between the three is the earliest warning available.
- ✓ **A locked cost allocation model.** Basis fixed at masterplan approval, changes requiring CFO sign-off and a written rationale.
- ✓ **An incentive register.** Every DLD waiver, furniture package, rental guarantee and service charge waiver logged at the point of sale and classified under IFRS 15.70–72 before it reaches the ledger.

THE RECONCILIATION THAT DOES THE WORK

Escrow released, construction certified and revenue recognised should move together within a narrow band. When revenue runs ahead of certified progress, either the cost model is wrong or the progress measure is. Both are fixable in the month they arise and expensive in the year they surface.

14 Three real-world examples

Two public cases and one anonymised pattern. Public cases are cited; the pattern is labelled.

PUBLIC

UAE developers' early adoption of IFRS 15 for off-plan sales

Sector: real estate development · Emaar, Aldar, Deyaar · DFM and ADX listed · 2015–2018

Several UAE developers adopted IFRS 15 ahead of the mandatory date specifically to recognise off-plan revenue over the construction period rather than on handover. Aldar stated it had begun reviewing the standard the previous November and was ready to early adopt; Emaar had already applied it. Moody's commented at the time that the change would help narrow the large gap sometimes observed between UAE developers' EBITDA and their operating cash flows, and anticipated that other developers would follow — particularly those for which the change would have a favourable effect on reported earnings.

An academic study of Dubai-listed real estate companies found that applying the standard increased reported net profit for 2015 by 58.44% for Emaar and 12.67% for Deyaar, with the largest transition adjustment representing around a quarter of the closing balance for Emaar. Damac had not adopted at that point.

Read-across: the same set of facts produced a 58% swing in one developer's reported profit purely from the timing conclusion. That is the size of the judgement — and it is why an auditor will not accept it without the underlying legal analysis.

SOURCES The National, "New Aldar Properties accounting method allows off-plan sales to appear earlier in results"; Construction Week Online reporting Moody's commentary on early adoption; Academy of Accounting and Financial Studies Journal, vol. 22 issue 1 (2018), "IFRS 15 Early Adoption and Accounting Information: Case of Real Estate Companies in Dubai".

PUBLIC

Union Properties PJSC, Dubai — fair value gain on unbuilt gross floor area

Sector: master development · DFM listed · 2015–2024

New management appointed in May 2017 initiated an investigation into accounting practices dating back to 2013, commissioning an external forensic review in August. It examined the validity of a AED 503 million fair value gain applied to unbuilt gross floor area on a plot in Motor City, recognised in the audited financial statements for the year ended 31 December 2015. The company booked provisions totalling AED 2.8 billion, producing a net loss of AED 2.3 billion for the quarter to 30 June 2017.

In October 2021 the UAE Attorney General opened an investigation following complaints from the Securities and Commodities Authority, with allegations including breaching accounting standards to conceal losses through a change in the classification of investments. Shareholders subsequently dismissed board members and rejected ratification of the auditors' report and the 2020 accounts. The company later reached a AED 620 million settlement with its former chairman and other former board members.

Read-across: the loss did not begin as a valuation error. It began as a classification decision about what the land was — and a fair value gain recognised on an asset that arguably should never have been carried at fair value at all.

SOURCES Gulf News, "UP suffers Dh2.3b loss due to accounting irregularity"; The National and Al Jazeera reporting on the UAE Attorney General investigation, October–November 2021; Union Properties PJSC Recovery Plan, April 2022; Gulf News reporting of the AED 620 million settlement.

PATTERN

Off-plan developer, Dubai — AED 900m launch on a seven-year post-handover plan

Sector: residential development · Anonymised composite from engagement experience

The developer launched at a headline price supported by a seven-year post-handover payment plan at nil stated interest, and recognised revenue over time at the undiscounted contract value. No significant financing component was identified. The incoming auditor discounted the post-handover instalments and required revenue to be restated downward, with the difference re-presented as finance income unwinding over seven years.

The reclassification did not change total profit over the life of the project. It moved roughly a tenth of it out of revenue and out of the operating result, below the EBITDA line the group's covenant was measured on.

Read-across: a significant financing component is not a technicality. It moves profit from the line lenders test to a line they do not.

15 Where Prantho fits

MOBILIZE

Revenue Recognition Position Review

Two weeks. Enforceable-right conclusion evidenced, financing components identified, escrow reconciled.

LAND

Finance Confidence Review

Three weeks, fixed fee. Whole-function health check with revenue and project accounting as focus areas.

EXPAND

90-Day Finance Reset

Rebuild the cost model, incentive register and escrow reconciliation; deliver audit-ready.

DEAL-DRIVEN

Value Creation Office

Pre-transaction normalisation of the earnings profile buyers will inevitably rebuild themselves.

SERVICE LINE	WHAT WE ACTUALLY DO ON THIS ISSUE
Technical advisory	Position paper on the over-time conclusion, financing components and incentive treatment, written to be handed to the auditor alongside the legal memorandum.
Implementation	Build the cost allocation model, incentive register, escrow reconciliation and contract cost amortisation schedule, and run them for the first two closes.
Review	Independent challenge of the cost-to-complete and cancellation assumptions ahead of year end.
CFO support	Board and lender reporting that separates escrow cash from available cash, and revenue from finance income.
ERP and data	Project accounting configured so unit, phase, cost pool and escrow release reconcile without manual intervention.
Internal audit	Testing over incentive capture at point of sale and over the integrity of the cost allocation basis.
Tax alignment	Cash-tax profiling of the recognition policy under UAE corporate tax before the policy is fixed.

Continuing coverage sits with **CFO's Back Office**, where the monthly escrow reconciliation, cost model roll-forward and revenue computation are run by the Prantho team as part of the standing close.

16 Proposal insert

Drop-in scope language — Issue 02: off-plan revenue recognition review

SITUATION	Off-plan revenue is recognised over time without documented legal support for the enforceable right to payment, and post-handover payment plans and sales incentives are recognised at headline value.
RISK CARRIED	Misstatement of every reporting period since first sale, restatement rather than adjustment, escrow cash presented as available liquidity, and corporate tax paid years ahead of realisation.
WHAT WE DO	Obtain and document the enforceable-right conclusion against IFRS 15.B9–B13; identify and measure significant financing components; reclassify incentives under IFRS 15.70–72; rebuild the phase cost allocation model; capitalise and amortise contract costs; reconcile escrow, certified progress and revenue; and quantify the restatement and covenant effect before anything is posted.
DELIVERABLES	Revenue recognition position paper · legal memorandum scope and brief · financing component schedule · incentive register · phase cost allocation model · escrow reconciliation pack · restated position with journal support · board paper.
DURATION	Three to five weeks depending on project count and record quality. Fixed fee.
WHAT YOU NEED TO GIVE US	Standard SPA and any variants, project registration and escrow account statements, construction certification, unit-level sales and collection ledgers, cost budgets by phase, broker agreements, and prior-year audited financial statements.
OUTCOME	A revenue policy you can defend line by line — to your auditor, your lender and your buyer.

Recognising off-plan revenue over time?

If the legal analysis behind that conclusion is not in your file, it is not yet a conclusion. The Prantho Finance Confidence Review starts there. info@pranthoglobal.com · www.pranthoglobal.com

This chapter is general technical guidance, not advice on any specific transaction or entity. Conclusions on individual contracts depend on their terms and governing law and should be taken with your advisers and auditor.

03 CLUSTER A · REVENUE & RECEIVABLES

Principal versus agent, bill-and-hold and multi-element arrangements

One conclusion decides whether a trading business reports AED 500 million of revenue or AED 40 million. Profit is identical either way. Everything else — scale, growth rate, margin percentage, covenant headroom, valuation multiple, and how a buyer reads the business — is not.

02 · INDUSTRIES AFFECTED — FREQUENCY RANK

Trading, distribution and re-export	1
IT resellers and systems integrators	2
Travel, ticketing and freight forwarding	3
E-commerce and marketplace platforms	4
Telecom, airtime and digital content	5
Energy and commodity intermediation	6

Ranking reflects observed incidence in engagement and review work, not sector size.

03 · GCC RELEVANCE

UAE · SAUDI

QATAR · OMAN

KUWAIT · BAHRAIN

Solid = high incidence and active regulator focus. **Tinted** = present but lower observed frequency.

LOCAL HOOKS

UAE — the re-export and free-zone trading model, where goods may never enter the entity's physical possession, makes the control test genuinely difficult; VAT treatment of agency and disbursement also diverges from the accounting answer and the two are frequently conflated. **KSA** — ZATCA e-invoicing exposes gross transaction flows that do not reconcile to reported revenue. **Region-wide** — family trading groups often operate as distributor and as agent for different principals under one legal entity, with a single revenue policy applied to both.

06 · GOVERNING STANDARDS

IFRS 15 · IFRS 15.B34 · IAS 2

IAS 1 · IFRS 8 · IAS 8

Core paragraphs: IFRS 15.B34–B38 with B34A and B35A (principal versus agent, the two-step framework and the control test); .22–30 (distinct goods and services); .73–86 (allocating the transaction price, including discounts and variable consideration); .B79–B82 (bill-and-hold); .33–34 (control indicators); .38 (transfer of control at a point in time). IAS 1.82(a) (revenue presentation) and IAS 8.14 (change in presentation basis).

JUDGEMENT RISK RATING

4 / 5 — High

Rated 4 rather than 5 because the conclusion does not change reported profit. It is rated high because the correction is highly visible — a restatement that removes 90% of reported revenue is the kind of change lenders, investors and the market notice immediately.

TYPICAL EBITDA SWING

EBITDA is unchanged. **Reported revenue can fall by 80 to 95%** on a correction from gross to net, and gross margin percentage rises correspondingly. Any covenant, earn-out or valuation multiple expressed on revenue is directly affected.

01 The issue, explained

A Dubai trading company sources goods from a manufacturer in Asia and sells them to a customer in Africa. The goods ship directly; the company never sees them. It invoices AED 500 million a year and keeps AED 40 million. Does it report AED 500 million of revenue and AED 460 million of cost, or AED 40 million of revenue and nothing else?

The answer under IFRS 15.B34 is not decided by who signed the customer, who issued the invoice, who carried the credit risk, or whose brand was on the paperwork. It is decided by a single question: did the entity **control** the specified good or service before it was transferred to the customer? If yes, it is a principal and reports gross. If it merely arranged for another party to provide it, it is an agent and reports its fee.

Total profit is the same on either answer. That is precisely why the issue gets neglected — and precisely why it is dangerous. Nothing in the management accounts looks wrong until an auditor, a lender or a buyer asks the question, at which point the top line the whole business has been described by disappears.

Exposure to credit risk is not an indicator of control. The IASB concluded it is largely irrelevant, because agents bear credit risk as routinely as principals do.

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04 Why it becomes complicated

The two-step framework, applied in the right order

IFRS 15.B34A requires the entity first to identify the specified good or service to be provided to the customer, and only then to assess whether it controls that specified item before transfer. Most flawed analyses fail at step one. The specified good may be the physical product, or it may be a right to a product supplied by another party — and where it is the latter, control of the underlying product by the supplier is not control by the intermediary. B35A addresses this directly for arrangements where another party is involved in providing goods or services, and it is the paragraph most relevant to IT resellers passing through third-party software licences.

The indicators are evidence, not a scorecard

IFRS 15.B37 offers three indicators that the entity controls the specified good or service before transfer: primary responsibility for fulfilling the promise and for the good or service meeting the customer's specification; inventory risk before or after transfer; and discretion in establishing the price. These support the control conclusion — they do not replace it, they are not exhaustive, and they are not weighted. Two out of three does not settle the question. Where the indicators point in different directions, the analysis must return to control itself.

> **THE THREE ARGUMENTS THAT DO NOT WORK**
>
> First, "we invoice the customer, so we are the principal" — billing flow is not control. Second, "we carry the credit risk" — explicitly not an indicator. Third, "the customer thinks they are buying from us" — brand visibility and customer relationship are commercial facts, not control. Every one of these appears in real accounting memos, and none of them survives challenge.

Drop-shipping and the free-zone re-export model

Where goods move directly from supplier to customer and the intermediary never takes physical possession, the analysis turns on whether it obtained control momentarily in transit — which depends on the Incoterms, title passage and, critically, on whether it had the ability to direct the use of the goods and obtain substantially all the remaining benefits. A back-to-back purchase and sale entered simultaneously, at a fixed spread, with no ability to redirect the shipment and no exposure to the goods if the customer walks away, has the economic character of agency however the contracts are drafted. Conversely, a trader holding genuine inventory risk on unsold stock in a free zone is a principal on that stock, regardless of how thin the margin is.

One legal entity, two roles

Regional trading groups commonly act as an exclusive distributor for one principal — buying, stocking and reselling on its own account — and as a commission agent for another, in the same company, in the same period, sometimes to the same customer. IFRS 15.B34 requires the assessment for each specified good or service. A single revenue accounting policy applied across both streams is wrong in one of them by construction.

Bill-and-hold has four conditions, and all four must hold

Customers in this region frequently ask for goods to be invoiced and held — for storage, for shipping consolidation, or at year end. IFRS 15.B81 permits revenue recognition only where the reason for the arrangement is substantive, the product is identified separately as belonging to the customer, it is ready for physical transfer, and the entity cannot use it or direct it to another customer. A request from the customer is not by itself a substantive reason, and goods sitting in the entity's general warehouse stock are not separately identified. This is the single most common cut-off error in a December year end.

Multi-element arrangements and where the discount lands

Where a contract bundles hardware, installation, licence, warranty and multi-year support, IFRS 15.22–30 determines which promises are distinct and .73–86 determines how the price is allocated. Allocation is on relative standalone selling price, and a discount is allocated proportionately across all obligations unless the entity has observable evidence that it relates entirely to specific ones (.81–.82). The common error is to allocate the whole discount to the component recognised last — which conveniently accelerates revenue — with no observable evidence to support it.

05 Business consequences

EXPOSURE	WHAT ACTUALLY HAPPENS
Audit opinion	Gross-versus-net is a presentation conclusion. Where it is wrong, the correction is a restatement of the income statement under IAS 8 with comparatives restated — not a current-period adjustment. The restated revenue line is what every subsequent reader sees.
Lenders and covenants	Facilities sized on turnover, and covenants expressed as a percentage of revenue, are directly affected. A borrowing base geared to sales collapses when revenue is restated to net, even though the underlying business is unchanged.
Valuation and earn-outs	Revenue multiples, growth narratives and earn-outs measured on turnover are all built on the gross figure. A diligence adjustment to net does not reduce profit, but it removes the story the price was negotiated against.
Margin analysis	Gross presentation produces a 2% margin business; net presentation on the same facts produces a 100% margin business. Every ratio, benchmark and peer comparison the board reviews is affected by a conclusion no one has documented.
UAE corporate tax	Taxable profit is unchanged, but revenue-based thresholds are not. Small Business Relief eligibility, transfer pricing documentation thresholds and free-zone qualifying income analysis all reference revenue, and a restated top line moves the entity across those lines.
VAT and e-invoicing	The VAT treatment of agency and disbursement is a separate legal test from the IFRS control test. They frequently give different answers. Reconciling reported revenue to VAT returns and to e-invoicing data is now routine for regulators, and an unexplained gap invites a question.

06 Relevant IFRS

STANDARD	PARAGRAPHS	WHAT IT GOVERNS HERE
IFRS 15	B34, B34A	The requirement to assess per specified good or service, and the two-step framework.
IFRS 15	B35, B35A, B36	Gross presentation as principal; net presentation as agent; arrangements where another party is involved.
IFRS 15	B37	Indicators of control: primary responsibility, inventory risk, price discretion.
IFRS 15	B37A	Confirmation that the indicators support, and do not override, the control assessment.
IFRS 15	31–34, 38	Transfer of control, and the indicators of control at a point in time.
IFRS 15	22–30	Identifying distinct performance obligations in a bundled arrangement.
IFRS 15	73–80	Allocating the transaction price on relative standalone selling price.
IFRS 15	81–82	Allocating a discount — proportionately, unless observable evidence says otherwise.
IFRS 15	83–86	Allocating variable consideration to a specific obligation or distinct good.
IFRS 15	B79–B82	Bill-and-hold arrangements and the four conditions.
IFRS 15	119, 123	Disclosure of performance obligations and the judgements applied.
IAS 2	6, 9	Whether the entity holds inventory at all — a direct input to the inventory-risk indicator.
IAS 1	82(a), 41	Presentation of revenue, and disclosure where comparatives are reclassified.
IAS 8	14, 19–27	Whether a change to net presentation is a correction of an error requiring restatement.

07 Step-by-step IFRS treatment

01 Map the revenue streams before touching the standard

List every distinct revenue stream by counterparty type and contract form. A single entity commonly has three or four with different answers. Applying one conclusion across all of them is the most common failure and the easiest to avoid.

02 Identify the specified good or service — per promise

For each stream, state precisely what the customer has contracted to receive. Where the customer receives a right to a good or service that another party will provide, say so explicitly; that framing usually determines the answer.

03 Test control directly

Ask whether the entity could have directed the use of the specified good or service, and obtained substantially all its remaining benefits, at any point before transfer to the customer. Answer this before looking at the indicators.

04 Use the B37 indicators as corroboration

Assess primary responsibility for fulfilment and specification, inventory risk before and after transfer, and pricing discretion. Record where they point and how any conflict was resolved. Do not count them.

05 Exclude the arguments that are not evidence

Credit risk, invoicing flow, contractual naming, brand visibility and customer perception are not inputs to the control conclusion. Where they appear in the memo, remove them.

06 Apply the conclusion to presentation, and check the comparatives

Principal: revenue gross and cost of sales gross. Agent: revenue equal to the fee or commission, with no cost of sales for the underlying good. If this differs from prior periods, determine under IAS 8 whether it is an error requiring restatement.

07 Separate bundled contracts into distinct obligations

Assess each promise against IFRS 15.27 — capable of being distinct, and distinct within the context of the contract. Hardware, installation, licence, warranty and support are frequently distinct; a significant integration service can make them a single obligation.

08 Allocate on standalone selling price and allocate the discount properly

Establish observable standalone prices where they exist and estimate them where they do not. Allocate any discount proportionately unless there is observable evidence it relates entirely to specific obligations, and document that evidence.

09 Test every bill-and-hold arrangement against all four conditions

Substantive reason, separately identified, ready for transfer, and not available to another customer. All four, evidenced, per arrangement. Where any fails, revenue is deferred.

10 Reconcile revenue to VAT and e-invoicing data

Run the reconciliation as a standing control. The accounting and indirect-tax answers may legitimately differ, but the difference must be explainable on demand rather than discovered under audit.

08 Journal entries

WORKED ILLUSTRATION — MERIDIAN TRADING FZE, THREE REVENUE STREAMS

INPUT	AED
Gross invoiced value to customers — Stream A (back-to-back re-export)	500,000,000
Cost of goods paid to supplier — Stream A	460,000,000
Net spread retained — Stream A	**40,000,000**
Gross invoiced value — Stream B (own-stock distribution)	180,000,000
Cost of goods sold from own inventory — Stream B	150,000,000
Bundled systems contract — total price (Stream C)	24,000,000
Standalone selling prices: hardware 14.0 / installation 3.0 / licence 6.0 / support 5.0	28,000,000
Discount to be allocated proportionately (24.0 vs 28.0)	**(4,000,000)**

ENTRY 1 — STREAM A RECOGNISED NET: NO CONTROL OF THE SPECIFIED GOODS BEFORE TRANSFER

ACCOUNT	DEBIT	CREDIT
Trade receivables	500,000,000	—
Trade payables — supplier	—	460,000,000
Revenue — agency and arrangement fees	—	40,000,000
Gross flows pass through the balance sheet; only the spread reaches revenue	**500,000,000**	**500,000,000**

ENTRY 2 — WHAT WAS PREVIOUSLY POSTED, AND THE CORRECTION REQUIRED

ACCOUNT	DEBIT	CREDIT
Revenue from contracts with customers	460,000,000	—
Cost of sales	—	460,000,000
Reversal of gross presentation. Profit unchanged; revenue falls 92%	**460,000,000**	**460,000,000**

ENTRY 3 — STREAM B RECOGNISED GROSS: INVENTORY RISK AND CONTROL ESTABLISHED

ACCOUNT	DEBIT	CREDIT
Trade receivables	180,000,000	—
Revenue from contracts with customers	—	180,000,000
Cost of sales	150,000,000	—
Inventories	—	150,000,000

ENTRY 4 — STREAM C ALLOCATED ON RELATIVE STANDALONE SELLING PRICE (IFRS 15.76, .81)

ACCOUNT	DEBIT	CREDIT
Revenue — hardware (14.0 / 28.0 × 24.0)	—	12,000,000
Revenue — installation (3.0 / 28.0 × 24.0)	—	2,571,429
Revenue — software licence (6.0 / 28.0 × 24.0)	—	5,142,857
Contract liability — support, recognised over 3 years	—	4,285,714
Trade receivables	24,000,000	—
Discount allocated proportionately across all four obligations	**24,000,000**	**24,000,000**

ENTRY 5 — BILL-AND-HOLD FAILING IFRS 15.B81: REVENUE DEFERRED AT YEAR END

ACCOUNT	DEBIT	CREDIT
Revenue from contracts with customers	9,400,000	—
Contract liability — goods invoiced not transferred	—	9,400,000
Inventories	7,900,000	—
Cost of sales	—	7,900,000
Goods held in general warehouse stock, not separately identified	**17,300,000**	**17,300,000**

Note the shape of Entry 2. The correction removes AED 460 million of revenue and AED 460 million of cost. Not one dirham of profit changes — which is why the issue survives undetected until someone reads the accounting policy rather than the bottom line.

09 Financial statement impact

STATEMENT	LINE AFFECTED	DIRECTION AND CONSEQUENCE
Balance sheet	Receivables, payables, inventories, contract liabilities	Largely unchanged on the gross-to-net correction: the receivable and payable still exist. Bill-and-hold reversal moves AED 7.9m back into inventories and creates a AED 9.4m contract liability.
Profit & loss	Revenue; cost of sales	Revenue falls from AED 680m to AED 220m across streams A and B combined. Cost of sales falls by the same AED 460m. Gross profit is unchanged; gross margin percentage rises from around 10% to over 31%.
Cash flow	Operating	Entirely unchanged. This is why cash-based analysis never surfaces the issue and why it can persist across many reporting periods.
Covenants and facilities	Turnover-based tests; borrowing base	A facility sized against sales, or a covenant expressed as a percentage of revenue, is immediately affected. Model the restated position and approach the lender before the accounts are signed.
Segment reporting	IFRS 8 measures	Where segments are reported on revenue, the restatement redraws the relative size of the segments and may change which of them are reportable.
Tax thresholds	Revenue-linked eligibility	Small Business Relief, transfer pricing documentation thresholds and free-zone qualifying income tests all reference revenue rather than profit. A restated top line can change the answer to each.

10 Disclosure requirements

THE DISCLOSURE THAT GETS TESTED FIRST

A reader who wants to know whether a trading business is really the size it claims goes straight to the principal-versus-agent judgement in the accounting policies. A note saying only that management assesses whether it controls goods before transfer tells the reader nothing — and tells the auditor no assessment was performed.

REFERENCE	WHAT THE NOTES MUST CONTAIN
IFRS 15.123	The judgements made in determining whether the entity is a principal or an agent, per revenue stream. A single sentence covering all streams is not compliant where the streams reach different conclusions.
IFRS 15.119	The nature of the goods or services promised, and whether the entity is acting as principal or agent for each.
IFRS 15.114–115	Disaggregation of revenue — which, done properly, makes the gross and net streams separately visible.
IFRS 15.124–125	Methods, inputs and assumptions used to determine standalone selling prices and to allocate the transaction price.
IFRS 15.116–118	Contract liability balances and movements, including amounts deferred on bill-and-hold arrangements.
IAS 8.49	Where the change is a correction of a prior-period error: the nature of the error and the amount of the correction for each line item affected, and where comparatives are merely reclassified, the IAS 1.41 disclosure.

11 / 12 What the auditor finds · what management got wrong

Common audit observations

- × A single revenue policy applied across streams with materially different contractual arrangements.
- × Gross presentation supported by credit risk, invoicing flow or brand — none of which are indicators of control.
- × No documented identification of the specified good or service, so step one of B34A was never performed.
- × Back-to-back purchase and sale contracts executed on the same day at a fixed spread, presented gross.
- × Bill-and-hold revenue at year end with goods held in general warehouse stock.
- × Contract discount allocated entirely to the obligation recognised last, with no observable evidence.
- × Standalone selling prices asserted rather than estimated, with no method disclosed.
- × Reported revenue not reconciled to VAT returns or e-invoicing submissions.

Common management mistakes

- × Choosing gross presentation because it makes the business look larger, then reverse-engineering support.
- × Assuming that taking title, however briefly, settles the control question. It does not on its own.
- × Treating the B37 indicators as a majority vote.
- × Accepting a customer request to invoice early as the substantive reason required by B81.
- × Bundling hardware, licence and multi-year support into a single line and recognising it all on delivery.
- × Failing to tell the lender before restating a turnover-based covenant.
- × Assuming the VAT agency conclusion and the IFRS control conclusion must agree.
- × Presenting an earn-out or valuation to a buyer on a revenue figure that has never been tested.

13 Can it be prevented?

Yes, and cheaply — because the conclusion is stable. Once documented properly, it changes only when the contracting model changes.

- ✓ **A revenue stream register.** Every stream listed with its contract form, counterparty type, principal-or-agent conclusion and the date of the assessment. One page, reviewed annually.
- ✓ **A control memorandum per stream.** Specified good identified, control tested, B37 indicators recorded, conflicts resolved. Refreshed on any change to the contracting model, and accompanied by a standalone selling price file for bundled contracts.
- ✓ **New-contract triage at onboarding.** Any new supply arrangement, agency appointment or distribution agreement is assessed before the first invoice, not after year end.
- ✓ **A bill-and-hold checklist at cut-off.** Four conditions, evidenced per arrangement, signed at every period end. This alone removes the most common December error.
- ✓ **A standing revenue-to-VAT reconciliation.** Run monthly, with differences explained on the face of the reconciliation.

> **WHERE THE CONTROL ACTUALLY SITS**
>
> This is not caught by finance reading the standard again. It is caught at commercial onboarding — the only point at which anyone reads the contract closely enough to see whether the entity ever controls anything. Put the trigger there.

14 Three real-world examples

No verifiable public GCC case exists in the public record for this issue at mid-market scale — the correction is usually made privately, before or during diligence. All three cases below are therefore anonymised composites and are labelled PATTERN. They are not presented as named cases.

PATTERN **Commodity re-exporter, Jebel Ali — AED 500m top line, AED 40m of it real**

Sector: trading and re-export · Anonymised composite from engagement experience

The group reported half a billion dirhams of revenue on a back-to-back model: purchase and sale contracts executed the same day at a fixed spread, goods shipped directly from an Asian supplier to an African customer, never entering a warehouse the group controlled. The accounting memo supporting gross presentation cited three grounds — the group invoiced the customer, carried the credit risk, and was contractually named as seller.

None of those is an indicator of control. On reassessment the group could not have redirected a shipment, held no inventory risk at any point, and had no pricing discretion beyond the agreed spread. Revenue was restated to the spread. The top line fell 92%; profit did not move at all.

Read-across: the memo was not absent. It was confidently wrong, built entirely on factors the standard explicitly excludes. An auditor reading it saw the error faster than one finding no memo at all.

PATTERN **IT systems integrator, Riyadh — third-party licences passed through at gross**

Sector: technology reselling and integration · Anonymised composite from engagement experience

Roughly 70% of reported revenue was third-party software licences resold to enterprise clients. The vendor delivered the licence directly to the end customer, set the licence terms, and controlled support and renewal. The integrator negotiated the deal, invoiced it, and retained a margin.

Applying IFRS 15.B35A, the specified good was a right to software provided by another party. The integrator never controlled that right. Licence revenue moved to net; the genuine integration and managed services work — where it did control the service and bore delivery risk — remained gross. Reported revenue fell by around 60%, and reported gross margin rose from 18% to over 40%.

Read-across: the same entity was an agent on one promise and a principal on another, in the same contract. B34 requires the assessment per specified good or service, and a single policy could not produce the right answer for both.

PATTERN **Building materials distributor, Abu Dhabi — year-end bill-and-hold**

Sector: distribution · Anonymised composite from engagement experience

In the last week of December the distributor invoiced AED 9.4m of goods to two long-standing customers who asked for delivery to be deferred into January for their own site reasons. The goods remained in the distributor's general warehouse, in unsegregated stock, and were physically indistinguishable from inventory available to any other customer.

Two of the four IFRS 15.B81 conditions failed: the goods were not identified separately as belonging to the customer, and the distributor could have directed them elsewhere. Revenue was deferred to a contract liability and the goods returned to inventory. The reversal turned a modest reported growth figure into a small decline in the final quarter.

Read-across: the customers' request was genuine and commercially sensible. It was still not a substantive reason of the kind B81 requires, and no amount of goodwill on either side changed the accounting.

15 Where Prantho fits

MOBILIZE

Revenue Presentation Diagnostic

Ten days. Every stream mapped, control tested, gross-or-net conclusion evidenced per stream.

LAND

Finance Confidence Review

Three weeks, fixed fee. Whole-function health check with revenue presentation as a focus area.

EXPAND

90-Day Finance Reset

Restate, build the stream register and SSP file, embed onboarding triage and cut-off controls.

DEAL-DRIVEN

Value Creation Office

Pre-transaction testing of the revenue figure a buyer will price the business on.

SERVICE LINE	WHAT WE ACTUALLY DO ON THIS ISSUE
Technical advisory	Control memorandum per revenue stream, written to withstand auditor and diligence challenge, with the B37 indicator analysis set out in full.
Implementation	Build the revenue stream register, standalone selling price file, bill-and-hold checklist and revenue-to-VAT reconciliation.
Review	Independent reassessment when the contracting model changes — new principals, new agency appointments, new territories.
CFO support	Lender and shareholder communication where a restatement moves a turnover-based covenant or an agreed earn-out.
ERP and data	Revenue streams configured as distinct posting flows so gross and net cannot be commingled in the ledger.
Internal audit	Cut-off testing over bill-and-hold and testing of onboarding triage on new contracts.
Tax alignment	Assessment of the restated revenue against UAE corporate tax revenue thresholds and free-zone qualifying income tests, and reconciliation to VAT.

Continuing coverage sits with **CFO's Back Office**, where new contracts are triaged on onboarding and the revenue-to-VAT reconciliation runs as part of the standing close.

16 Proposal insert

Drop-in scope language — Issue 03: revenue presentation review

SITUATION	Revenue is presented gross across all streams on a single policy, without a documented assessment of whether the entity controls the specified goods or services before transfer.
RISK CARRIED	Restatement of the income statement with comparatives, collapse of turnover-based covenants and borrowing base, an earn-out or valuation negotiated on an untested figure, and an unexplained gap between reported revenue and VAT or e-invoicing data.
WHAT WE DO	Map every revenue stream; identify the specified good or service per promise; test control directly and corroborate with the IFRS 15.B37 indicators; separate bundled contracts into distinct obligations and allocate on standalone selling price; test every bill-and-hold arrangement against the four B81 conditions; determine under IAS 8 whether a change is an error requiring restatement; and quantify the covenant and threshold effect before anything is posted.
DELIVERABLES	Revenue stream register · control memorandum per stream · standalone selling price file · bill-and-hold checklist · revenue-to-VAT reconciliation · restated presentation with journal support · covenant and tax threshold impact analysis · board paper.
DURATION	Two to three weeks depending on the number of streams. Fixed fee.
WHAT YOU NEED TO GIVE US	Supply, distribution and agency agreements, a sample of customer contracts per stream, Incoterms and title passage terms, inventory records, bundled contract pricing, VAT returns, and facility agreements with covenant definitions.
OUTCOME	A top line you can defend — and know the size of — before a lender, an auditor or a buyer tests it for you.

Confident your revenue is really your revenue?

If the principal-versus-agent conclusion is not documented per stream, the top line has not yet been tested.
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This chapter is general technical guidance, not advice on any specific transaction or entity. Conclusions depend on the terms of individual contracts and should be taken with your advisers and auditor.

04 CLUSTER A · REVENUE & RECEIVABLES

Expected credit losses on receivables, contract assets and retentions

IFRS 9 requires a loss allowance on every trade receivable and every contract asset from the day it is recognised — with no trigger, no default, and no dispute required. In a region where the debtor is often a government entity paying on a two-year cycle, or a company under the same ownership as the creditor, the standard model produces answers management does not like and cannot ignore.

02 · INDUSTRIES AFFECTED — FREQUENCY RANK

	Rank
Construction and contracting	1
Trading and distribution	2
Healthcare (insurance and payer receivables)	3
Facilities management and services	4
Education (fee receivables)	5
Logistics and freight	6

Ranking reflects observed incidence in engagement and review work, not sector size.

03 · GCC RELEVANCE

UAE · SAUDI · QATAR · OMAN · KUWAIT · BAHRAIN

Solid = high incidence and active regulator focus. **Tinted** = present but lower observed frequency.

LOCAL HOOKS

UAE — VAT bad debt relief and the corporate tax deduction each follow their own rules and timing, so one number cannot serve all three. **KSA** — extended certification cycles on Vision 2030 programmes stretch the expected life over which lifetime ECL is measured. **Oman and Qatar** — concentrated government exposure where default risk is low but timing risk is severe. **Region-wide** — related-party balances carry no exemption from the model.

06 · GOVERNING STANDARDS

IFRS 9 · IFRS 7 · IFRS 15 · IAS 1 · IFRS 13 · IAS 24

Core paragraphs: IFRS 9.5.5.1 and 5.5.3 (general model); 5.5.15 (simplified approach — mandatory for trade receivables without a financing component, and available for contract assets); 5.5.17–5.5.20 (probability-weighted, time value, forward-looking information); B5.5.35 (provision matrix); 5.4.4 (write-off). IFRS 7.35A–35N (credit risk disclosure).

JUDGEMENT RISK RATING

4 / 5 — High

Rated 4 because the exposure is usually an under-provision rather than a wholesale misstatement. It is rated high because it is among the most frequently qualified balances in GCC audits — section 14 sets out a listed case qualified on exactly this point.

TYPICAL EBITDA SWING

An under-provided book typically needs a correction of **3 to 10% of the gross balance** — on a contracting or trading balance sheet, frequently more than a full year of reported profit.

01 The issue, explained

A contractor is owed AED 90 million. None of it is disputed. The client is a government-related entity with an unblemished payment record, and everyone involved expects to be paid in full. How much of that AED 90 million must be provided against at the reporting date?

Under the old incurred-loss model the answer was nothing, because nothing had gone wrong. IFRS 9 replaced that with an expected-loss model. A loss allowance is recognised on initial recognition and at every reporting date thereafter, measured as the probability-weighted present value of cash shortfalls over the life of the instrument. There is no trigger. Confidence in the counterparty reduces the number; it does not remove it.

For trade receivables without a significant financing component, IFRS 9.5.5.15 makes the simplified lifetime-ECL approach mandatory — there is no stage assessment and no policy choice. The same approach may be elected for contract assets. Most GCC mid-market entities have adopted a provision matrix and stopped there, which is where the problems begin.

A provision matrix built once at transition, populated with historical loss rates and never updated for forward-looking information, is not an IFRS 9 model. It is an ageing schedule with percentages on it.

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04 Why it becomes complicated

The matrix is a practical expedient, not a substitute for the model

IFRS 9.B5.5.35 permits a provision matrix as a practical way to measure lifetime ECL. It does not relax the measurement requirements in 5.5.17: the allowance must be an unbiased, probability-weighted amount, must reflect the time value of money, and must incorporate reasonable and supportable information about past events, current conditions and forecast future economic conditions. A matrix that applies historical loss rates with no forward-looking adjustment fails the third limb. Where the entity has no meaningful loss history — common in mid-market GCC firms whose bad debts have historically been written off years late, if at all — the historical rates are not a reasonable starting point either.

Government counterparties: low default risk, long horizon

This is the judgement regional auditors challenge most. The probability that a government or quasi-government entity ultimately fails to pay is genuinely low, and a low PD is a defensible input. But ECL is a present-value measure. Where the expected life to collection is two or three years, discounting alone produces a material allowance even at a very low default probability, and IFRS 9.5.5.17(b) requires it. The common practice of applying a nil or near-nil rate to government exposure conflates the probability of loss with the time value of money and discards the second entirely.

> **SEGMENTING THE MATRIX IS WHERE MOST OF THE ACCURACY COMES FROM**
>
> A single blended loss rate applied across a book containing federal government, semi-government, listed private, SME private and related-party debtors is not a model — it is an average of incompatible populations. Segment by counterparty type first, then by ageing within each segment. The rate for a ministry and the rate for a private sub-developer should never be the same number.

Retentions are a separate instrument with a longer life

Retention receivable is typically 5 to 10% of contract value, released after a defects liability period that may run twelve or twenty-four months beyond practical completion. Its expected life is therefore materially longer than the trade receivable it sits alongside, and its ECL must be measured over that longer life and discounted over it. Bundling retentions into the general receivables ageing understates the allowance systematically, and the understatement compounds with the length of the defects period.

Related-party balances are inside the model, not outside it

There is no exemption. A receivable from a fellow subsidiary or from an entity under common family ownership is a financial asset within the scope of IFRS 9 impairment. Two features make these balances harder, not easier: they are frequently non-interest-bearing and repayable on demand, which raises the question of whether they carry a significant financing component at all; and the expected cash flows depend on the ability of the related entity to pay, which the reporting entity is usually better placed to assess than any external debtor. Where the group has no realistic intention of demanding repayment, the accounting question is whether the balance is a receivable at all or an equity contribution.

Contract assets are routinely missed entirely

IFRS 15.107 and IFRS 9.5.5.15 together are unambiguous: contract assets are within the scope of the impairment requirements and the simplified approach is available for them. In practice the ECL model is built over the trade receivables ledger and the contract asset — often the larger balance in a contracting business — receives no allowance at all. This is one of the most frequent presentation failures we see and one of the easiest for an auditor to identify.

Write-off is a derecognition event, not a provisioning decision

IFRS 9.5.4.4 requires the gross carrying amount to be written off when there is no reasonable expectation of recovery. Entities carry fully provided balances gross for years because legal recovery action is technically still open, or because writing off requires a board resolution nobody wants to table. The result is a receivables note showing a gross book and an allowance that are both materially overstated, and an ageing profile that misrepresents the real credit quality of the current book.

05 Business consequences

EXPOSURE	WHAT ACTUALLY HAPPENS
Audit opinion	Where management declines to increase the allowance to the level the evidence supports, the auditor qualifies. This is not hypothetical in this region — section 14 sets out a UAE-listed case where the qualification was on precisely this point and quantified the shortfall to the dirham.
Lenders	Invoice discounting and receivables-backed facilities are sized on eligible receivables. Increasing the allowance reduces the borrowing base at the same moment the covenant tightens. Both move against the borrower simultaneously.
UAE corporate tax	The accounting allowance and the tax deduction are not the same number and do not arise in the same period. A general expected-loss provision and a specific write-off are treated differently, so the deferred tax position has to be tracked rather than assumed to net to nil.
VAT	Bad debt relief has its own statutory conditions and timing. An IFRS 9 allowance does not create a VAT entitlement, and entities that assume it does end up with a VAT position that cannot be supported on review.
Investors and buyers	Quality-of-earnings work rebuilds the ECL model as standard. An under-provided book is treated as a debt-like item and deducted from equity value, not spread over future periods.
Going concern	Where receivables are the largest asset and the allowance is materially understated, the correction can move the entity into a net liability position — which is where an impairment question becomes a going concern question.

06 Relevant IFRS

STANDARD	PARAGRAPHS	WHAT IT GOVERNS HERE
IFRS 9	5.5.1, 5.5.3	The general model: 12-month and lifetime expected credit losses.
IFRS 9	5.5.15	The simplified approach — mandatory for trade receivables without a financing component; elective for contract assets and lease receivables.
IFRS 9	5.5.17	Measurement: unbiased and probability-weighted, time value of money, and forward-looking information.
IFRS 9	5.5.11, B5.5.17	Significant increase in credit risk, and the 30-day and 90-day rebuttable presumptions.
IFRS 9	B5.5.35	The provision matrix as a practical expedient, and the requirement to segment appropriately.
IFRS 9	5.4.4	Write-off when there is no reasonable expectation of recovery.
IFRS 9	5.5.12, B5.5.25–27	Modified and renegotiated receivables.
IFRS 9	Appendix A	Definition of credit-impaired, and of default.
IFRS 15	107–108	Contract asset recognition — and its consequent inclusion in the impairment model.
IFRS 7	35F–35G	Inputs, assumptions and estimation techniques used to measure ECL.
IFRS 7	35H–35I	Reconciliation of the loss allowance from opening to closing balance.
IFRS 7	35K–35N	Credit risk exposure, concentrations and collateral.
IAS 24	18–19	Related party receivables, and disclosure of the allowance recognised against them.
IAS 1	125	Estimation uncertainty — the ECL allowance is almost always a required disclosure here.

07 Step-by-step IFRS treatment

01 Define the population, including what is usually left out

Trade receivables, retention receivables, contract assets, accrued income, related-party receivables and any financial guarantee given. Contract assets and retentions are the two most commonly omitted, and are often the largest.

02 Segment before you measure

Split the book by counterparty type — federal or emirate government, quasi-government, listed corporate, private corporate, SME, related party, retail — and by geography and product where credit behaviour differs. The segmentation is the model.

03 Establish expected life per segment

Not contractual ageing: expected time to collection. Retentions run to the end of the defects liability period; government certification cycles may extend expected life well beyond twelve months. This drives the discounting and, for many segments, most of the allowance.

04 Build historical loss rates, then challenge them

Derive rates from actual write-offs and settlement discounts over a period long enough to be meaningful. Where the entity has written off nothing in five years, that is not evidence of a nil loss rate — it is evidence that write-off policy has not been applied.

05 Apply forward-looking adjustments explicitly

Adjust historical rates for reasonable and supportable forecasts — sector outlook, oil price where relevant, government payment behaviour, customer concentration. Document the adjustment and its basis separately from the historical rate so both can be tested.

06 Discount

Apply the effective interest rate, or an approximation of it, over the expected life per segment. For a government segment with a two-year expected life, discounting alone may produce most of the allowance — and omitting it is the single most common technical error in this area.

07 Assess related-party balances on their own terms

Determine whether each balance is genuinely repayable, whether it carries a financing component, and whether the related entity has the capacity to settle. Where repayment is not expected, consider whether the balance is in substance a capital contribution rather than a receivable.

08 Identify credit-impaired balances individually

Balances in dispute, in litigation, or with counterparties in financial difficulty are assessed individually, not through the matrix. Rebut the 90-day presumption only with evidence, and document the rebuttal.

09 Apply the write-off policy

Derecognise gross carrying amounts where there is no reasonable expectation of recovery, whether or not enforcement activity continues. Disclose the contractual amount still subject to enforcement.

10 Reconcile, disclose and roll forward

Produce the IFRS 7.35H allowance reconciliation, the concentration analysis, and the assumptions note. Roll the model forward each period rather than rebuilding it, so movements can be explained.

08

Journal entries

WORKED ILLUSTRATION — MERIDIAN CONTRACTING LLC, SEGMENTED PROVISION MATRIX

SEGMENT	GROSS (AED)	EXPECTED LIFE	LOSS RATE	ALLOWANCE (AED)
Federal and emirate government	38,000,000	24 months	2.8%	1,064,000
Quasi-government and PJSC	22,000,000	14 months	3.6%	792,000
Private corporate — main contractors	19,000,000	9 months	7.5%	1,425,000
Private SME and sub-developers	6,500,000	11 months	18.0%	1,170,000
Related parties (common ownership)	9,000,000	indefinite	12.0%	1,080,000
Trade receivables — total	**94,500,000**	—	—	**5,531,000**
Contract assets (previously unprovided)	31,000,000	13 months	4.4%	1,364,000
Retention receivables (previously in general ageing)	14,000,000	26 months	9.2%	1,288,000
Total loss allowance required	**139,500,000**	—	—	**8,183,000**

ENTRY 1 — INCREASE THE ALLOWANCE ON TRADE RECEIVABLES TO THE SEGMENTED MODEL

ACCOUNT	DEBIT	CREDIT
Impairment loss on trade receivables	2,231,000	—
Loss allowance — trade receivables	—	2,231,000
Required AED 5,531,000 less allowance already carried of AED 3,300,000	**2,231,000**	**2,231,000**

ENTRY 2 — RECOGNISE AN ALLOWANCE ON CONTRACT ASSETS FOR THE FIRST TIME (IFRS 9.5.5.15)

ACCOUNT	DEBIT	CREDIT
Impairment loss on contract assets	1,364,000	—
Loss allowance — contract assets	—	1,364,000
No allowance had previously been carried against this balance	**1,364,000**	**1,364,000**

ENTRY 3 — SEPARATE RETENTIONS AND MEASURE OVER THE DEFECTS LIABILITY PERIOD

ACCOUNT	DEBIT	CREDIT
Retention receivables	14,000,000	—
Trade receivables	—	14,000,000
Impairment loss on retention receivables	1,288,000	—
Loss allowance — retention receivables	—	1,288,000
Expected life 26 months rather than the 9 months assumed in the general ageing	**15,288,000**	**15,288,000**

ENTRY 4 — INDIVIDUALLY CREDIT-IMPAIRED BALANCE ASSESSED OUTSIDE THE MATRIX

ACCOUNT	DEBIT	CREDIT
Impairment loss on trade receivables	2,600,000	—
Loss allowance — trade receivables	—	2,600,000
Counterparty in liquidation; recovery estimated at 35% of AED 4,000,000	**2,600,000**	**2,600,000**

ENTRY 5 — WRITE OFF A BALANCE WITH NO REASONABLE EXPECTATION OF RECOVERY (IFRS 9.5.4.4)

ACCOUNT	DEBIT	CREDIT
Loss allowance — trade receivables	3,100,000	—
Trade receivables — gross	—	3,100,000
Fully provided since 2022; enforcement continues and is disclosed	**3,100,000**	**3,100,000**

Entry 5 has no effect on profit and no effect on net assets. It matters because leaving fully provided balances in the gross book distorts the ageing profile, the loss rates derived from it, and every ratio a lender computes from the receivables note.

09 Financial statement impact

STATEMENT	LINE AFFECTED	DIRECTION AND CONSEQUENCE
Balance sheet	Trade receivables; contract assets; retention receivables	Net receivables fall by AED 7.48m across Entries 1 to 4. Retentions are separately presented at AED 14.0m gross. Entry 5 reduces gross receivables and the allowance equally, with no net effect.
Profit & loss	Impairment losses on financial assets	Charge of AED 7.483m in the period of correction, presented as a separate line under IAS 1.82(ba) rather than buried in administrative expenses.
EBITDA	Operating result	Fully within EBITDA. Where receivables are the largest asset on the balance sheet, a first-time proper ECL model frequently produces a charge larger than the year's reported profit.
Cash flow	Operating — working capital	No cash effect. Profit falls and the working-capital movement offsets it. Operating cash flow is unchanged, which is again the point to put in front of the board.
Lending	Borrowing base; covenants	Eligible receivables fall and net debt / EBITDA deteriorates simultaneously. Model both before the entry is posted.
Tax	Current and deferred	The corporate tax deduction and the VAT bad debt relief both follow their own rules and their own timing. Track the deferred tax rather than assuming the provision is deductible when recognised.

10 Disclosure requirements

THE TWO LINES AN AUDITOR LOOKS FOR FIRST

Whether contract assets carry an allowance at all, and whether the government segment rate is nil. A nil rate on a two-year expected life ignores the time value of money IFRS 9.5.5.17(b) requires — and it is visible from the face of the matrix without any testing.

REFERENCE	WHAT THE NOTES MUST CONTAIN
IFRS 7.35F–35G	Inputs, assumptions and estimation techniques — how segments were determined, how expected life was estimated, and what forward-looking information was used. This is the disclosure that reveals whether a model exists. IFRS 7.35L also requires the contractual amount still subject to enforcement on assets written off in the period.
IFRS 7.35H–35I	Reconciliation of the loss allowance from opening to closing balance, showing charges, write-offs and recoveries separately.
IFRS 7.35M	The provision matrix itself — gross carrying amount and loss rate by segment and ageing band.
IFRS 7.35K, B8–B10	Credit risk concentration, including exposure by counterparty type and to individually significant debtors.
IFRS 15.116–118	Contract asset balances and movements — which must reconcile to the impairment note, not sit apart from it.
IAS 24.18–19	Related party receivables, and the allowance recognised against them, disclosed by category of related party.
IAS 1.125	Estimation uncertainty, with sensitivity to the key assumptions where practicable — a one percentage point change in the government segment rate is a useful and testable disclosure.

11 / 12 What the auditor finds · what management got wrong

Common audit observations

- × Contract assets carrying no loss allowance despite IFRS 9.5.5.15 applying to them.
- × A single blended loss rate applied across government, corporate, SME and related-party debtors.
- × A nil or near-nil rate on government exposure with an expected life measured in years.
- × No forward-looking adjustment, and no documented basis for the historical rates used.
- × Retention receivables aged and provided as though they were ordinary trade debt.
- × Balances fully provided for several years still carried gross with no write-off.
- × Related-party receivables excluded from the model on the basis that the group controls both sides.
- × The matrix built once at IFRS 9 transition and rolled forward without reassessment.

Common management mistakes

- × Treating an expected-loss model as though it were the old incurred-loss model with extra steps.
- × Arguing that a strong payment history justifies a nil allowance — history is an input, not the answer.
- × Confusing the probability of default with the time value of money and dropping the second.
- × Assuming the accounting provision, the corporate tax deduction and VAT bad debt relief are one number.
- × Refusing to write off recoverable-in-theory balances because it looks like an admission.
- × Setting the allowance to the number the covenant can absorb and reverse-engineering the rates.
- × Leaving the model with a junior preparer and never having it independently challenged.
- × Discovering the shortfall when the auditor quantifies it rather than at the half year.

13 Can it be prevented?

Yes — the model is built once properly and then maintained. The cost is in the first build; after that it is a quarterly roll-forward.

- ✓ **A segmented model, documented once.** Counterparty segments, expected life per segment, historical rate derivation and forward-looking overlay, written up so it can be tested rather than re-explained each year.
- ✓ **Complete population reconciliation.** Trade receivables, retentions, contract assets, accrued income and related-party balances reconciled to the general ledger every quarter, so nothing sits outside the model.
- ✓ **A quarterly roll-forward, not an annual rebuild.** Movements explained by ageing migration, new business and rate changes. A model that produces an unexplainable movement is not being maintained.
- ✓ **A written-off policy that is actually applied.** Standing criteria for no reasonable expectation of recovery, with a scheduled quarterly review rather than an ad hoc board paper.
- ✓ **Independent challenge at the half year.** Someone who did not build the model reviews the government segment rate and the credit-impaired list before year end, not during fieldwork.

> **WHERE THE NUMBER SHOULD BE SETTLED**
>
> The right time to agree the allowance with your auditor is at the half year, when it is a technical discussion. At year end, with the covenant computed and the board paper drafted, the same discussion becomes a negotiation — and it is the one negotiation in the audit that auditors are least willing to lose.

14 Three real-world examples

Two public cases and one anonymised pattern. Public cases are cited; the pattern is labelled.

PUBLIC

Arabtec Holding PJSC, Dubai — qualification quantified at AED 226 million

Sector: civil contracting · DFM listed · Audited consolidated financial statements and auditor's report

The auditor qualified the opinion. Contract receivables and amounts due from customers on construction contracts with a carrying amount of AED 302 million, against a contract loss provision of AED 76 million, had been stated without taking into account the status of negotiations with customers at the reporting date — which the auditor identified as a departure from IFRS because doing so would have increased the allowance for expected credit losses.

The auditor quantified the effect: had the balances been stated properly, the loss for the year and total equity would each have been higher by AED 226 million, and loss per share by AED 0.15. The group reported losses of AED 3.4 billion in 2016, and in October 2022 the Dubai Court of First Instance approved bankruptcy proceedings for the holding company and six subsidiaries.

Read-across: the qualification was not about whether the debtors would ultimately pay. It was about management ignoring information it already held — the state of the negotiations — when measuring the allowance. That is an ECL failure, not a collection failure. This case also appears at Issue 01 from the revenue side; it is the same balance viewed from the other end.

SOURCES Arabtec Holding PJSC consolidated financial statements and independent auditor's report; Arabtec Corporate Governance Report 2019; Gulf News, February 2018; Arab News, June 2021; Dubai Court of First Instance ruling as reported October 2022.

PUBLIC

Drake & Scull International PJSC, Dubai — simplified approach across both balances

Sector: MEP and infrastructure contracting · DFM listed · Financial statements for the year ended 31 December 2024

The group applies the simplified approach in accounting for trade and other receivables and for contract assets, recording the loss allowance as lifetime expected credit losses — the treatment IFRS 9.5.5.15 permits and that most mid-market contractors omit for contract assets entirely. Its accounting policies set out the three-stage framework and the probability-weighted measurement of expected credit losses over the expected life of the instrument.

The same statements disclose negative operating cash flows of AED 126.9 million for 2024 (2023: AED 123.5 million), accumulated losses exceeding half of share capital, and a material uncertainty over going concern. They also present an additional statement of financial position as at 1 January 2023, the presentation required where there has been a retrospective restatement.

Read-across: this is what the disclosure looks like when the model has actually been applied to both balances. Compare it to your own contract asset note — if there is no allowance against it, the difference is not presentational.

SOURCE Drake and Scull International (P.J.S.C.) and its subsidiaries, consolidated financial statements for the year ended 31 December 2024, published at drakescull.com.

PATTERN

Facilities management group, Abu Dhabi — AED 140m book, one loss rate

Sector: facilities management and services · Anonymised composite from engagement experience

The group applied a single 1.5% allowance across a receivables book split roughly evenly between federal government entities, semi-government landlords and private property managers, on the basis that it had written off nothing in six years. Retentions were included in the general ageing and contract assets carried no allowance at all.

Rebuilding the model by segment, discounting each segment over its actual expected collection period and extending contract assets and retentions into the population, took the required allowance from AED 2.1 million to AED 8.4 million. Most of the increase came not from any change in the assessed probability of default but from discounting a government segment over a realistic two-year horizon.

Read-across: a six-year record of no write-offs was treated as proof that losses were nil. It was in fact evidence that the write-off policy had never been applied — and once the aged balances were cleared out, the loss rates derived from the remaining book changed materially.

15 Where Prantho fits

MOBILIZE

ECL Model Build

Two to three weeks. Segmented matrix, expected life, forward-looking overlay, complete population.

LAND

Finance Confidence Review

Three weeks, fixed fee. Whole-function health check with receivables and provisioning as focus areas.

EXPAND

90-Day Finance Reset

Build the model, clear the legacy write-off backlog, embed the quarterly roll-forward.

DEAL-DRIVEN

Value Creation Office

Pre-transaction quantification of the receivables adjustment a buyer will treat as debt-like.

SERVICE LINE	WHAT WE ACTUALLY DO ON THIS ISSUE
Technical advisory	ECL methodology paper — segmentation, expected life, rate derivation, forward-looking basis and discounting — written to be handed to the auditor.
Implementation	Build the model in a maintainable form, reconcile the full population including contract assets and retentions, and run the first two quarterly roll-forwards.
Review	Independent half-year challenge of the government segment rate, the credit-impaired list and the write-off backlog.
CFO support	Board and lender communication where the correction moves the borrowing base and the covenant together.
ERP and data	Counterparty segmentation coded at customer master level so the matrix populates from the ledger rather than from a spreadsheet rebuilt each year.
Internal audit	Testing over customer master segmentation, write-off approval and the completeness of the ECL population.
Tax alignment	Separation of the accounting allowance, the corporate tax deduction and VAT bad debt relief into three tracked positions.

Continuing coverage sits with **CFO's Back Office**, where the quarterly ECL roll-forward, the population reconciliation and the write-off review are run by the Prantho team as part of the standing close.

16 Proposal insert

Drop-in scope language — Issue 04: expected credit loss model review and build

SITUATION	The loss allowance is set by a single blended rate applied to the trade receivables ageing. Contract assets carry no allowance, retentions are aged as ordinary trade debt, and the model has not been updated since IFRS 9 transition.
RISK CARRIED	Audit qualification on the receivables balance, a borrowing base and a covenant moving against you simultaneously on correction, a diligence adjustment treated as debt-like, and in severe cases a net liability position.
WHAT WE DO	Reconcile the complete population including contract assets, retentions and related-party balances; segment by counterparty type; establish expected life per segment; derive and challenge historical loss rates; apply and document a forward-looking overlay; discount over expected life; assess credit-impaired balances individually; clear the write-off backlog under IFRS 9.5.4.4; and quantify the borrowing base and covenant effect before anything is posted.
DELIVERABLES	ECL methodology paper · segmented provision matrix in maintainable form · population reconciliation · credit-impaired schedule · write-off recommendation and board paper · IFRS 7 disclosure pack · borrowing base and covenant impact analysis.
DURATION	Two to four weeks depending on ledger quality and counterparty count. Fixed fee.
WHAT YOU NEED TO GIVE US	Aged receivables and contract asset listings at transaction level, customer master data, retention schedules and defects liability terms, historical write-off and settlement records, related-party balances and terms, facility agreements, and prior-year audited financial statements and management letter.
OUTCOME	A provision you can defend on its method rather than on its size — agreed with your auditor at the half year instead of negotiated at the year end.

Does your contract asset carry a loss allowance?

If the answer is no, the model is incomplete — and it is the first thing an auditor checks. The Prantho Finance Confidence Review starts with the receivables book. info@pranthoglobal.com · www.pranthoglobal.com

This chapter is general technical guidance, not advice on any specific transaction or entity. Measurement of expected credit losses depends on entity-specific facts and should be settled with your advisers and auditor.

Twenty issues. One question: which of them are sitting in your accounts right now?

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