



Article

# IFRS 15 Take-or-Pay: Revenue, Breakage and Disclosures in the Example of JSC Uzbekneftgaz

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**Abstract:** This paper analyzes the effects of IFRS 15 on revenue timing for long-term take-or-pay type supply contracts in the oil and gas sector. It shows that the major effect occurs in the velocity of revenue reallocation with future supply obligations and 'breakage' being taken into consideration, extended disclosure material, and more stringent data quality. The approach comprises interpretative analysis of IFRS 15, content analysis of industry-issued guidance (KPMG, PwC), and a case study on IFRS 15 adoption at Uzbekneftegaz JSC. A set of possible accounting systems has been established, and control mechanisms (take-or-pay register, payback, and remote criteria, digital re-conciliations) have been suggested.

**Keywords:** IFRS 15, Take-or-Pay, Breakage, Revenue Recognition, Oil and Gas, Long-Term Contracts, Disclosures.

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## 1. Introduction

The new IFRS 15 standard (effective from January 1, 2018) unified revenue recognition based on transfer of control and a five-step model. For the oil and gas industry, where long-term supplies and complex contractual terms are significant, take-or-pay agreements are most sensitive. Industry reviews indicate that IFRS 15 affects the timing of take-or-pay revenue, process and data requirements, and disclosures [1].

Take-or-pay means the buyer's obligation to pay for a minimum volume regardless of actual off-take. An important element is the "make-up" right (recovering undrawn volumes in the future). IFRS 15 requires determining whether payment for undrawn volumes is an obligation for future deliveries (contract liability) or part of breakage (customer's unused rights). The PwC guidance emphasizes: with a make-up right, payment typically applies to future deliveries; if make-up is impossible, revenue for undrawn but paid volumes is recognized at the end of the take-or-pay period; estimated breakage can be recognized proportionally if reliably assessed, otherwise, when it becomes remote [2].

This article aims to systematize the accounting logic of breakage in take-or-pay, identify areas of professional judgment, and propose practical controls focused on oil and gas practices, including the case of JSC "Uzbekneftgaz" [3].

## 2. Methodology

The following methods were used: (i) normative analysis of IFRS 15 and interpretations regarding breakage and long-term deliveries; (ii) content analysis of KPMG and PwC industry guidelines on take-or-pay contracts, systems, and disclosures [1; 2]; (iii) case review of public materials and analytical review of IFRS 15 implementation in JSC "Uzbekneftegaz".

To assess the impact on reporting reliability, the framework "risk of misstatement → accounting decision → evidence base → disclosures" was applied. The findings from academic literature on compliance with mandatory IFRS disclosures and the relationship between IFRS implementation and reporting quality and incentives for earnings management were also considered.

## 3. Results

### 3.1. Decision matrix of accounting decisions in relation to take-or-pay and breakage

In take-or-pay contracts, payments are required to be associated with performance of an obligation: a) transferred volumes - revenue from transfer of control; b) payment for the minimum volume not taken - performance obligation or breakage. It is important to assess the probability of make-up volume and reliability of breakage estimates [4], [5]. In reality, this is formalised criteria agreed in accounting policies and an annual review of judgements.

### 3.2. The majority of areas that are affected for accounting and reporting

KPMG industry materials report that IFRS 15 is likely to impact: (i) the timing of revenue recognition under take-or-pay contracts; (ii) appendix of disclosures in annual and interim reporting; (iii) systems and processes, including data capture -management-within organizations; (iv) complex contractual arrangements, including royalties [6], [7], [8]. As a result, there are frequently changes in the pattern of liabilities (contract liabilities), in the description of significant judgments and in the focus on data quality.

### 3.3. Case aspect of JSC "Uzbekneftegaz"

According to the author's analysis of IFRS 15 application at JSC "Uzbekneftegaz", the following were identified: using the five-step model, specification of approaches to moment at which revenue is recognized, giving priority to variable consideration components (discounts/penalties/bonuses), division into "principal/agent" in reliability related object [9]. For take-or-pay, the conclusion is in line with the industry-specific one: the main impact lies in the proper 'reading' of payment for minimum volumes (it's an obligation/breakage instead) and documented estimates (less early recognition risk).

**Table 1.** Revenue recognition logic for take-or-pay (IFRS 15).

<b>Situation</b>	<b>Accounting treatment</b>	<b>Control/Evidence</b>
Make-up right exists	Payment - contract liability until future delivery	Registry of make-up rights; reconciliation of deliveries/deadlines
Make-up is impossible/expired	Revenue is recognized at the end of the take-or-pay period	Calendar of rights expiration; automatic closure of liability
Breakage expected, estimate is reliable	Estimated breakage - proportionally	Estimation policy: "highly probable" test
Breakage estimate is unreliable	Recognition when probability becomes "remote"	Remote criteria: monitoring of customer behavior

#### 4. Discussion

For take-or-pay contracts, IFRS 15 increases the role of evaluative judgments (customer behavior, make-up probability, breakage assessment) and, consequently, requires enhanced internal control and disclosures. Studies on IFRS disclosure compliance show that the completeness of disclosures depends on the quality of procedures and data [10], [11]. Therefore, without digitalization (ERP rules, end-to-end reconciliations, change log), the risk of disclosures being inconsistent with economic realities increases [12].

Considering the findings on incentives for results management, it is important to minimize the possibility of "adjusting" revenue through breakage parameters during periods when target indicators are being met; this justifies independent validation of assumptions and transparent criteria for revising estimates [13]. For the practices of JSC "Uzbekneftegaz," the following are relevant: (i) formalizing take-or-pay accounting rules in the accounting policy; (ii) maintaining a register of contracts and make-up rights; (iii) establishing a set of control indicators: the proportion of manual revenue adjustments, "payment-delivery" discrepancies, and the frequency of estimate revisions [14], [15].

#### 5. Conclusion

IFRS 15 alters take-or-pay accounting primarily through the correct differentiation between contract liabilities and breakage, leading to the redistribution of revenue over time and increased disclosure requirements. The most affected areas are: revenue recognition timing, accounting for future supply obligations, substantiation of estimates, and digital data collection processes. The proposed solution matrix (Table 1) and control recommendations help reduce the risk of material misstatements and enhance reporting comparability. For JSC "Uzbekneftegaz," these conclusions supplement the implementation of IFRS 15, reinforcing the segment of long-term contracts and professional judgments.

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