

Costs to Fulfil a Contract (IFRS 15 *Revenue from Contracts with Customers*)—June 2019

The Committee received a request about the recognition of costs incurred to fulfil a contract as an entity satisfies a performance obligation in the contract over time. In the fact pattern described in the request, the entity (a) transfers control of a good over time (ie one (or more) of the criteria in paragraph 35 of IFRS 15 is met) and, therefore, satisfies a performance obligation and recognises revenue over time; and (b) measures progress towards complete satisfaction of the performance obligation using an output method applying paragraphs 39–43 of IFRS 15. The entity incurs costs in constructing the good. At the reporting date, the costs incurred relate to construction work performed on the good that is transferring to the customer as the good is being constructed.

The Committee first noted the principles and requirements in IFRS 15 relating to the measurement of progress towards complete satisfaction of a performance obligation satisfied over time. Paragraph 39 states that ‘the objective when measuring progress is to depict an entity’s performance in transferring control of goods or services promised to a customer’. The Committee also observed that when evaluating whether to apply an output method to measure progress, paragraph B15 requires an entity to ‘consider whether the output selected would faithfully depict the entity’s performance towards complete satisfaction of the performance obligation’.

In considering the recognition of costs, the Committee noted that paragraph 98(c) of IFRS 15 requires an entity to recognise as expenses when incurred ‘costs that relate to satisfied performance obligations (or partially satisfied performance obligations) in the contract (ie costs that relate to past performance)’.

The Committee observed that the costs of construction described in the request are costs that relate to the partially satisfied performance obligation in the contract—ie they are costs that relate to the entity’s past performance. Those costs do not, therefore, generate or enhance resources of the entity that will be used in continuing to satisfy the performance obligation in the future (paragraph 95(b)). Consequently, those costs do not meet the criteria in paragraph 95 of IFRS 15 to be recognised as an asset.

The Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity to determine how to recognise costs incurred in fulfilling a contract in the fact pattern described in the request. Consequently, the Committee decided not to add the matter to its standard-setting agenda.