

Tuesday 30 September 2014  
The Grange City Hotel (London)

Meeting documentation

# World Standard-setters Meeting

Education session:  
*IFRS 15 Revenue from Contracts with  
Customers*





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Tuesday 30 September 2014  
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## **Education session:**

*IFRS 15 Revenue from Contracts with Customers*

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October 2014


International Financial Reporting Standards

# IFRS 15 Revenue from Contracts with Customers

World Standard-Setters  
London 2014

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## A new approach

A framework for revenue recognition to address current and evolving transactions, regardless of industry or jurisdiction


- A principle-based approach, supported by
  - More guidance for complex areas and examples
  - Comprehensive Basis for Conclusions
  - Disclosures to provide insights into judgements
- Accounting might not change for some contracts—but different thought process

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## IFRS 15 at a glance



- A genuinely global Standard
  - Joint Standard with FASB
  - Replaces IAS 18, IAS 11 and related Interpretations
- Culmination of extensive due process and outreach
- Framework for revenue recognition
- Effective date 1/1/2017
  - Early application permitted
- Ongoing support with new joint Revenue Transition Resource Group

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## The 5-step revenue recognition model

Recognise revenue to depict transfer of goods or services in an amount of consideration to which expected to be entitled

- 1 Identify the contract(s) with a customer
- 2 Identify the performance obligations in the contract
- 3 Determine the transaction price
- 4 Allocate the transaction price to the performance obligations
- 5 Recognise revenue when (as) a performance obligation is satisfied

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## IFRS 15 has a broad scope

- ✓ All **contracts with customers**, except
  - ✗ Lease contracts
  - ✗ Insurance contracts
  - ✗ Financial instruments
    - Guidance in IFRS 9 on whether a fee is part of the financial instrument or in scope of IFRS 15
  - ✗ Non-monetary exchanges in the same line of business to facilitate sales to customers

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Step 2

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## A framework for identifying performance obligations

Promise to transfer a distinct good or service, or series of substantially similar distinct goods or services


Good or service capable of being distinct?  
and  
Good or service distinct in context of contract?

Customer can benefit from good or service on its own or together with other readily available resources

Promised good or service separately identifiable from other promises

- Good or service is not an input to produce specified output

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Step 3

## When to recognise variable consideration

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Include estimate of some/all of variable consideration in the transaction price only to extent it is *highly probable* a significant reversal of revenue will not occur when uncertainty is resolved

- Variable consideration is a broad term
  - includes rebates, refunds, price concessions
- Estimate of transaction price updated each period
- Expectations of revenue reversal assessed using 5 indicators



## Transition and effective date

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	PY2 (2015)	PY1 (2016)	CY (2017)	CY footnotes
<b>Retrospective</b> (with optional practical expedients)	Cumulative catch-up	Contracts under new standard		
<b>Cumulative effect at date of application</b>		Contracts not restated	Cumulative catch-up	Existing* and new contracts under new standard compared to IASs 11 & 18
*contracts for which entity has not transferred all goods or services identified under IASs 11 & 18				

- Effective date: annual reporting periods beginning on or after 1 January 2017
- Early application permitted



Step 5

## When is PO satisfied over time (ie revenue recognised over time)

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Customer receives and consumes benefits of entity's performance as entity performs *or*

- Routine or recurring services

Entity's performance creates or enhances an asset (eg WIP) that customer controls as asset is created or enhanced *or*

- Building an asset on a customer's site

Entity's performance does not create an asset with an alternative use to entity *and* entity has an enforceable right to payment for performance completed to date

- Building a specialised asset that only the customer can use



## Some key effects

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Sector	Accounting
Construction / Aerospace & Defence	<ul style="list-style-type: none"> <li>• Revenue may be recognised over time (eg percentage of completion) but 'PO over time' criteria must be met</li> <li>• More discipline in cost-to-cost measures of performance</li> <li>• Costs capitalised if result in resources to be used in fulfilling contract, not to normalise margin</li> </ul>
Telcos	<ul style="list-style-type: none"> <li>• Revenue recognised for 'free' handset, as well as for airtime contract</li> </ul>

## Comprehensive and cohesive disclosure requirements

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To enable users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers

### Revenue

Disaggregation of revenue (also required for Interims)

Amounts recognised relating to performance in previous periods

### Contracts

Information about contract balances & changes

Information about performance obligations

Amounts allocated to remaining performance obligations

### Judgements

Timing of and methods for recognising revenue

Determining the transaction price and amounts allocated to performance obligations



## Some key effects continued

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Sector	Accounting
Software	<ul style="list-style-type: none"> <li>• Elimination of VSOE, so revenue can be recognised when license transferred</li> <li>• Revenue recognition for software development only if 'PO over time' criteria met</li> </ul>
Media/ pharma	<ul style="list-style-type: none"> <li>• Revenue may be recognised on transfer of licence, but will need to consider if licence is right to use or right to access</li> <li>• Sales-based royalties recognised as sales occur</li> </ul>

## Revenue Transition Resource Group

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- New, limited life, joint group with FASB
- Supports transition to IFRS 15
  - Advises boards about implementation issues
  - Forum from which stakeholders can learn about IFRS 15
- Will *not* issue authoritative guidance
- Members include preparers, auditors, users plus observers (including regulators)
- Further details available on <http://go.ifrs.org/RTRG>



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## How does Group operate?

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- Stakeholders submit implementation questions
  - Submissions remain private
- IASB and FASB prioritise the questions for Group discussion
- Group discusses the questions in a public meeting
  - All meeting materials available on website
- IASB and FASB determine if/what action required in light of input from the Group's discussion
- First meeting 18 July, next meeting 31 October



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## Thank you

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