STAFF PAPER

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IASB Meeting

Project	**Revenue from Contracts with Customers**
Paper topic	Accounting for completed contracts on transition to IFRS 15—issues emerging from TRG discussions

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Purpose of the paper

1. The purpose of this paper is:

   (a) to explain the issues relating to the transition requirements in Appendix C of IFRS 15 *Revenue from Contracts with Customers*, which were highlighted during the discussions of the Revenue Transition Resource Group (TRG) at its July 2015 meeting;

   (b) to update the IASB about the tentative decisions made by the US Financial Accounting Standards Board (FASB) on those issues at its meeting on 31 August 2015; and

   (c) to ask whether the IASB would wish to propose amendments to the transition requirements of IFRS 15 along the lines of the FASB's tentative decisions.

2. The paper is structured as follows:

   (a) background;

   (b) issue description and TRG discussions;

   (c) staff analysis of the transition requirements in Appendix C of IFRS 15;

   (d) the FASB's tentative decisions; and

   (e) staff recommendations and questions for the IASB.

3. To assist the IASB, the paragraphs of IFRS 15 that are referred to in this paper have been reproduced in the Appendix of this paper.

Background

4. Appendix C of IFRS 15 requires an entity to apply the Standard, on transition, using either of the following methods:

   (a) retrospectively to each prior reporting period presented in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, subject to some optional practical expedients (commonly referred to as the 'full retrospective transition method'); or

   (b) retrospectively with the cumulative effect of initially applying IFRS 15 recognised as an adjustment to the opening balance of the retained earnings (or other component of equity, as appropriate) at the date of initial application (commonly referred to as the 'modified retrospective transition method').

5. If an entity elects to apply the Standard using the modified retrospective transition method, paragraph C7 of IFRS 15 requires the entity to apply the Standard retrospectively only to contracts that are not completed contracts at the date of initial application. Paragraphs BC439–BC444 of IFRS 15 explain the Boards' considerations in developing the modified retrospective transition method.

> *Example 1*
>
> For example, an entity with a 31 December reporting year-end first applies IFRS 15 for the year 2018. The entity elects to use the modified retrospective transition method to apply IFRS 15.
>
> The date of initial application of the Standard for the entity is 1 January 2018. The entity would not apply IFRS 15 to contracts that are completed contracts at 1 January 2018.
>
> The entity would recognise the cumulative effect of initially applying the Standard to contracts that are not completed contracts as an adjustment to the opening balance of the retained earnings (or other component of equity, as appropriate) as of 1 January 2018. The comparative years would not be restated.

6. At its July 2015 meeting, the TRG discussed a submission (TRG Agenda Paper 42) on the accounting for completed contracts at the date of initial application when an entity uses the modified retrospective transition method to apply IFRS 15. Although the TRG Agenda Paper focuses on implications under US GAAP, it notes that similar issues could arise under IFRS. The TRG discussed the following questions:

   (a) Issue 1: For purposes of applying the transition requirements, when is a contract considered 'completed'?

   (b) Issue 2: How should those completed contracts be accounted for after the date of initial application of IFRS 15?

Issue description and TRG discussions

Issue 1: For purposes of applying the transition requirements, when is a contract considered 'completed'?

7. Paragraph C2 of IFRS 15 defines a completed contract as a 'contract for which the entity has transferred all of the goods or services identified in accordance with IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related Interpretations'. The following two interpretations have arisen in respect of this definition.

   (a) View A—an entity has transferred all of the goods or services when it has delivered all the goods and performed all the services identified as 'deliverables' in accordance with the revenue Standards in effect before the date of initial application (hereinafter referred to as the 'previous revenue Standards'). A contract would be a completed contract even if the entity had not been able to recognise some or all of the revenue for reasons such as the collectability not being probable.

   (b) View B—an entity has transferred all of the goods or services identified in accordance with previous revenue Standards only when all of the revenue recognition criteria in the previous revenue Standards have been met. In other words, the entity should have recognised all (or substantially all) of the revenue under the previous revenue Standards.

8. IFRS stakeholders and some US stakeholders at the TRG supported View A. They observed that the Boards' considerations explained in paragraph BC441 of IFRS 15 support the view that a contract could be a completed contract even if some or all of the revenue from the contract had not been recognised under the previous revenue Standards. Paragraph BC441 states that:

> … (The boards clarified that a completed contract is a contract in which the entity has fully performed in accordance with revenue recognition requirements in effect before the date of initial application. *Thus, a completed contract would include a contract for which the entity's performance was complete but there was a change in the transaction price after the date of initial application*.) … [emphasis added]

9. Other US stakeholders supported View B because of the combination of the following:

   (a) the *transfer* of goods or services is a concept that does not exist in previous revenue Standards. Consequently, some stakeholders think that it is not clear whether IFRS 15 requires an entity to assess the transfer of goods or services in the context of IFRS 15, ie the transfer of control, or in the context of the criteria in the previous revenue Standards.

   (b) the explanation in paragraph BC441 of IFRS 15 is inconsistent with the definition of a completed contract. Paragraph BC441 states that:

   > … The boards clarified that a completed contract is a contract in which the entity has fully *performed* in accordance with revenue recognition requirements in effect before the date of initial application … [emphasis added]

   An assessment of whether an entity *performed* is a concept that is more consistent with the previous revenue Standards than an assessment of whether an entity *transferred* a good or service.

   (c) assessing whether an entity has *performed* can be difficult because of the different revenue recognition criteria for different transactions under previous revenue Standards. Consequently, some were of the view that an easier approach to identifying a completed contract would be to consider whether the entity has recognised all (or substantially all) of the revenue before the date of initial application of IFRS 15.

Example 2

Consider the facts in Example 1 of this paper. The entity entered into a contract with a customer in a foreign country on 1 December 2017 to deliver 1,000 units of Product A by 25 December 2017. The entity delivers the promised goods by the agreed date. However, the entity could not recognise revenue in 2017 because of circumstances that arose shortly before the delivery of goods that made the collection of the consideration uncertain. The uncertainty is removed on 30 January 2018, which is when the entity can recognise revenue.

Stakeholders supporting View A would conclude that the contract is a completed contract at 1 January 2018 and would not apply IFRS 15 to that contract.

Stakeholders supporting View B would conclude that the contract is not a completed contract at 1 January 2018 and would apply IFRS 15 to that contract.

Issue 2: How should those completed contracts be accounted for after the date of initial application of IFRS 15?

10. Stakeholders supporting View A in Issue 1 observed that there is no explicit guidance in Appendix C of IFRS 15 on the accounting for completed contracts after the date of initial application.

11. Some stakeholders, which include IFRS stakeholders, referred to the Boards' considerations explained in paragraph BC441 of IFRS 15:

> … the cumulative effect would be an adjustment to the appropriate opening balance of equity in the year of initial application (ie comparative years would not be restated) for contracts that are not completed at the date of initial application …

12. Those stakeholders thought that paragraph C7 of IFRS 15 read with the explanations in paragraph BC441 would require an entity to continue to account for completed contracts using the previous revenue Standards after the date of initial application of IFRS 15.

13. Other stakeholders observed that it is unclear how an entity could continue to account for a completed contract after the date of initial application of IFRS 15 in accordance with the previous revenue Standards. They noted that the previous revenue Standards would be withdrawn once IFRS 15 becomes effective (see paragraph C10 of IFRS 15). Consequently, in their view an entity would be unable to continue to apply those Standards after they are withdrawn. They also highlighted that the Boards' considerations explained in paragraph BC444 of IFRS 15 do not support the use of previous revenue Standards after the date of initial application of IFRS 15. Paragraph BC444 states that:

> The boards also considered other transition methods as alternatives to the cumulative catch-up method to try to ease the burden of retrospective application. For example, the boards considered requiring a prospective approach that would require entities to apply IFRS 15 only to new contracts or those that are materially modified on or after the date of initial application. However, the boards rejected this approach because prospective application would not result in consistent presentation of existing contracts and new contracts and thus would reduce comparability. In addition, this approach would not provide useful trend information for users of financial statements until existing contracts have been fully satisfied after the date of initial application. Furthermore, the boards observed that this approach would require some entities to incur significant costs of maintaining two accounting systems for contracts that are accounted for in accordance with IFRS 15 and previous revenue Standards in IFRS, until all existing contracts have been completed, which could take many years for entities with long-term contracts.

14. Those stakeholders observed that some of the Boards' considerations for rejecting a prospective transition method are equally relevant to the use of previous revenue Standards to account for completed contracts after the date of initial application of IFRS 15. Consequently, they think that (a) any deferred revenue balances in respect of completed contracts should be removed as part of the cumulative catch-up adjustment; and (b) any consideration in respect of completed contracts not previously recognised in revenue but collected after the date of initial application of IFRS 15 should not be recognised in profit or loss. They also observed that it is unclear how costs in respect of completed contracts should be accounted for after the date of initial application of IFRS 15.

15. Stakeholders supporting View B in Issue 1 thought that the Boards did not intend that an entity would continue to use the previous revenue Standards after the date of initial application of IFRS 15. Some US stakeholders observed that in the past when a new US Standard was issued, the transition requirements in that new Standard prevented entities from continuing to use a Standard that was superseded by the new Standard.

Relevance of these issues for entities using the full retrospective transition method

16. The IASB has proposed a practical expedient in its Exposure Draft *Clarifications to IFRS 15* to permit an entity electing to use the full retrospective transition method not to apply IFRS 15 retrospectively to contracts that are completed contracts at the beginning of the earliest period presented. If these proposals are finalised and an entity using the full retrospective transition method elects to use the practical expedient, the issues described in paragraphs 7–15 of this paper would also be relevant for such an entity.

Staff analysis of the transition requirements in Appendix C of IFRS 15

17. We think that questions on the definition of a completed contract (ie Issue 1) have arisen because of (a) the perceived lack of clarity on the accounting for completed contracts after an entity transitions to IFRS 15 (ie Issue 2); and (b) the view held by some stakeholders that the Boards did not intend that an entity would continue

to use the previous revenue Standards after transitioning to IFRS 15. Consequently, we have first analysed the transition requirements in Appendix C of IFRS 15 in respect of Issue 2.

Issue 2: Accounting for completed contracts after the date of initial application

18. Paragraph C7 of IFRS 15 states that:

> If an entity elects to apply this Standard retrospectively in accordance with paragraph C3(b) [ie modified retrospective transition method], the entity shall recognise the cumulative effect of initially applying this Standard as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) of the annual reporting period that includes the date of initial application. *Under this transition method, an entity shall apply this Standard retrospectively only to contracts that are not completed contracts at the date of initial application* (for example, 1 January 2017 for an entity with a 31 December year-end). [emphasis added]

19. Paragraph BC441 explains that:

> After considering this feedback, the boards decided that as an alternative to retrospective application with practical expedients, an entity could apply IFRS 15 (including the requirements for costs) retrospectively, with the cumulative effect of initially applying IFRS 15 recognised in the current year (referred to as the 'cumulative catch-up' transition method). *Specifically, the cumulative effect would be an adjustment to the appropriate opening balance of equity in the year of initial application (ie comparative years would not be restated) for contracts that are not completed at the date of initial application* … [emphasis added]

20. We think that paragraph C7 read with paragraph BC441 would require an entity using the modified retrospective transition method to retrospectively apply IFRS 15 *only* to contracts that are not completed contracts at the date of initial

application of IFRS 15. In other words, completed contracts are not transitioned to IFRS 15 if an entity elects to use the modified retrospective transition method.

21. We think that the Boards' decision was not to require an entity using the modified retrospective transition method to apply IFRS 15 either prospectively or retrospectively to completed contracts at the date of initial application. At the February 2013 joint meeting (Agenda Paper 7E), the IASB and the FASB made decisions on the transition methods. At that meeting the Boards discussed the feedback from preparers requesting the expansion of the practical expedient in paragraph C3(a) of the 2011 Exposure Draft (which is paragraph C5(a) of the Standard) to all completed contracts. That paragraph permits an entity using the full retrospective method not to restate completed contracts that begin and end within the same annual reporting period. Considering the feedback from preparers, the Boards developed the modified retrospective transition method by broadening that practical expedient to all completed contracts (ie including those contracts that begin and end in different annual reporting periods) and requiring an entity using this transition method to apply IFRS 15 only to those contracts that are not completed under the previous revenue Standards at the date of initial application. The Boards' considerations discussed at that meeting have been included in paragraphs BC439–BC443 of IFRS 15.

22. Consequently, we think that an entity continues to account for any completed contracts after the date of initial application of IFRS 15 in accordance with its accounting policies based on the previous revenue Standards.

23. As noted above, some stakeholders observed that the Boards' considerations explained in paragraph BC444 for rejecting a prospective transition method are equally relevant to the use of previous revenue Standards to account for completed contracts after the date of initial application of IFRS 15. As explained in paragraph BC444, the Boards observed that a prospective transition method would require some entities to incur significant costs of maintaining two accounting systems for revenue contracts until all existing contracts have been completed, which could take many years for entities with long-term contracts. However, we think that these cost considerations are less relevant to completed contracts for two reasons. First, we do not expect the volume of completed

contracts to be the same as the volume of all existing contracts as at the date of initial application of IFRS 15. Second, for many completed contracts, we would not expect the accounting under previous revenue Standards to continue for many years after transition, because the goods or services have been transferred before the date of initial application.

24. Some stakeholders think that accounting for completed contracts after the date of initial application of IFRS 15 using previous revenue Standards would not provide useful financial information to users of financial statements. When developing the modified retrospective transition method, the Boards considered feedback from users and decided to require an entity to provide additional disclosures to help users of financial statements understand the effect of using that transition method on trend information (see paragraphs BC442–BC443 of IFRS 15). We think that as part of the disclosures required by paragraph C8 of IFRS 15 an entity could provide additional information about the amount of revenue recognised using previous revenue Standards, if the entity concludes that such information would be helpful to users. In addition, when selecting a transition method, we expect an entity to consider whether the selected transition method provides useful information to users of its financial statements. If the entity were to conclude that using the modified retrospective transition method would not provide useful information to users because of the transition relief provided for completed contracts, and that is an important consideration for the entity, then we would expect the entity to choose to use the full retrospective transition method.

Issue 1: Definition of a completed contract

25. Paragraph C2 of IFRS 15 defines a completed contract as a 'contract for which the entity has transferred all of the goods or services identified in accordance with IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related Interpretations'. Paragraph BC441 explains that:

> … (The boards clarified that a completed contract is a contract in which the entity has fully performed in accordance with revenue recognition requirements in effect before the date of initial application. Thus, a completed contract would include a contract for which the entity's

performance was complete but there was a change in the transaction price after the date of initial application.) …

26. Some stakeholders observed that 'transferred' as used in the definition of a completed contract is a notion in IFRS 15 and does not exist in previous revenue Standards. We do not think that the Boards intended that an entity would apply the 'transfer of control' notion in IFRS 15 to goods or services identified in accordance with previous revenue Standards. Paragraph BC441 clearly refers to performance in accordance with previous revenue Standards. Consequently, we think that the term 'transferred' in many situations would mean 'delivered' in the context of contracts for the sale of goods and 'performed' in the context of contracts for rendering of services and construction contracts. In some situations, the entity would use judgement when determining whether the entity has transferred goods or services to the customer. For example, an entity may need to use judgement to determine when it has transferred rights to use its assets (for example, rights granted within a licence agreement), because there is no specific guidance on the transfer or delivery of such rights in IAS 18. If an entity transferred goods or services to a customer before the date of initial application but the entity has not been able to recognise revenue from a contract for reasons attributable to the measurement of revenue (such as collectability or measurement uncertainty), the contract is a completed contract.

Example 3

Consider the facts in Example 2 of this paper.

At 1 January 2018, the contract is a completed contract because the entity delivered the 1,000 units of Product A by 25 December 2017. The entity could not recognise revenue in 2017 because of uncertainty about the collection of the consideration.

The entity would not apply IFRS 15 to this contract because it is a completed contract. The entity recognises revenue from that contract in accordance with IAS 18 on 30 January 2018 when the uncertainty is removed.

The FASB's tentative decisions

27. The FASB discussed the issues explained in paragraphs 7–15 of this paper at its meeting on 31 August 2015 and tentatively decided:

    (a) to clarify that a completed contract is one for which all (or substantially all) of the revenue was recognised under previous revenue Standards. Accounting for elements of a contract that do not affect revenue under previous revenue Standards (for example, a warranty that was not accounted for as a deliverable under previous revenue Standards but would be a performance obligation under the new revenue Standard (Topic 606)) would not be relevant to the assessment of whether a contract is complete.

    (b) to amend the modified retrospective transition method to permit an entity to use that method for all contracts, ie including contracts that are completed contracts at the date of initial application of Topic 606.

28. The FASB observed that the proposed definition of a completed contract would alleviate the concerns expressed by US stakeholders at the TRG meeting. The FASB also observed that, in many situations, the proposed definition would align the amount of revenue recognised in the annual reporting period that includes the date of initial application under both the modified retrospective and the full retrospective transition methods. In most situations, the proposed definition would not result in revenue being 'lost in transition'.

29. Entities would be required to use judgement to determine whether 'substantially all' of the revenue from a contract has been recognised. For example, an entity would conclude that a contract for which it has recognised a small liability for a sales return is a completed contract, because substantially all of the revenue from that contract has been recognised.

30. Regarding the decision to permit an entity to use the modified retrospective transition method for all contracts, the FASB observed that requiring an entity to apply Topic 606 only to those contracts that are not completed contracts at the date of initial application may lead to complexity for some entities. This was based on the views expressed by some US stakeholders at the TRG meeting and

the results of subsequent outreach with practitioners and preparers. For example, an entity that grants customer loyalty points would not have accounted for those loyalty points as a revenue ‘deliverable’ under previous US GAAP. The entity would have accrued the cost of settling those loyalty points. On transition to Topic 606, the entity would assess whether the loyalty points provide a material right to the customer and accordingly account for those loyalty points as a performance obligation. If the entity uses the modified retrospective transition method to apply Topic 606, it would not apply Topic 606 to completed contracts. Consequently, the entity would have some loyalty points that are accounted for at cost (those within completed contracts) and some loyalty points that would be accounted for in accordance with Topic 606 (those within all other revenue contracts). Practice questions could arise when a customer redeems the loyalty points—for example, whether those points were earned (a) before the transition to Topic 606 and, therefore, the redemption does not affect revenue; or (b) after the transition to Topic 606 and, therefore, the redemption results in the recognition of revenue. The FASB observed that this may be a significant issue although only for those entities that have a significant volume of loyalty points and that choose to use the modified retrospective transition method. Such entities are expected to have sufficient data to retrospectively account for the loyalty points in accordance with Topic 606. Consequently, the FASB decided to propose an amendment to permit an entity to use the modified retrospective transition method for all contracts.

31. The FASB also decided to incorporate these proposed amendments to the transition guidance for completed contracts in its forthcoming proposed Accounting Standard Update (ASU), *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*. That proposed ASU will include proposed amendments to the collectability guidance, non-cash consideration guidance and practical expedients.

Staff conclusion and recommendations

32. Based on our analysis of the requirements in Appendix C of IFRS 15 set out in paragraphs 17–26 of this paper, we think that there is adequate guidance in

IFRS 15 regarding whether a contract is a completed contract at the date of initial application of IFRS 15 and how to account for a completed contract after that date. Consequently, we recommend that the IASB does not undertake standard-setting in this respect.

33. We think that our recommendation is consistent with the high hurdle that the IASB decided to apply when proposing amendments to IFRS 15 at this stage. We do not think that standard-setting in respect of the issues discussed in this paper are essential to clarify the IASB's intentions when developing the requirements in IFRS 15.

Questions for the IASB

1. Does the IASB agree with the staff recommendation not to undertake standard-setting regarding the issues discussed in this paper? If not, does the IASB wish to propose amendments to the transition requirements in Appendix C of IFRS 15 along the lines of the FASB's tentative decisions?

2. Does the IASB agree with the staff analysis of the transition requirements in Appendix C of IFRS 15?

Appendix
Extracts from IFRS 15 *Revenue from Contracts with Customers*

Transition

C2 For the purposes of the transition requirements in paragraphs C3–C8:

(a) the date of initial application is the start of the reporting period in which an entity first applies this Standard; and

(b) a completed contract is a contract for which the entity has transferred all of the goods or services identified in accordance with IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related Interpretations.

C3 An entity shall apply this Standard using one of the following two methods:

(a) retrospectively to each prior reporting period presented in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, subject to the expedients in paragraph C5; or

(b) retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application in accordance with paragraphs C7–C8.

…

C5 An entity may use one or more of the following practical expedients when applying this Standard retrospectively in accordance with paragraph C3(a):

(a) for completed contracts, an entity need not restate contracts that begin and end within the same annual reporting period;

(b) …

…

C7 If an entity elects to apply this Standard retrospectively in accordance with paragraph C3(b), the entity shall recognise the cumulative effect of initially applying this Standard as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) of the annual reporting period that includes the date of initial application. Under this transition method, an entity shall apply this Standard retrospectively only to contracts that are not completed contracts at the date of initial application (for example, 1 January 2017 for an entity with a 31 December year-end).

C8 For reporting periods that include the date of initial application, an entity shall provide both of the following additional disclosures if this Standard is applied retrospectively in accordance with paragraph C3(b):

(a) the amount by which each financial statement line item is affected in the current reporting period by the application of this Standard as compared to IAS 11, IAS 18 and related Interpretations that were in effect before the change; and

(b) an explanation of the reasons for significant changes identified in C8(a).

…

Withdrawal of other Standards

C10 This Standard supersedes the following Standards:

(a) IAS 11 *Construction Contracts*;

(b) IAS 18 *Revenue*;

(c) IFRIC 13 *Customer Loyalty Programmes*;

(d) IFRIC 15 *Agreements for the Construction of Real Estate*;

(e) IFRIC 18 *Transfers of Assets from Customers*; and

(f) SIC-31 *Revenue—Barter Transactions Involving Advertising Services*.

…

Retrospective application with the cumulative effect recognised in the current period (paragraphs C7–C8)

BC439 The boards decided to develop an alternative transition method to ease the burden of retrospectively applying IFRS 15 because feedback from preparers and auditors indicated that, although helpful, the practical expedients (see paragraph BC437) would not mitigate much of the implementation challenge of a retrospective transition approach. In contrast, users of financial statements generally supported the requirements for retrospective application with practical expedients because it would provide them with useful information on transition and assist their financial statement analyses.

BC440 As a result of those differing views, transition was one of the topics discussed at four disclosure and transition workshops that were held in late 2012 with both users and preparers of financial statements (see paragraph BC328). During those workshops, users of financial statements acknowledged that another transition method might be appropriate to ease the burden of transition; however, they emphasised their need for trend information, regardless of which method is used.

BC441 After considering this feedback, the boards decided that as an alternative to retrospective application with practical expedients, an entity could apply IFRS 15 (including the requirements for costs) retrospectively, with the cumulative effect of initially applying IFRS 15 recognised in the current year (referred to as the 'cumulative catch-up' transition method). Specifically, the cumulative effect would be an adjustment to the appropriate opening balance of equity in the year of initial application (ie comparative years would not be restated) for contracts that are not completed at the date of initial application. (The boards clarified that a completed contract is a contract in which the entity has fully performed in accordance with revenue recognition requirements in effect before the date of initial application. Thus, a completed contract would include a contract for which the entity's performance was complete but there was a change in the transaction price after the date of initial application.) The boards observed that the cumulative catch-up transition method responds to feedback from auditors and preparers by eliminating the need to restate prior periods and thus reducing costs.

BC442 The boards noted that applying the cumulative catch-up transition method results in consistent presentation of contracts under previous IFRS or US GAAP during the comparative years and in consistent presentation of any contracts not yet completed at the date of initial application under IFRS 15 in the current year. However, because the comparative information will not be restated under the cumulative catch-up transition method, the boards decided to require additional disclosures to help users of financial statements understand the effect on trend information. Consequently, when an entity uses the cumulative catch-up transition method, it is required to disclose the following information for reporting periods that include the date of initial application:

(a) the amount by which each financial statement line item is affected in the current year as a result of the entity applying IFRS 15 rather than previous revenue Standards in IFRS; and

(b) an explanation of the reasons for the significant changes in those financial statement line items.

BC443 In other words, to provide the required disclosures, an entity would apply both IFRS 15 and the previous revenue Standards in the year of initial application. Despite requiring an entity to account for revenue transactions in the year of initial application using two different sets of accounting requirements, the boards decided that this method would reduce the overall cost of applying IFRS 15 while still providing information about trends that was requested by users of financial statements.

BC444 The boards also considered other transition methods as alternatives to the cumulative catch-up method to try to ease the burden of retrospective application. For example, the boards considered requiring a prospective approach that would require entities to apply IFRS 15 only to new contracts or those that are materially modified on or after the date of initial application. However, the boards rejected this approach because prospective application would not result in consistent presentation of existing contracts and new contracts and thus would reduce comparability. In addition, this approach would not provide useful trend information for users of financial statements until existing contracts have been fully satisfied after the date of initial application. Furthermore, the boards observed that this approach would require some entities to incur significant costs of maintaining two accounting systems for contracts that are accounted for in accordance with IFRS 15 and previous revenue Standards in IFRS, until all existing contracts have been completed, which could take many years for entities with long-term contracts.