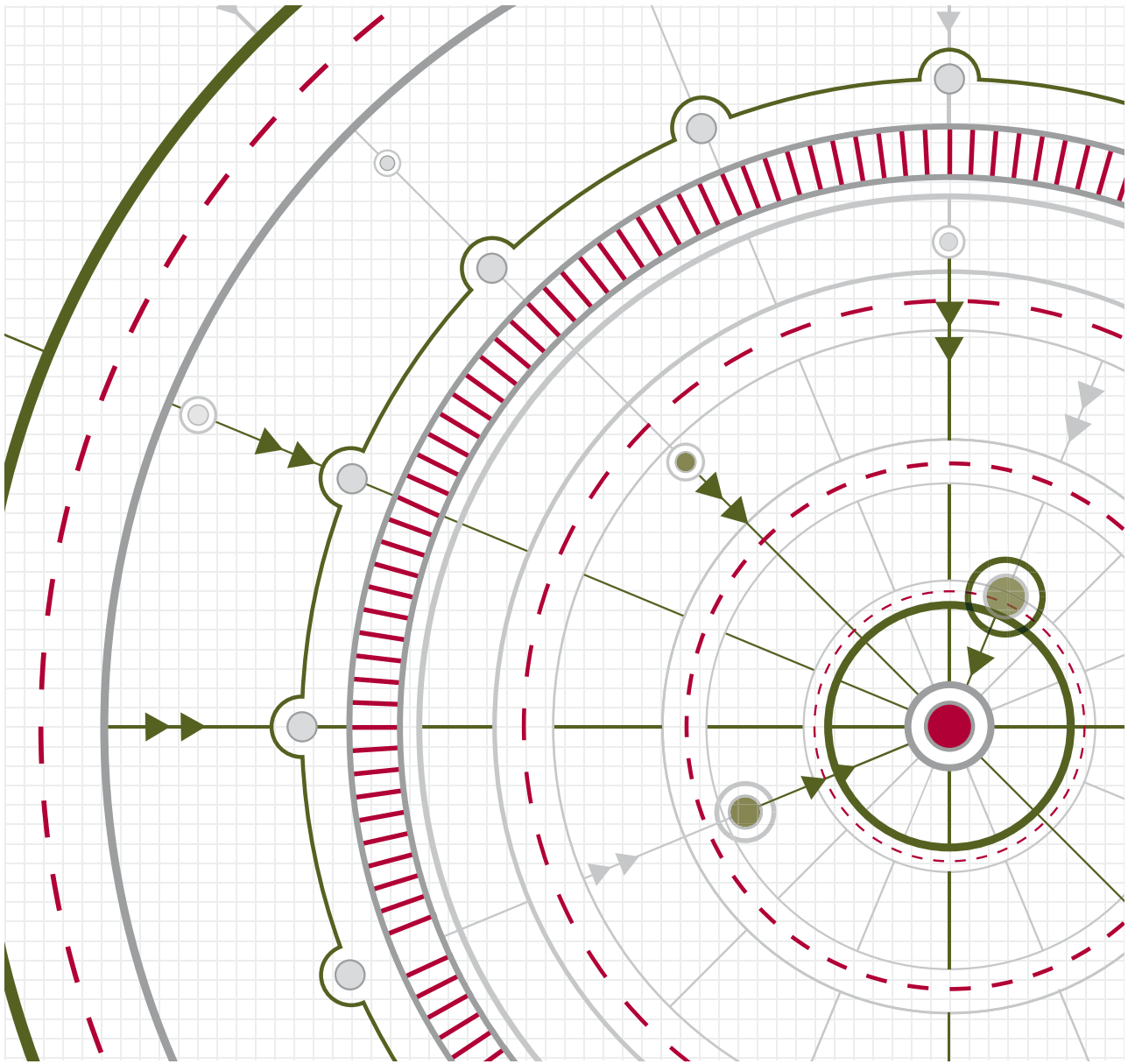


Monday 28 and Tuesday 29 September 2015  
The Grange City Hotel (London, UK)

Meeting documentation: IFRS 15 *Revenue from Contracts with Customers*

# 2015 World Standard-setters Meeting





# World Standard-setters Meeting

Monday 28 and Tuesday 29 September 2015

## **Education session:**

*IFRS 15 Revenue from Contracts with Customers*

**Henry Rees**

*Technical Director*

**IASB**

**Raghava Tirumala**

*Technical Manager*

**IASB**



September 2015

International Financial Reporting Standards




## IFRS 15 Revenue from Contracts with Customers

World Standard-Setters  
London 2015

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## Agenda

- Overview and recent developments
- Transition Resource Group (TRG) and the IASB response
- Some interesting TRG discussions

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## Overview and recent developments

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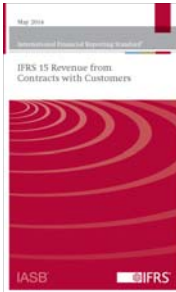
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## IFRS 15 at a glance



- A genuinely global Standard
  - Joint Standard with FASB
  - Enhances comparability between different sectors and jurisdictions
- A framework for revenue recognition
- Culmination of extensive due process
- Effective date deferred to 1 January 2018
  - Early application permitted
- Transition
  - Retrospective or
  - Cumulative effect at the date of application
- Transition Resource Group

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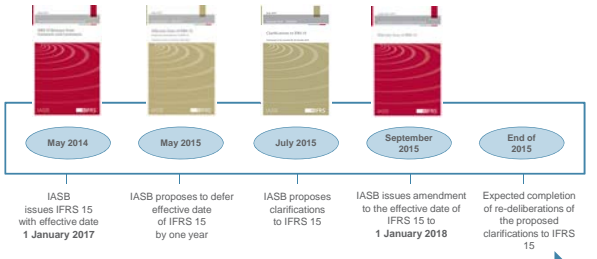
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## Recent developments




**Timeline:**

- May 2014:** IASB issues IFRS 15 with effective date 1 January 2017
- May 2015:** IASB proposes to defer effective date of IFRS 15 by one year
- July 2015:** IASB proposes clarifications to IFRS 15
- September 2015:** IASB issues amendment to the effective date of IFRS 15 to 1 January 2018
- End of 2015:** Expected completion of re-deliberations of the proposed clarifications to IFRS 15

**Joint TRG discussions** (spanning from May 2015 to End of 2015)

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## TRG and IASB response

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## Activities of TRG

7

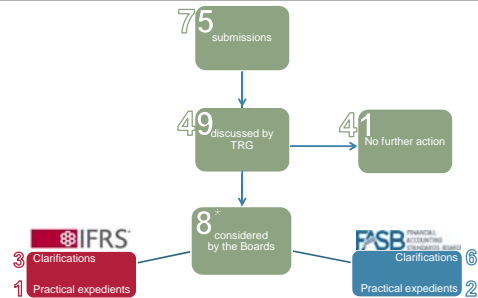
- Information about the TRG at <http://go.ifrs.org/RTRG>
- 5 meetings held since formation of the group
- Next meeting November 2015
- Meetings not scheduled for 2016—monitor questions and submissions

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## Activities of TRG—overview of topics submitted and discussed *(continued)*

8



\* IASB has already discussed 7 out of 8, and is scheduled to discuss the remaining one topic at its September 2015 meeting.

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## Activities of TRG *(continued)*

9

### The 8 topics considered by the Boards

- Identifying performance obligations
- Principal versus agent considerations
- Licensing
- Collectability
- Non-cash consideration
- Completed contracts on transition *(new addition from July 2015 TRG meeting)*
- Practical expedients on transition
- Presentation of sales (or similar) taxes

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## July 2015 ED Clarifications to IFRS 15

10

### Identifying performance obligations

- New examples to clarify assessment of 'distinct within the context of the contract'
- Objective of assessment—identify when promised goods or services in a contract are considered:
  - A bundle, ie a single performance obligation
  - Individually as separate performance obligations
- Judgement required, reflecting level of integration, interrelationship or interdependence of promises
  - Principle in #27(b) complemented by factors in #29 (not a checklist)

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## July 2015 ED Clarifications to IFRS 15

11

### Identifying performance obligations *(continued)*

- Examples
  - Equipment requiring installation—2 POs
  - Multiple units of a complex, specialised device unique to contracts—1 PO

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## July 2015 ED Clarifications to IFRS 15

12

### Principal versus agent considerations

- Amendments to Application Guidance and Examples
- Clarify the thought process to be followed
  - Control is the determining factor—indicators complement
    - Indicators not a checklist; some more or less relevant depending on facts and circumstances
  - Appropriately identify the specified good or service
    - Right to good or service provided by another party (eg ticket)
    - Bundle of goods or services
  - How control applies to services

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**Licensing**

- New paragraph in Application Guidance (and examples)
- Clarify which activities significantly affect IP (so licence is a *right to access IP*)
  - Change form or functionality of the IP
  - Benefits substantially derived/dependent on the activities
- Activities *don't* affect the IP if it has significant standalone functionality



**Practical expedients on transition**

- New practical expedients to permit:
  - use of hindsight in restating modified contracts
  - not to apply IFRS 15 to completed contracts at the beginning of the earliest period presented (when using full retrospective transition method)



Topic	IASB decision	FASB decision
<b>Performance obligations</b>		
• 'Distinct' performance obligations	Add IE	Amend Standard & add IE
• Immaterial goods or services	-	Amend Standard
• Shipping and handling activities	-	Amend Standard
<b>Licensing</b>		
• Distinguishing licences	Amend Standard & IE	Amend Standard & IE
• Royalties constraint	Amend Standard & IE	
• Contractual restrictions in licences	-	Amend Standard & IE
• When to assess the nature of licence	-	Amend Standard



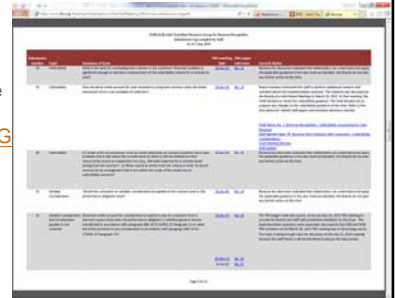
Topic	IASB decision	FASB decision
<b>Principal versus agent considerations</b>	Amend Standard & add IE	
<b>Presentation of sales taxes</b>	-	Amend Standard
<b>Collectability</b>	-	Amend Standard & IE
<b>Non-cash consideration</b>	-	Amend Standard & IE
<b>Practical expedients on transition</b>		
• Modified contracts	Amend Standard	
• Completed contracts	Amend Standard	-
<b>Accounting for completed contracts on transition</b>	To discuss at September 2015 IASB meeting	Amend Standard



Some interesting TRG discussions



- Meeting reports together with papers and recordings of meetings are available on IASB's website <http://go.ifrs.org/RTRG-meetings>
- Updated **Submissions log** posted for every TRG meeting



## Where to access TRG discussions?

19

- Meeting reports together with papers

28	Identifying promised goods or services	How should an entity identify the promised goods or services in a contract with a customer?	20 Jan 18	Nov 18	<p>Board members instructed the staff to perform additional research and outreach about the implementation questions. The research was discussed by the Board at a later Board Meeting on February 18, 2018. Refer to the links below for related staff papers and tentative decisions reached.</p> <p>IFRS Memo 3: Revenue Recognition - Identifying Performance Obligations                  IASB Agenda Paper 21: Revenue from Contracts with Customers - Identifying Performance Obligations                  IASB Tentative Board Decisions                  IASB Update</p>
29	Shipping service	Is the shipment of goods (or arranging the shipment) a separate performance obligation?	20 Jan 18	Nov 18	<p>Board members instructed the staff to perform additional research and outreach about the implementation questions. The research was discussed by the Board at a later Board Meeting on February 18, 2018. Refer to the links below for related staff papers and tentative decisions reached.</p> <p>IFRS Memo 3: Revenue Recognition - Identifying Performance Obligations                  IASB Agenda Paper 21: Revenue from Contracts with Customers - Identifying Performance Obligations                  IASB Tentative Board Decisions                  IASB Update</p>

## Some interesting topics discussed by TRG

20

- **Step 1: Identify the contract(s) with a customer**
  - Evaluation of termination clauses
- **Step 2: Identify the performance obligations in the contract**
  - Series of distinct goods or services
    - Consecutive performance of services
    - Consistency of accounting for the underlying distinct goods or services as a series versus separately
  - Customer options
    - Evaluation of options that provide material rights
    - Accounting for a customer's exercise of a material right

## Some interesting topics discussed by TRG

21

- **Step 3: Determine the transaction price**
  - Variable consideration
    - Methods of estimating variable consideration versus accounting for a portfolio of contracts
  - Consideration payable to a customer
    - Scope
    - Timing of recognition of the consideration payable to a customer
  - Significant financing component

## Some interesting topics discussed by TRG

22

- **Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation**
  - Transfer of control
    - Accounting for a partially satisfied performance obligation prior to the contract meeting the criteria for recognition under IFRS 15
  - Measuring progress towards completion
    - Pattern of recognition of revenue for a stand-ready obligation
    - Measures of progress for a combined performance obligation

## Thank you

23





# **World Standard-setters Meeting**

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NOTES