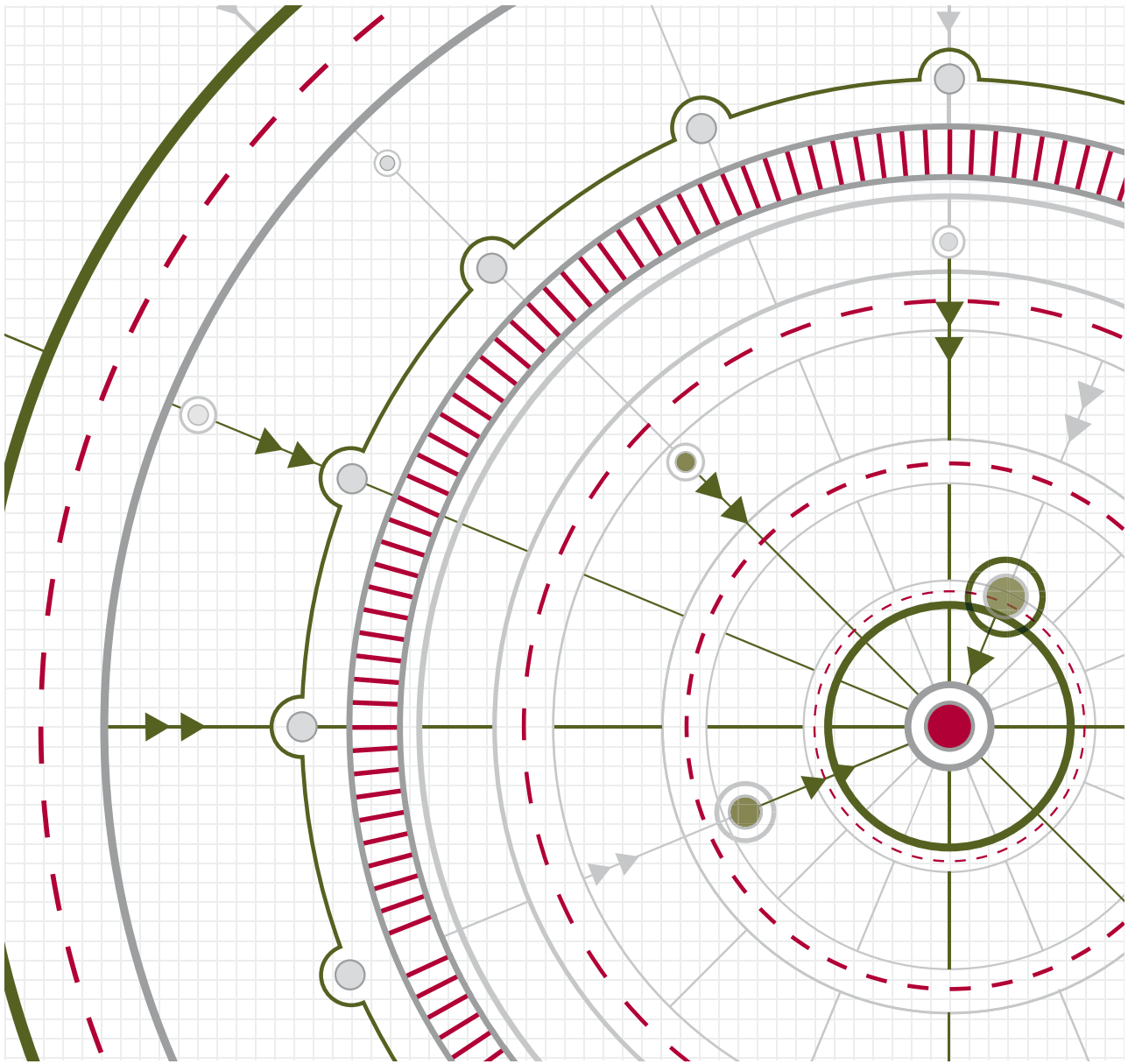


Monday 26 September 2016  
The Grange City Hotel (London, UK)

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

# 2016 World Standard-Setters Conference





# World Standard-Setters Conference

Monday 26 and Tuesday 27 September 2016

## **Education session:**

*IFRS 15 Revenue from Contracts with Customers*

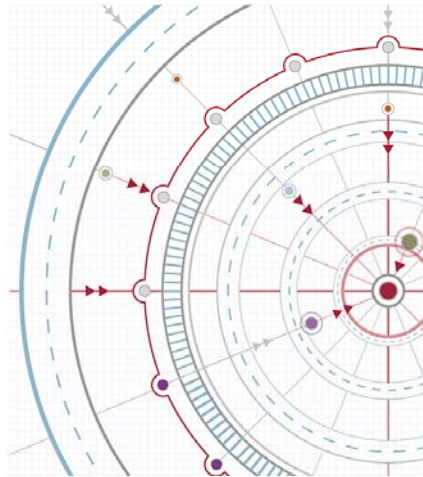
**Henry Rees**

*Director of Implementation and Adoption  
Activities  
IASB*

**Raghava Tirumala**

*Technical Manager  
IASB*





## Education session

# IFRS 15 *Revenue from Contracts with Customers*

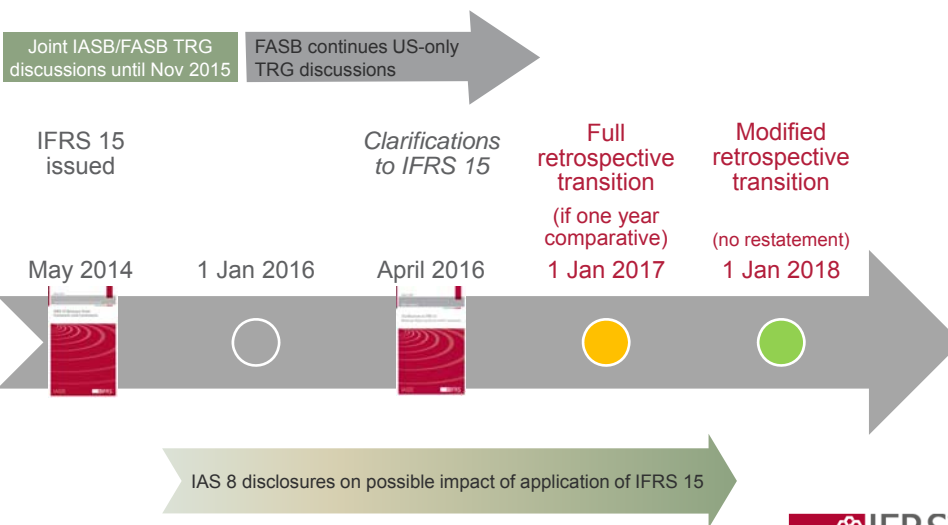
World Standard-Setters  
London 2016

The views expressed in this presentation are those of the presenter, not necessarily those of the International Accounting Standards Board (the Board) or IFRS Foundation.

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## IFRS 15 implementation timeline



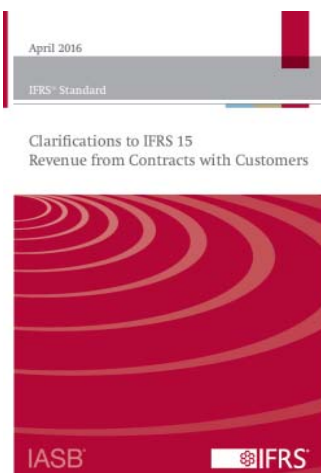
# Clarifications to IFRS 15



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## Overview

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- Targeted *clarifications*
- A follow-up of discussions of joint Transition Resource Group
- Effective date 1/1/2018 (aligned with IFRS 15)
- Early application permitted
- Retrospective application as if amendments included in IFRS 15 at date of initial application



## Activities of joint TRG

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- Limited life, joint group with FASB to support transition
- Does *not* issue authoritative guidance
- Information about the TRG at <http://go.ifrs.org/RTRG>
- 6 joint meetings held since formation of the group
- Meeting reports at <http://go.ifrs.org/RTRG-meetings>
- Meetings of IFRS stakeholders not scheduled for 2016—monitor questions and submissions



## Implementation support

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IFRS 15 Implementation page  
[go.ifrs.org/IFRS15-implementation](http://go.ifrs.org/IFRS15-implementation)

TRG [Submissions log](#)

### IFRS 15 Revenue from Contracts with Customers: Implementation

This page provides an overview of all of the activities undertaken by the International Accounting Standards Board (the Board) to support implementation of IFRS 15. It will be updated throughout the implementation phase of this Standard.

#### Educational and implementation materials

In addition to the materials provided within IFRS 15 itself, including the Illustrative Examples, various materials that support implementation of IFRS 15 are available. These are summarised below. Throughout the implementation phase, the Board will monitor implementation and will consider whether additional materials might be helpful.

#### Materials published alongside IFRS 15 and Clarifications to IFRS 15

Project Summary and Feedback Statement	May 2014
IASB member advice—Patricia McConnell	June 2014
Research Perspectives: Revenue recognition: Ready, a Standard approach?	June 2014
Deloitte IASB Vice-Chairman Ian MacKenzie's discussion Clarifications to IFRS 15	April 2016

#### Webcasts

Joint IASB and FASB Webcast—Implementation Update on IFRS 15 (Register now)	15 September 2016
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#### Summaries of issues discussed at TRG Meetings

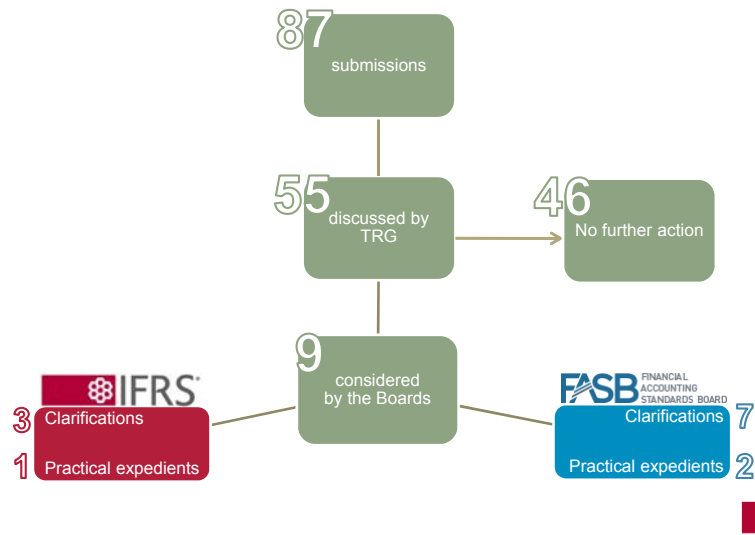
July 2014	
October 2014	
January 2015	
March 2015	
July 2015	
November 2015	

The complete log of submissions received by the TRG as at 2 November 2015 (with hyperlinks to staff papers, meeting summaries, etc.) is available here.

Submission number	Type	Summary of issue	TRG meeting date	TRG paper published	Current status
01	Consultancy	What are the steps for consulting that a decline in the customer's financial condition is significant enough to warrant a measurement of the collectibility criteria for a contract as zero?	20/09/15	06/10/15	Research the discussion indicated that consultation can understand and apply the applicable guidance in the new revenue standard, the Board do not plan any further action at this time.
02	Consultancy	How should an entity account for cash received in a long-term contract when the entire transaction price is not payable at contract?	20/09/15	06/10/15	Board members indicated the staff to perform additional research and comment about the implementation question. The research was discussed by the Board at a Staff Board Meeting on March 10, 2016. At the meeting, the staff received to clarify the collectibility guidance. The staff received not to propose any changes to the collectibility guidance at this time. Refer to the staff paper for related staff papers and related decisions reached.
03	Consultancy	(1) Under what circumstances could an entity determine at contract inception that it was probable that it will collect the consideration to which it is entitled for the entire term of the contract? (2) What does it mean to say that the obligation to account revenue is an obligation that is not within the scope of the contract due to collectibility?	20/09/15	06/10/15	Research the discussion indicates that consultation can understand and apply the applicable guidance in the new revenue standard, the Board do not plan any further action at this time.
04	Staff	Should the contract on variable consideration be applied at the contract level or the performance obligation level?	20/09/15	06/10/15	Research the discussion indicates that consultation can understand and apply the applicable guidance in the new revenue standard, the Board do not plan any further action at this time.
05	Staff	Should an entity account for consideration it expects to owe to customers from a contract as a liability when the performance obligation is satisfied or when recognized in accordance with paragraph 96(a)(1)-(4) of IFRS 15? Paragraph 97 or when the entity provides to the consideration in accordance with paragraph 98(a)(1)-(4) of IFRS 15? Paragraph 97?	20/09/15	06/10/15	The TRG began initial discussions at the January 16, 2015 TRG meeting to provide the Board staff with preliminary feedback on the issue. The implementation questions were generally discussed by the staff and IASB staff members at the March 10, 2016 TRG meeting. Due to technology issues, the staff is being brought back for discussion at the July 13, 2016 meeting because the staff needs it will be beneficial to discuss the topic again.

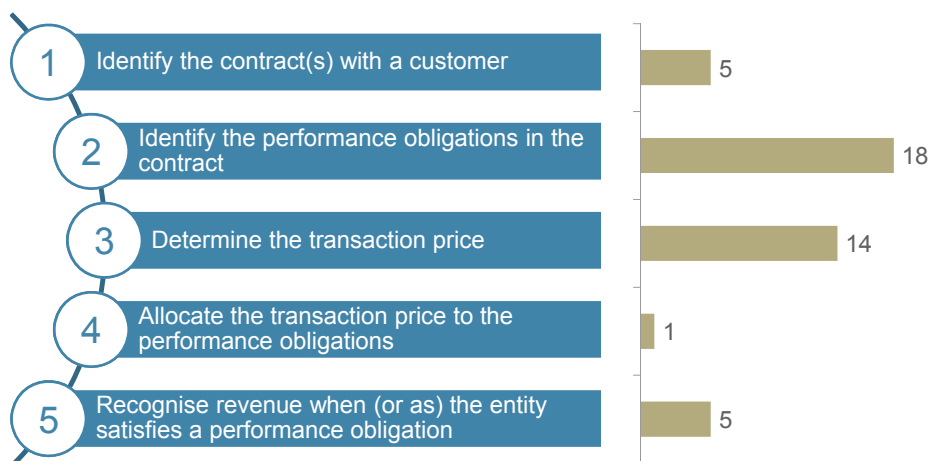
## Joint TRG activities (until Nov 2015)

7



## Where are the challenges?

8





## Follow-up by IASB

9

### Topics considered by the IASB and FASB

- Identifying performance obligations
- Principal versus agent considerations
- Licensing
- Collectability
- Non-cash consideration
- Definition of a completed contract
- Practical expedients on transition
- Presentation of sales taxes

### IASB addressed

- ✓
- ✓
- ✓
- ✗
- ✗
- ✗
- ✓
- ✗



## Topics clarified by IASB



## Identifying performance obligations

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**Objective:** To identify the promised goods or services that are distinct and should be accounted for separately

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

Good or service is capable of being distinct

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

Promise is separately identifiable

- Factors to consider:
  - Integration
  - Modification or customization
  - Highly dependent or highly interrelated

## Implementation question

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- What is 'separately identifiable'?
- Boards' clarification: Is the nature of the promise to transfer each good or service or to transfer a combined item to which the individual goods or services are inputs?

## Example

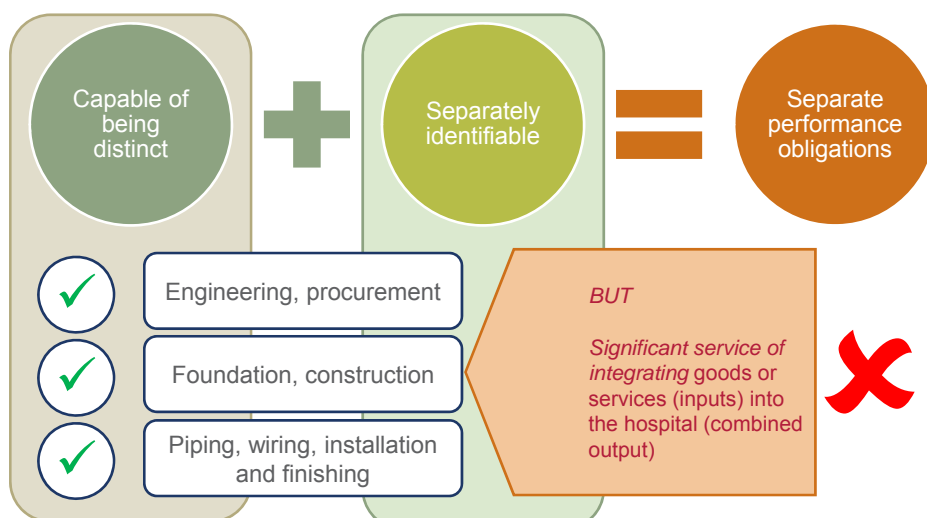
13

- Example 10 of the revenue standard
- An entity, a contractor, enters into a contract to build a hospital for a customer
- Facts
  - Contractor is responsible for the overall management of the project and identifies various goods and services to be provided, including
    - engineering, site clearance, foundation, procurement, construction of the structure, piping and wiring, installation of equipment and finishing.
  - Contractor or competitors regularly sell many of these goods and services separately to other customers.
  - Customer could generate economic benefit from the individual goods and services by using, consuming, selling or holding those goods or services



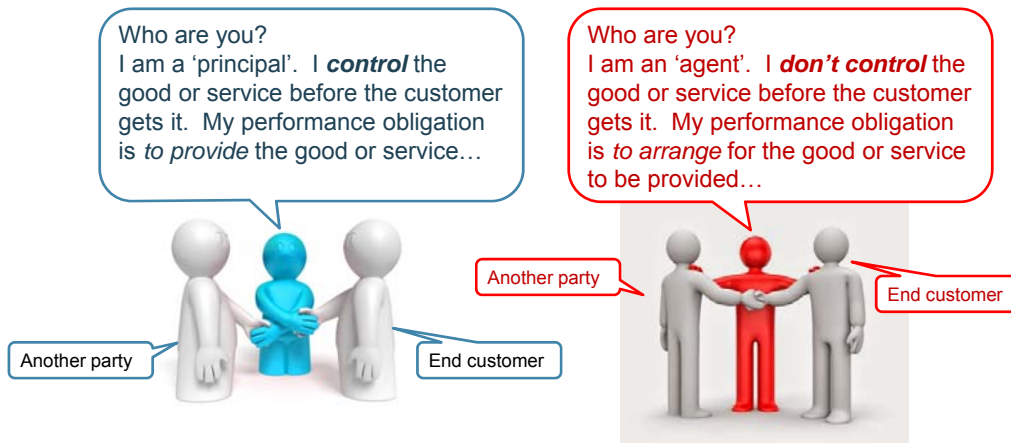
## Distinct goods or services?

14



## Principal versus agent

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It is all about control



## Principal or agent?

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- Example 47—Promise to provide goods or services
- Facts
  - An entity, a travel agency, purchases tickets from airlines at reduced rates compared with the tickets sold directly to the public
  - The entity agrees to buy a specific number of tickets at a fixed price regardless of whether it is able to resell them
  - The entity determines the prices at which the tickets will be sold to its customers
- Is the entity a principal or an agent?



## Principal or agent?

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Identify the specified good or service



✓ Ticket



✗ Flight



Does the entity control the good or service?

**Yes**

- ✓ Ability to direct the use
- ✓ Obtains benefit by use/sale



The entity is...

**A principal**



## Licence of intellectual property

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Does the licenced IP change?



Right to *use* IP

IP has significant standalone functionality

Revenue at point in time



Right to *access* IP

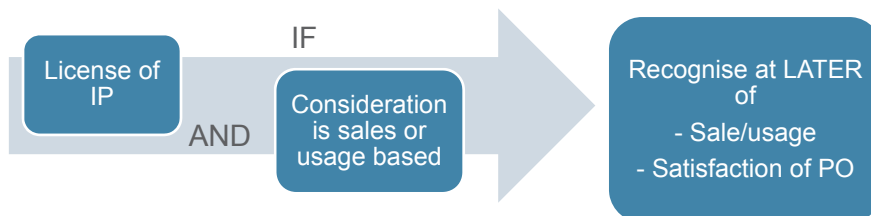
Change in form or functionality of IP

Benefits substantially derived/dependent on licensor's activities

Revenue over time

## Sales-based or usage-based royalties for licence of IP

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Exception applies if:

- Royalty relates only to a licence or
- Licence is the predominant item

Other topics discussed  
by the TRG

## Material rights

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Does the contract include customer options?

- Options to acquire additional goods for free or at discount
- Come in many forms (sales incentives, loyalty points, contract renewal options etc)



Does the option provide the customer with a material right?

- Customer would not receive the option without entering into that contract
- Discount is incremental to the range of discounts typically given



The customer option is accounted for as...

**A Performance Obligation**

Customer in effect pays in advance for future goods or services

**Evaluation of facts and circumstances and the use of judgement**



## Recognise revenue when (or as) a performance obligation is satisfied

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**Performance obligation is satisfied by transferring good or service (because the customer obtains control of the good or service)**

**Performance obligations satisfied over time if specified criteria met**

- Select single measure of progress to depict performance
- Output methods (direct measurement, surveys, milestones etc)
- Input methods may need to be adjusted (eg uninstalled materials)

**All other performance obligations satisfied at a point in time**

- Performance complete at the point the customer obtains control of the promised asset



# Transition, practical expedients and disclosures

## Transition

		PY (2017)		CY (2018)	CY Notes
Full retrospective	Cumulative catch-up	Contracts under new standard			
		Contracts restated			
Modified retrospective		Contracts not restated	Cumulative catch-up	Contracts under new standard	Contracts presented under legacy IFRS

Optional reliefs include

- Completed contracts
- Modified contracts



## Practical expedients on transition

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- New practical expedients to permit:
  - use of hindsight in restating modified contracts
  - not to apply IFRS 15 to contracts that are completed contracts at the date of transition to IFRS 15

## Disclosures

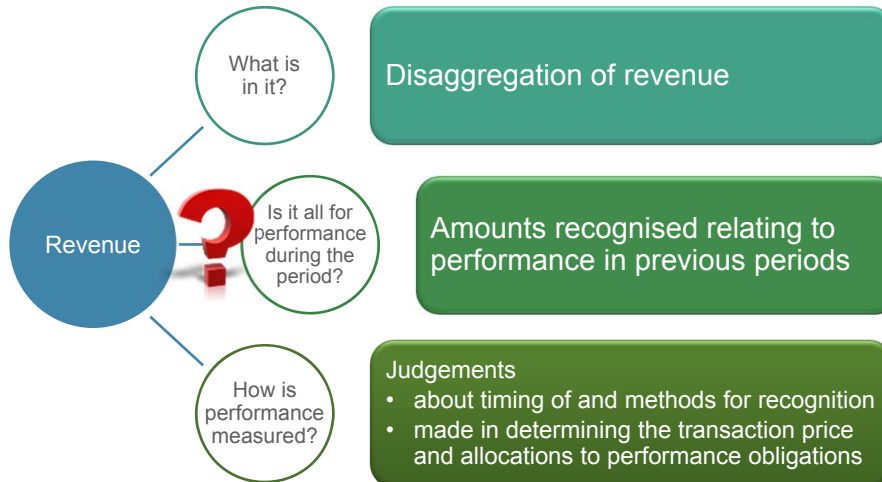
26

### Objective

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

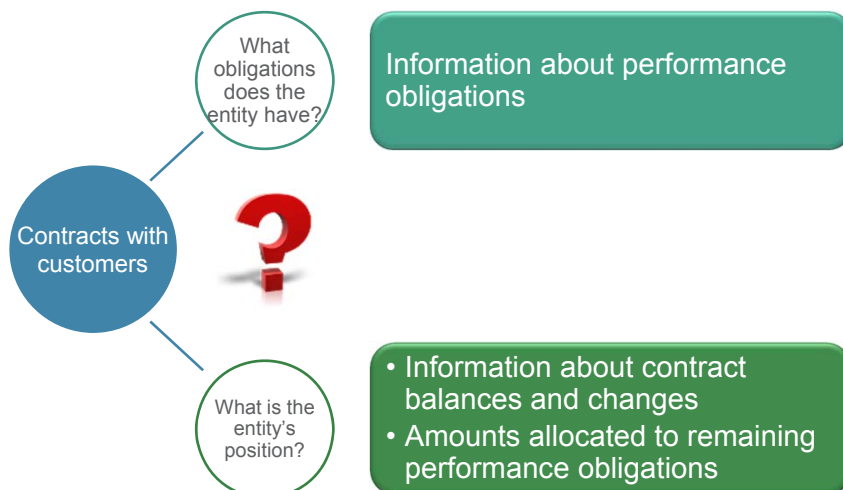
## Disclosures

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## Disclosures

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## Key messages

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2018 is  
closer than  
you think

Tap available  
resources  
(TRG, industry  
groups...)

Fresh look  
under the new  
5-step  
framework

Disclosures:  
Entity-specific  
and business  
model-specific




## Contact us

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