

IFRS 15 *Revenue from Contracts with Customers*

Emerging Economies Group meeting
Agenda Paper 1
8 May 2017, Mumbai, India

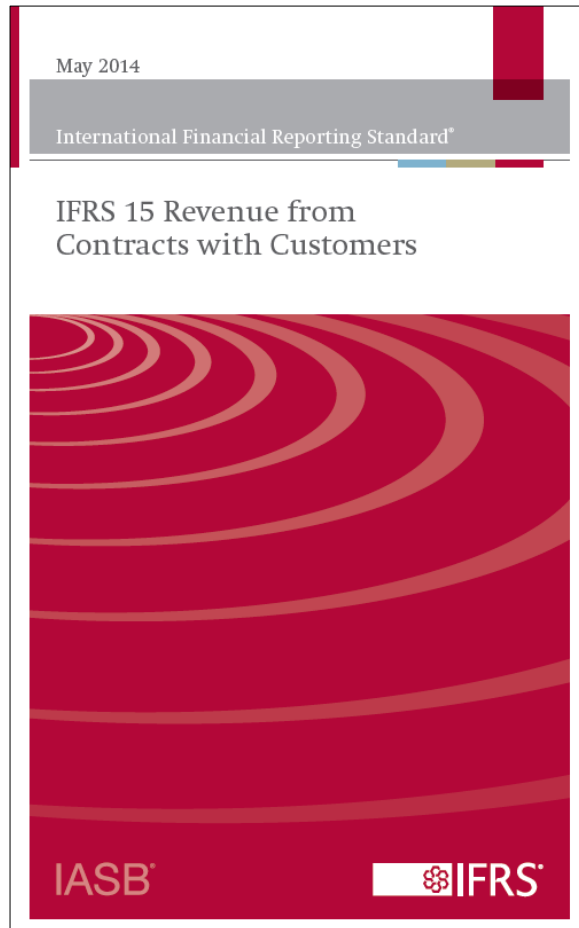
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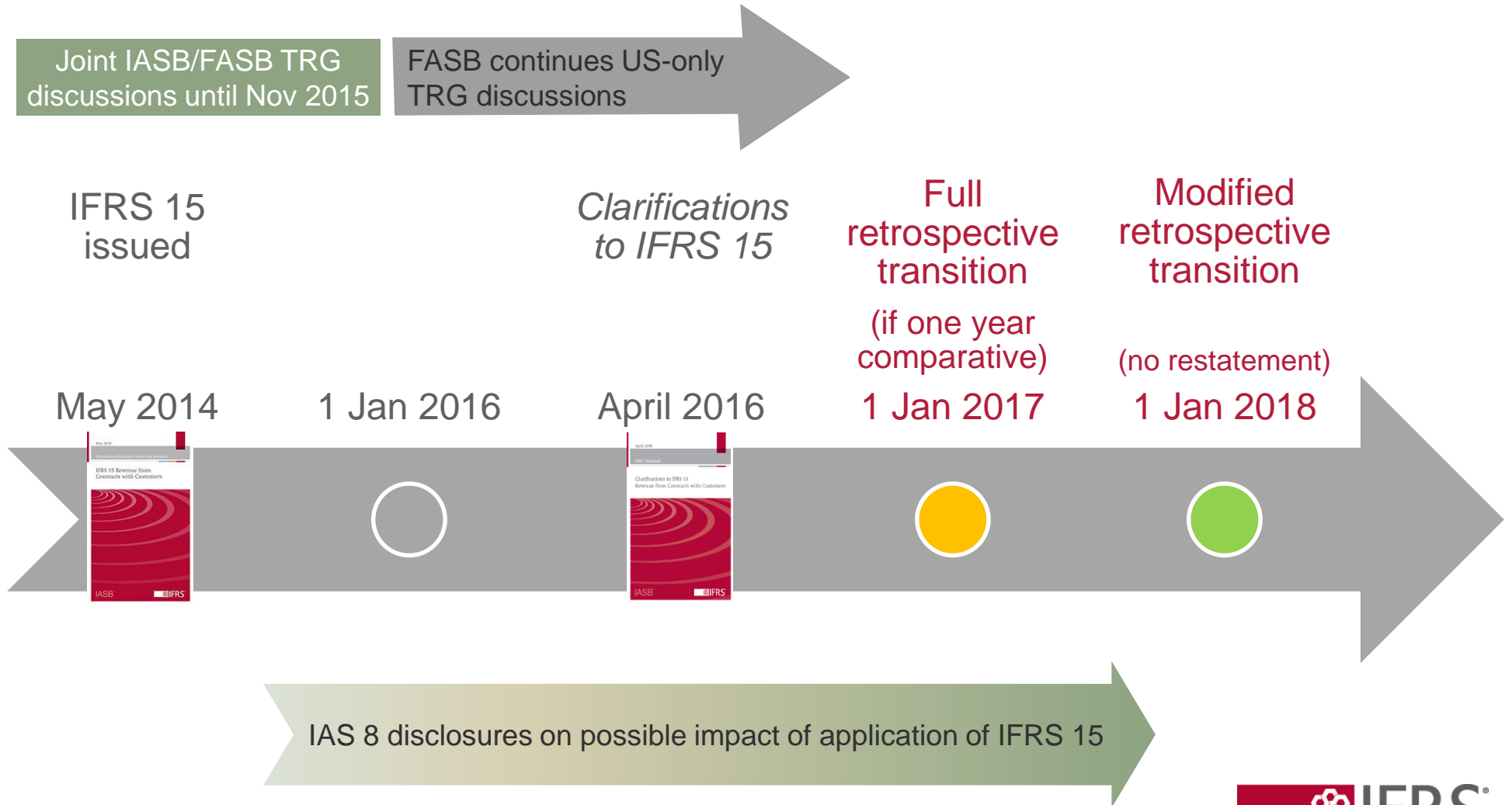
Overview of IFRS 15

IFRS 15 at a glance



- IFRS 15 *Revenue from Contracts with Customers*
 - Replaces IAS 18, IAS 11 and related Interpretations
 - Joint Standard with FASB
- Framework for revenue recognition
- Effective date 1/1/2018, early application permitted

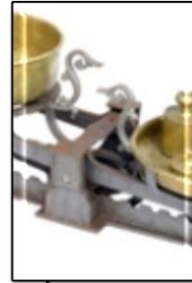
IFRS 15 implementation timeline



Significant improvements



Robust framework for addressing revenue issues



Increases comparability



Provides guidance in areas on which previous IFRS Standards had none



Enhances disclosures

The thought process changes even if the accounting doesn't

The 5-step model

The 5-step revenue recognition model

Recognise revenue to depict transfer of goods or services in an amount of consideration to which the entity expects 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 (or as) the entity satisfies a performance obligation

Identify the contract

Existence of a contract (¶9–16)

- Must meet specified criteria to apply the model, including
 - Collection of consideration probable

Combine contracts (¶17)

- Negotiated as a package
- Linked consideration
- Goods or services form single performance obligation

Contract modifications (¶18–21)

- Separate contract if the modification adds distinct goods/services at standalone selling price
- Prospective if remaining goods/services distinct from goods or services already transferred
- Otherwise, cumulative catch-up

Identify the contract—Collectability

(¶ 9(e))

It is probable the entity will collect the consideration it ***will be entitled to*** in exchange for goods or services that ***will be transferred*** (BC46)

Assessing whether contract is a genuine transaction
(only a minority of contracts expected to fail this criterion)

Revenue recognition when a contract fails the collectability criteria:

No remaining performance obligations

↓ ¶15(a)

Recognise revenue ***only if:***

- all consideration received; ***and***
- consideration is non-refundable

Some remaining performance obligations under the contract:

↓ ¶ 15(b)

Recognise revenue ***only if:***

- contract terminated; ***and***
- consideration received; ***and***
- consideration is non-refundable

Identifying performance obligations

Objective: To identify the promised goods or services that are distinct and should be accounted for separately (¶22)

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

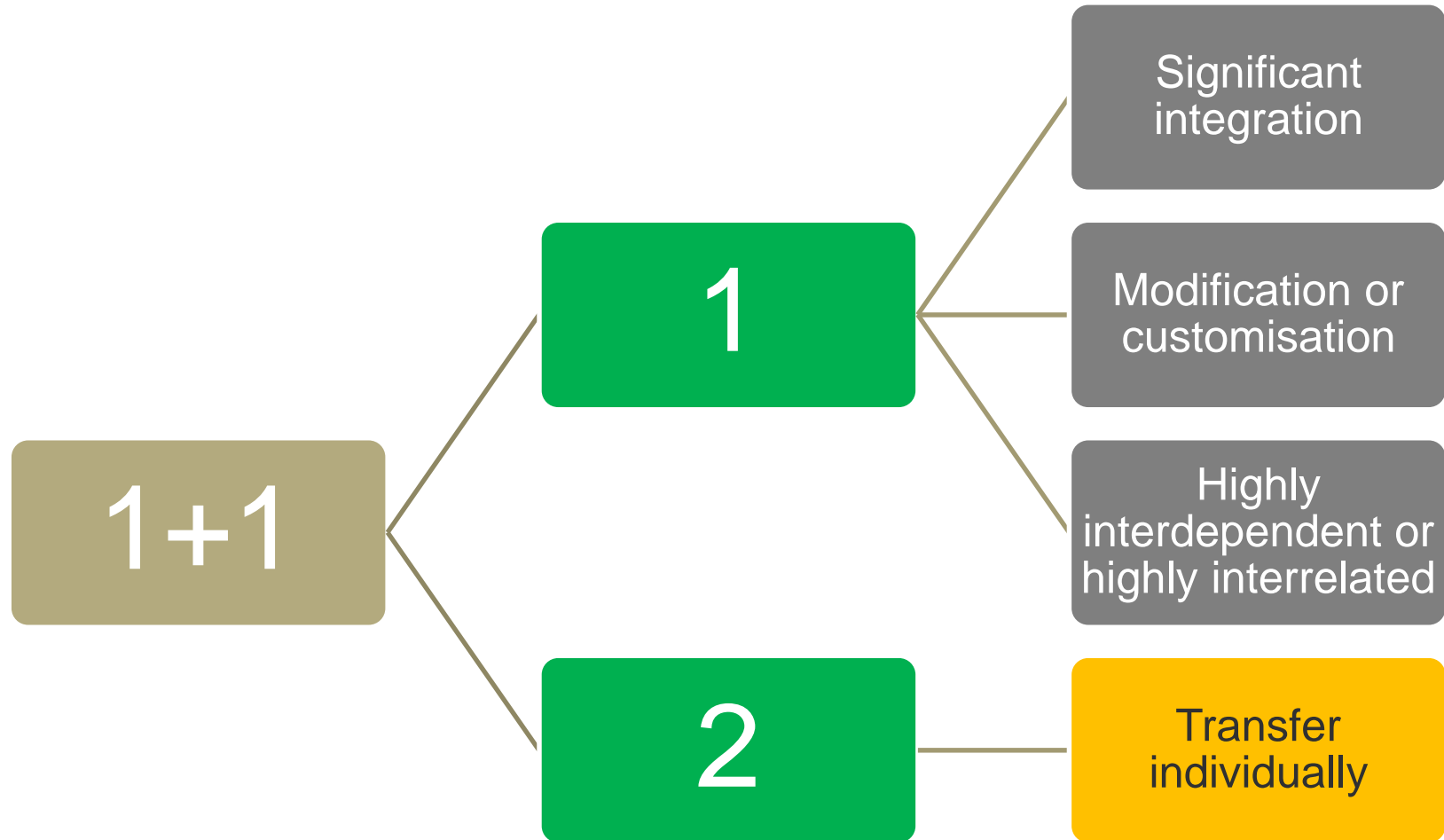
Good or service is capable of being distinct (¶27(a))

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

Distinct within the context of the contract (¶27(b))

- Is the entity's promise to transfer:
 - each of the goods or services separately; or
 - a combined item to which the goods or services are *inputs*

Distinct within the context of the contract (¶29)

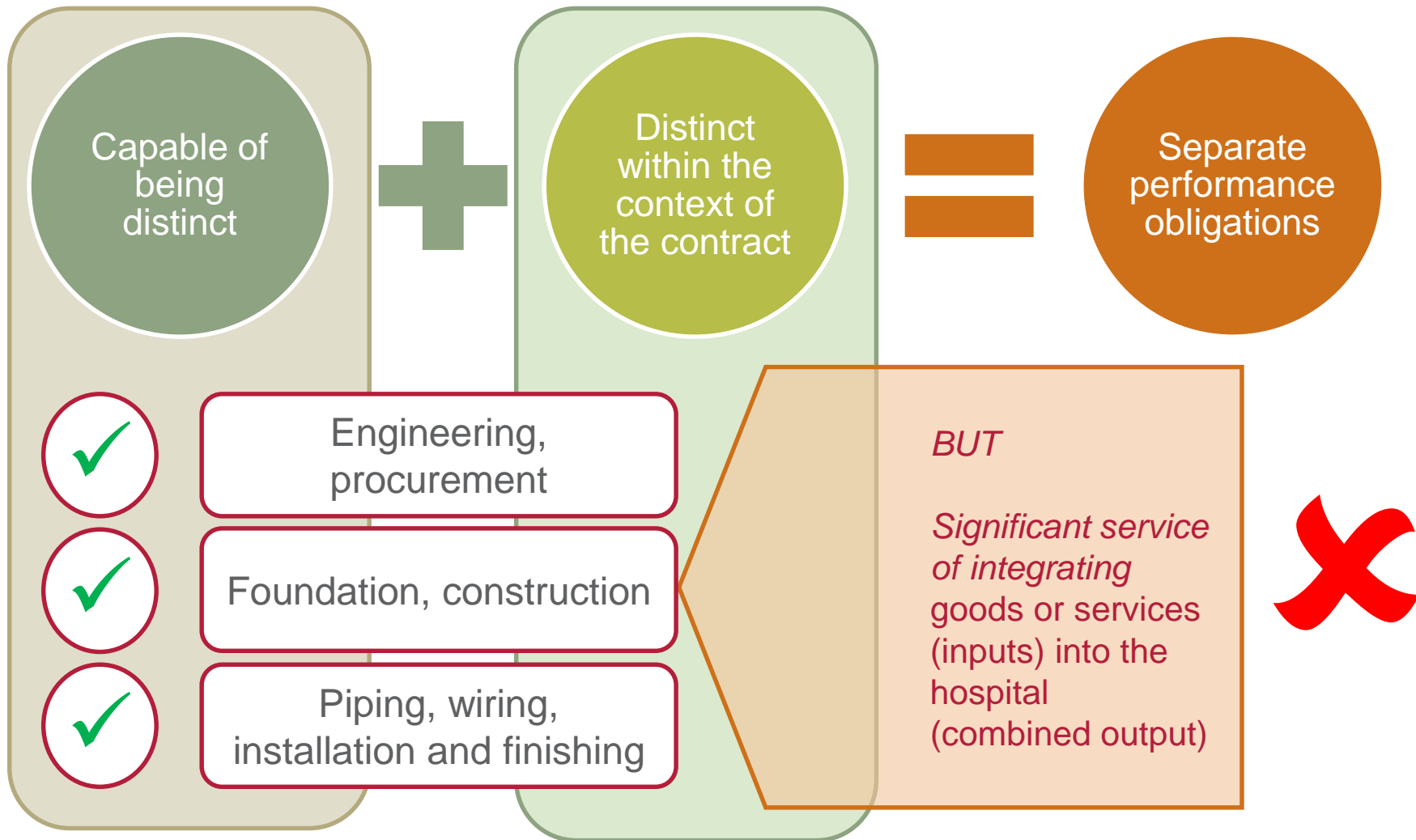


Distinct within the context of the contract (Example 10 Case A)

Significant integration service

- 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 within the context of the contract (Example 10 Case A)



Other examples

- Example 11 Case C—*customisation or modification*
 - Contract to provide equipment & installation service. Equipment functional without customisation & modification. Installation could be performed by others.
- Example 11 Case E—*highly interdependent or interrelated*
 - Contract to provide equipment and related specialised consumables. Consumables sold separately by entity.

A framework for measuring revenue

- Transaction price is the amount to which the entity expects to be entitled in exchange for transferring goods or services
- Specific guidance on the following:

Variable consideration

Estimate using:

- Expected value
- Most likely amount

but 'constrained' (next slide)

Significant financing

Adjust promised consideration if timing provides customer or entity with significant benefit of financing

Non-cash consideration

Measure at fair value unless FV cannot be reasonably estimated

Consideration payable to customer

Reduction of the TP unless in exchange for a distinct good or service

When to recognise variable consideration

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 (¶56)

- 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

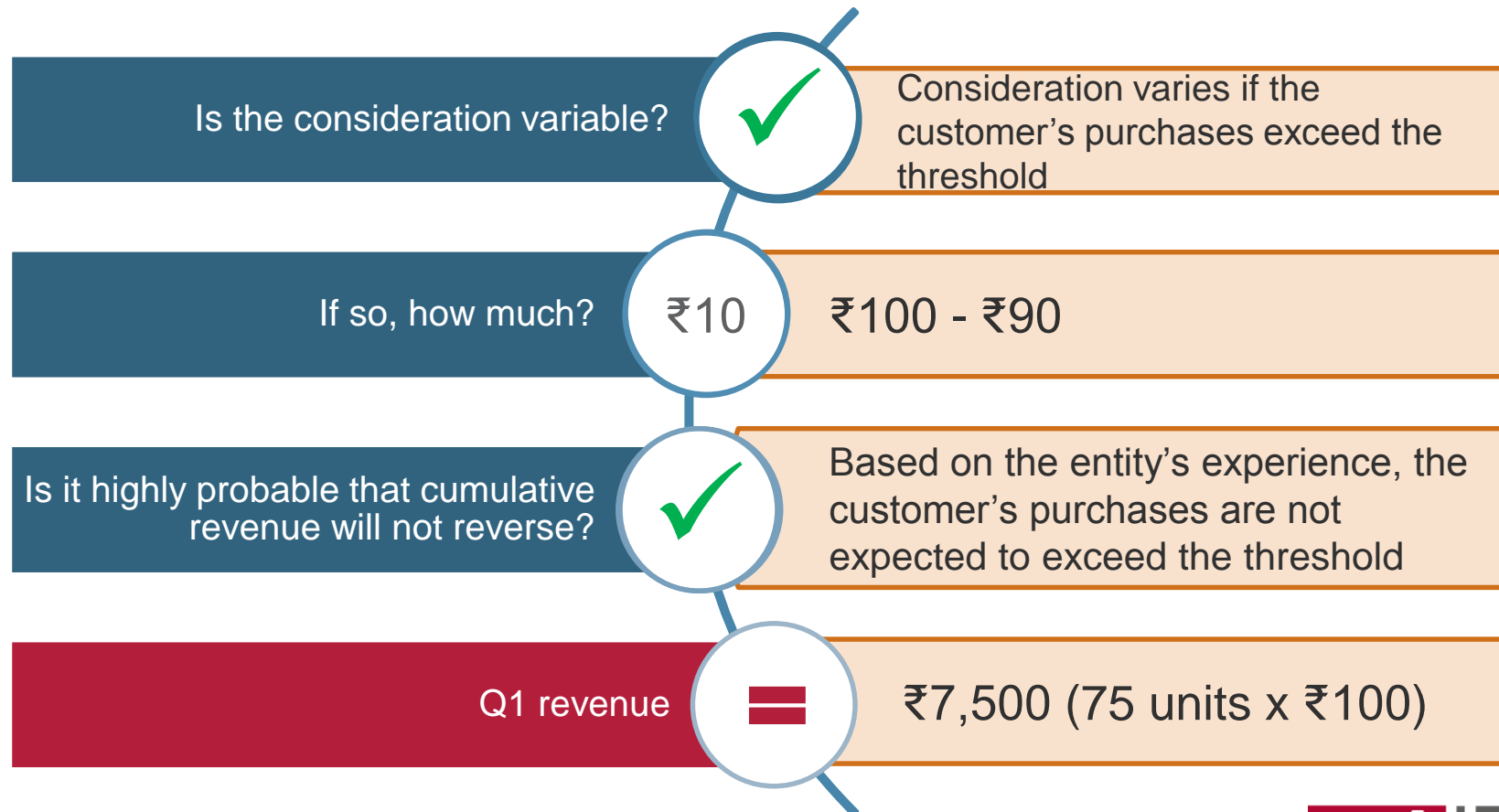
Volume discount incentive

- An entity enters into a contract on 1/1/16 to sell Product A for ₹100/unit. If customer purchases more than 1,000 units in a calendar year, price retrospectively reduced to ₹90/unit

How much revenue should the entity recognise?

- The entity has significant experience with this product and purchasing pattern of customer
- For Q1 ended 31/3/16:
 - Company sells 75 units
 - Company estimates that the customer's purchases will not exceed 1,000-unit threshold

For Q1 ended 31/3/16



Volume discount incentive

- An entity enters into a contract on 1/1/16 to sell Product A for ₹100/unit. If customer purchases more than 1,000 units in a calendar year, price retrospectively reduced to ₹90/unit

How much revenue should the entity recognise?

- The entity has significant experience with this product and purchasing pattern of customer
- For Q2 ended 30/6/16:
 - In May 2016, the customer acquires another company and the entity sells an additional 500 units to the customer
 - In the light of new facts, the entity estimates that the customer's purchases will exceed the threshold

For Q2 ended 30/6/16

Is it highly probable that cumulative revenue will not reverse?

X

The customer's purchases now are expected to exceed the threshold, so it is NOT highly probable that revenue will not reverse if recognised at ₹100/unit

Is this correction of error?

X

No; this is a change in the estimate of variable consideration

Q2 revenue

=

500 units x ₹90

45,000

75 units x (₹10)

(750)

TOTAL ₹44,250

Allocate the transaction price

Allocate to each performance obligation the amount to which entity expects to be entitled in exchange for satisfying that performance obligation (¶73)

- Relative standalone selling price basis
 - estimate selling prices if not observable
 - residual estimation techniques may be appropriate
- Discounts and variable amounts allocated entirely to specific performance obligation if specified criteria met

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

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 (¶35)

- Select single measure of progress to depict performance in transferring goods/services
 - Input methods may need to be adjusted [eg uninstalled materials (Example 19)]
 - Units produced or delivered may be a reasonable proxy in some cases

All other performance obligations satisfied at a point in time (¶38)

- Revenue recognised at the point the customer obtains control of the promised asset. Indicators of control include:
 - Present right to payment
 - Legal title
 - Physical possession
 - Risks and rewards of ownership
 - Customer acceptance

When is PO satisfied over time? (ie revenue over time)

Customer receives and consumes benefits of entity's performance as entity performs (¶35(a)) *or*

- Cleaning services, shipping service

Entity's performance creates or enhances an asset that customer controls as asset is created or enhanced (¶35(b)) *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 (¶35(c))

- Building a specialised asset that only the customer can use

When is PO satisfied over time? (¶35(c))

Multi-unit real estate development

Asset has no alternative use (¶36)

- (1) Contractually cannot redirect the asset
- (2) Practically cannot redirect the asset in completed state
 - This condition is generally met

Right to payment for performance to date (¶37)

- Throughout contract, right to approximate selling price of goods/services transferred
- Depends upon the legal requirements in the jurisdiction

- Pattern of transfer may be different for different real estate contracts because of differing facts and circumstances
- Revenue recognised only if both conditions are met



Application guidance

Application guidance on...

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- Performance obligations satisfied over time
- Methods for measuring progress
- Sale with a right of return
- Warranties
- Principal versus agent considerations
- Customer options for additional goods or services
- Customers' unexercised rights
- Non-refundable upfront fees
- Licensing
- Repurchase agreements
- Consignment arrangements
- Bill-and-hold arrangements
- Customer acceptance
- Disclosure of disaggregated revenue

Principal versus agent

Who are you?
I am a 'principal'. I **control** the good or service before the customer gets it. My performance obligation is *to provide* the good or service...



Another party

End customer

Who are you?
I am an 'agent'. I **don't control** the good or service before the customer gets it. My performance obligation is *to arrange* for the good or service to be provided...



Another party

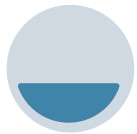
End customer

It is all about control

- 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? (Example 47)



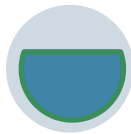
Identify the specified good or service



✓ Ticket



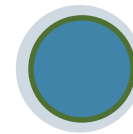
✗ Flight



Does the entity control the good or service?

Yes

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



The entity is...

A principal



Principal or agent? (similar to Example 48)

What if a ticket is bought by the entity from an airline only when requested by a customer?



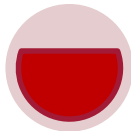
Identify the specified good or service



✓ Ticket



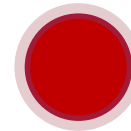
✗ Flight



Does the entity control the good or service?

No

- ✗ Ability to direct the use
- ✗ Does not obtain benefit by use/sale



The entity is...

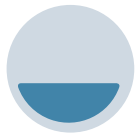
An agent



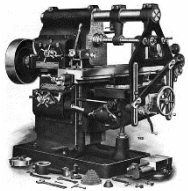
- Facts
 - An entity promises to develop specifications and manufacture a machine for a customer
 - The entity sub-contracts the manufacturing of the machine and arranges for the sub-contractor to deliver the machine
 - The entity and customer negotiate the selling price
 - The entity is responsible for any corrections to the machine resulting from error in specifications

Is the entity a principal or an agent?

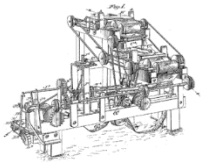
Principal or agent? (Example 46)



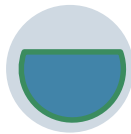
Identify the specified good or service



✓ Machine



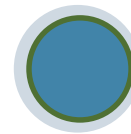
✗ Design



Does the entity control the good or service?

Yes

- ✓ Significant integration service by the entity
- ✓ Sub-contractor services are inputs to the output



The entity is...

A principal



Licensing intellectual property

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Does the licenced IP change?



Right to *use* IP

Right to *access* IP

IP has significant standalone functionality

Change in form or functionality of IP

Benefits substantially derived/dependent on licensor's activities

Revenue at point in time

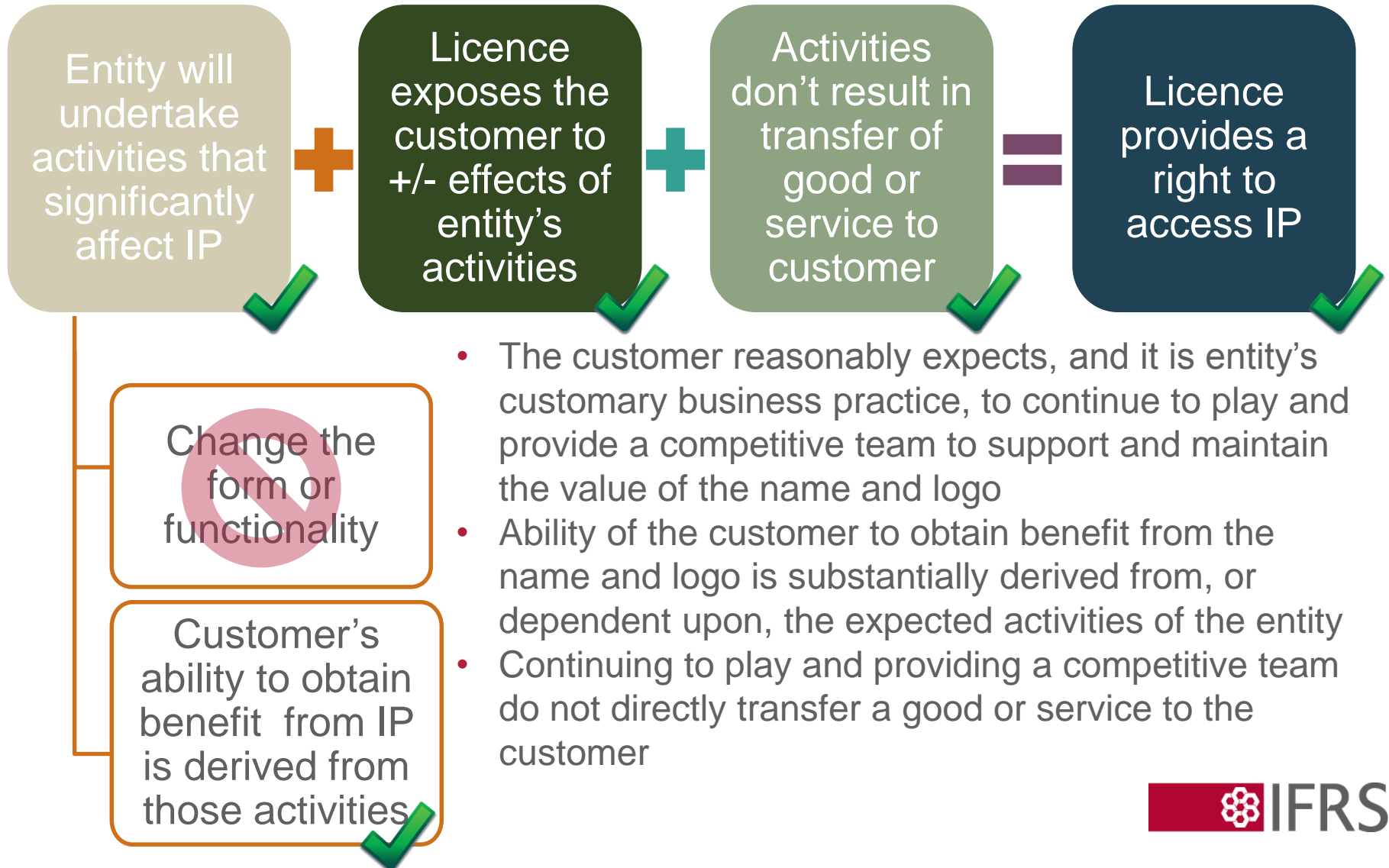
Revenue over time

Licensing—what is the promise? (Example 61)

- Facts
 - An entity, a well-known sports team, licenses the use of its name and logo to a customer. The customer, an apparel designer, has the right to use the sports team's name and logo on items including t-shirts, caps, mugs and towels for one year
 - The entity will receive fixed consideration of ₹2 million and a royalty of 5% of sales price of any items using the team name or logo
 - The customer expects that the entity will continue to play games and provide a competitive team
 - The entity concludes that its only performance obligation is to transfer the licence.

Is the performance obligation a right to access IP satisfied over time or a right to use IP satisfied at a point in time?

Licensing—what is the promise? (Example 61)



Other examples

- An entity licences software and provides updates, which it concludes as two performance obligations. Software has significant standalone functionality that is unaffected by the updates or the entity's ongoing activities.

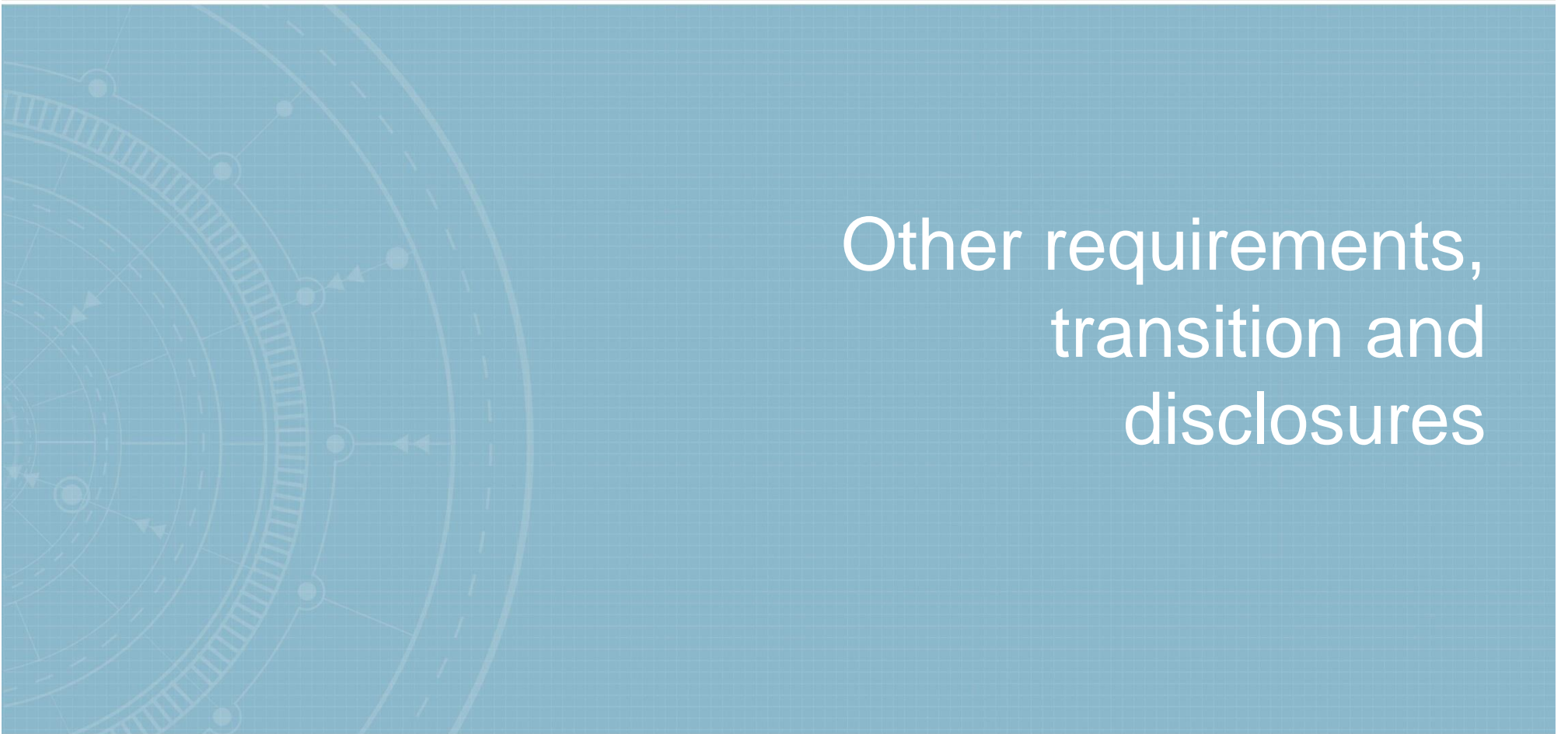
Sales-based or usage-based royalties for licence of IP

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Exception applies if:

- Royalty relates only to a licence or
- Licence is the predominant item (eg licence to show a movie and additional promotional goods or services)



Other requirements, transition and disclosures

Contract costs

Acquire a contract

- Capitalise if incremental (except if contract \leq 12 months)

Set-up costs

- No revenue recognition
- Capitalise if create resource for future use

Fulfilment costs

- No WIP if PO satisfied over time

		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 that 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

Completed contract is a contract for which the entity has transferred all of the goods or services identified in accordance with previous revenue Standard.

Disclosure requirements

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

Amounts recognised relating to performance in previous periods

Contracts

Information about contract balances and changes

Information about performance obligations

Amounts allocated to remaining performance obligations

Significant judgments

Timing of and methods for recognising revenue

Determining the transaction price and amounts allocated to performance obligations

Implementation support by the IASB

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IFRS 15 Implementation page
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

<i>Project Summary and Feedback Statement</i>	May 2014
IASB member article—Patricia McConnell: <i>Investor Perspective: 'Revenue recognition: finally, a Standard approach'</i>	June 2014
Debrief: IASB Vice-Chairman Ian Mackintosh discussing <i>Clarifications to IFRS 15</i>	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](#).

FASB|IASB Joint Transition Resource Group for Revenue Recognition
 Submissions Log compiled by Staff
 As of 7 July 2015

Submission number	Topic	Summary of issue	TRG meeting date	TRG paper reference	Current Status
16	Collectibility	What is the basis for concluding that a decline in the customer's financial condition is significant enough to warrant a reassessment of the collectibility criteria for a contract to exist?	26-Jan-15	No. 13	Because the discussion indicated that stakeholders can understand and apply the applicable guidance in the new revenue standard, the Boards do not plan any further action at this time.
25	Collectibility	How should an entity account for cash received in a long term contract when the entire transaction price is not probable of collection?	26-Jan-15	No. 13	Board members instructed the staff to perform additional research and outreach about the implementation question. The research was discussed by the Boards at a Joint Board Meeting on March 18, 2015. At that meeting, the FASB decided to clarify the collectibility guidance. The IASB decided not to propose any changes to the collectibility guidance at this time. Refer to the links below for related staff papers and tentative decisions reached. FASB Memo No. 1: Revenue Recognition - Collectibility: Accounting for Cash Received IASB Agenda Paper 7B: Revenue from Contracts with Customers - Collectibility Considerations FASB Meeting Minutes IASB Update
30	Collectibility	(1) Under what circumstances could an entity determine at contract inception that it was probable that it will collect the consideration to which it will be entitled but then concurrently record an impairment loss (e.g., bad debt expense) for a contract asset arising from the contract? (2) When would an entity meet the criteria in order to record revenue for an arrangement that is not within the scope of the model due to collectibility concerns?	26-Jan-15	No. 13	Because the discussion indicated that stakeholders can understand and apply the applicable guidance in the new revenue standard, the Boards do not plan any further action at this time.
31	Variable Consideration	Should the constraint on variable consideration be applied at the contract level or the performance obligation level?	26-Jan-15	No. 14	Because the discussion indicated that stakeholders can understand and apply the applicable guidance in the new revenue standard, the Boards do not plan any further action at this time.
19	Variable consideration and consideration payable to the customer	Should an entity account for consideration it expects to pay its customers from a planned coupon drop when the performance obligation is satisfied (good or service transferred) in accordance with paragraph 606-10-32-6/IFRS 15 Paragraph 51 or when the entity promises to pay consideration in accordance with paragraph 606-10-32-27/IFRS 15 Paragraph 72?	26-Jan-15	No. 14	The TRG began initial discussions at the January 26, 2015 TRG meeting to provide the Boards and staff with preliminary feedback on this issue. The implementation questions were separately discussed by the IASB and FASB TRG members at the March 30, 2015 TRG meeting due to technology issues. The topic is being brought back for discussion at the July 13, 2015 meeting because the staff thinks it will be beneficial to discuss the topic jointly.

[30-Mar-15](#) [No. 28](#)
[13-Jul-15](#) [No. 37](#)

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