IFRS Interpretations Committee meeting

Date 29 November 2022

Project Post-implementation Review (PIR) of IFRS 15 Revenue from Contracts with Customers

Topic Phase 1–Identifying matters to be examined

Contacts Jelena Voilo (jvoilo@ifrs.org)
Rashida Abdryashitova (rabdryashitova@ifrs.org)

This paper has been prepared for discussion at a public meeting of the IFRS Interpretations Committee (IC). This paper does not represent the views of the International Accounting Standards Board (IASB) or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS® Accounting Standards. The IASB’s technical decisions are made in public and are reported in the IASB Update.
Purpose of this session

To share your views on the implementation and ongoing application of IFRS 15 *Revenue from Contracts with Customers*, including matters that you think the IASB should consider in the Post-implementation Review (PIR) of the Standard.

Questions
- Slides 3–4 set out questions for discussion.

Background information
- Slides 6–9 provide an overview of the PIR objective and process.
- Slides 10–14 provide background to IFRS 15.
- Slides 15–26 provide detailed information on changes introduced by IFRS 15 to support identification of application matters.
Questions

What is your **overall assessment** of IFRS 15?

• Does IFRS 15 achieve its objective of establishing the principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers?

• Do you find the core principle of IFRS 15 and supporting five-step revenue recognition model clear and helpful in making revenue accounting decisions (see slide 12)?

What are the **application matters** that you think the IASB should examine during Phase 1 of the PIR and why? It would be most helpful if for each matter you could explain:

• How prevalent is the matter?

• What is the cause and what is the effect of the matter?

• Which companies are affected?

• Is this matter new, or did it exist under previous revenue requirements?

• What steps could the IASB take to resolve the matter?
Questions

How challenging was the transition to IFRS 15 (see slide 24)?

• Which industries found the transition most challenging and why? Are their issues ongoing?

• In your experience, how often did companies use a modified transition method? Was it more prevalent in some industries than others? Were disclosures provided in the year of application sufficient to explain the transition?

Paragraphs BC454–BC493 of the Basis for Conclusions on IFRS 15 set out the IASB’s analysis of the likely benefits and costs (effects) of implementing and applying the Standard (see high-level overview on slide 13)

• Have actual effects differed from the expected effects?

• Have you observed any other effects of IFRS 15 that were not identified in the effects analysis, for example, effects on the companies’ internal controls or on the way the companies conduct their business?
## Supporting material

<table>
<thead>
<tr>
<th>Supporting material</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>PIR process</td>
<td>6–9</td>
</tr>
<tr>
<td>Background to IFRS 15 and post-issuance activities</td>
<td>10–14</td>
</tr>
<tr>
<td><strong>Detailed information to support outreach</strong></td>
<td></td>
</tr>
<tr>
<td>1. Step 1: Identify the contract(s) with a customer</td>
<td>17</td>
</tr>
<tr>
<td>2. Step 2: Identify the performance obligations in the contract</td>
<td>18</td>
</tr>
<tr>
<td>3. Step 3: Determine the transaction price</td>
<td>19</td>
</tr>
<tr>
<td>4. Step 4: Allocate the transaction price to the performance obligations</td>
<td>20</td>
</tr>
<tr>
<td>5. Step 5: Recognise revenue when (or as) a performance obligation is satisfied</td>
<td>21</td>
</tr>
<tr>
<td>6. Contract costs</td>
<td>22</td>
</tr>
<tr>
<td>7. Disclosures</td>
<td>23</td>
</tr>
<tr>
<td>8. Transition</td>
<td>24</td>
</tr>
<tr>
<td>9. Application guidance</td>
<td>25–26</td>
</tr>
</tbody>
</table>
PIR process
**PIR – what is the objective?**

<table>
<thead>
<tr>
<th>Objective</th>
</tr>
</thead>
</table>
| **OBJECTIVE**
| To **assess** whether the **effects** of applying new requirements on users of financial statements, preparers, auditors and regulators are **as intended** when the IASB developed those requirements |

| Overall, are the requirements working as intended? | **Fundamental questions** (ie ‘fatal flaws’) about the core objectives or principles—their clarity and suitability—would indicate that the new requirements are not working as intended |

| Are there specific application questions? | **Specific application questions** would not necessarily prevent the IASB from concluding that the new requirements are operating as intended but may nonetheless need to be addressed, if they meet the criteria for whether the IASB would take further action |
PIR—how does the IASB respond to identified matters?

1. Consider **whether to take action**, based on the extent to which:
   - the **objective** of the new requirements is not being met;
   - **benefits** to users are significantly lower than expected
   - **costs** of application are significantly higher than expected

2. Determine the **prioritisation** of the matters based on the extent to which:
   - matter has **substantial consequences**
   - matter is **pervasive**
   - matter relates to an issue that **can be addressed** by the IASB or the Interpretations Committee (IC)
   - the benefits of any action would be expected to **outweigh** the costs

3. **Determining the timing of taking action**
   - **High priority**: to be addressed as soon as possible
   - **Medium priority**: to be added to the IASB or the IC research pipeline
   - **Low priority**: to be considered in the next agenda consultation
   - **No action**: require no further action
PIR—what is the process and where are we?

Phase 1
Identify matters to be examined

Start when sufficient information is available

Phase 2
Consider feedback

Publish public request for information

Report identified matters and next steps

September 2022

Q4 2022 – Q1 2023

H1 2023

IASB decided to start PIR of IFRS 15

Phase 1 outreach and information gathering

Request for information to be published
Background to IFRS 15
IFRS 15 at a glance

Substantially converged with US GAAP (Topic 606)

Objective

To establish the principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer

Effective from 1 January 2018
Comprehensive principle-based framework

Core principle

Recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services.

Five-step revenue recognition model

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 company satisfies a performance obligation

Application guidance for each step

Enhanced disclosure requirements
Expected overall improvement to financial reporting

**Benefits:**
- Enhanced comparability across companies, industries and capital markets, including with the US
- Greater rigour in revenue accounting
- More useful information through improved disclosure requirements
- Reduced need for interpretive guidance to be developed on a case-by-case basis

**Costs:**
- Compliance costs for preparers (for example, costs of changing or developing new systems, processes and controls; additional staff, audit and education costs)
- Costs of analysis for users of financial statements (for example, costs of modifying processes and analyses; education costs)

Expected to be ongoing

Expected primarily during the transition
**IASB activities since IFRS 15 was issued**

**A solid foundation for the PIR**
The IASB has put significant efforts into monitoring and supporting the implementation and application of IFRS 15

<table>
<thead>
<tr>
<th>Action</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Established with the FASB</td>
<td>a joint <strong>Transition Resource Group (TRG)</strong> to support implementation of IFRS 15</td>
</tr>
<tr>
<td>Provided</td>
<td><strong>educational materials</strong> such as articles and webcasts</td>
</tr>
<tr>
<td>Issued</td>
<td><strong>clarifications to IFRS 15</strong> to address some of the matters discussed by the TRG</td>
</tr>
<tr>
<td>Analysed application questions at</td>
<td>the <strong>IFRS Interpretations Committee</strong></td>
</tr>
</tbody>
</table>
Detailed information to support outreach
IFRS 15—topic areas

1. Step 1: Identifying the contract(s) with a customer
2. Step 2: Identifying the performance obligations (POs) in the contract
3. Step 3: Determining the transaction price
4. Step 4: Allocating the transaction price to the POs
5. Step 5: Recognising revenue when (as) a PO is satisfied
6. Contract costs
7. Disclosures
8. Transition
9. Application guidance
   • principal vs agent
   • licencing

Note
• Slides 17–26 provide an overview of the requirements for each of these areas
1. Identifying the contract(s) with a customer

A contract is an agreement between two or more parties that creates enforceable rights and obligations*

**Existence of a contract**

Must meet specified criteria to apply the model:
- contract approved by parties who are committed to perform their obligations
- identifiable rights of each party
- identifiable payment terms
- commercial substance
- collection of consideration probable

**Combination of contracts**

Account for as a single contract if one or more criteria are met:
- negotiated as a package
- linked consideration
- goods or services form one performance obligation

**Contract modifications**

Account for:
- as a separate contract—if add distinct goods or services at standalone selling prices
- prospectively—if the remaining goods or services are distinct
- as part of the existing contract with cumulative catch-up—in remaining cases

* IFRS 15 does not apply to lease contracts, insurance contracts, financial instruments and non-monetary exchanges in the same line of business to facilitate sales to customers
## 2. Identifying the POs in the contract

A **performance obligation (PO)** is a promise in a contract with a customer to transfer a **distinct** good or service or a series of distinct goods or services.

### What makes a good or a service distinct?

| Customer can **benefit** from the good or service | • on its own  
|                                                  | • together with other readily available resources (including goods or services previously acquired from the company) |
| Promised good or service is **separable** from other promises | • no significant service of integrating the good or service  
|                                                          | • the good or service does not significantly modify or customise another good or service in the contract  
|                                                          | • the good or service is not highly dependent on or interrelated with other goods or services |

Revenue information on each PO could help estimate individual margins in addition to contract-wide margins.
### 3. Determining the transaction price

**Transaction price** is the amount of consideration to which the company expects to be entitled in exchange for transferring goods or services, excluding amounts collected on behalf of third parties.

<table>
<thead>
<tr>
<th>Variable consideration</th>
<th>Significant financing</th>
<th>Non-cash consideration</th>
<th>Consideration payable to customer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimate using:</td>
<td>Adjust consideration for the time value of money if timing provides customer or company with significant benefit of financing</td>
<td>• Measure at fair value</td>
<td>Reduce the transaction price unless in exchange for a distinct good or service</td>
</tr>
<tr>
<td>• expected value</td>
<td><strong>Constraint</strong>: estimate included in the transaction price only to the extent it is highly probable a significant reversal of revenue will not occur when uncertainty is resolved</td>
<td>• If fair value cannot be reasonably estimated, measure indirectly by reference to the stand-alone selling price of goods or services promised in exchange for the consideration (see slide 20)</td>
<td></td>
</tr>
<tr>
<td>• most likely amount</td>
<td><strong>Practical expedient</strong>: no adjustment if the period between transfer of goods or services and payment is less than one year</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

More discipline in measurement, better reflection of revenue over the duration of the period.
4. Allocating the transaction price to the POs

Allocate to each PO the amount to which the company expects to be entitled in exchange for satisfying that PO – based on relative stand-alone selling prices (SSP)

How to determine SSP?

- Determined at contract inception
- Estimate SSP if not observable – methods include:
  - adjusted market assessment approach
  - expected cost plus a margin approach
  - residual estimation techniques if specified criteria are met

How to allocate the transaction price?

- Allocate to POs in proportion to SSP
- Discounts and contingent amounts allocated entirely to specific PO if specified criteria are met

Better depiction of performance by recognising revenue when POs are satisfied
Greater consistency in the recognition of revenue across industries
5. Recognising revenue when (as) PO is satisfied

A performance obligation is satisfied by transferring good or service (when the customer obtains **control** of the good or service)

Is PO satisfied over time?

One of three criteria:
- benefits of the company’s performance are simultaneously received and consumed by the customer
- the entity’s performance creates or enhances the asset that the customer controls as the asset is created or enhanced
- no alternative use for the asset being created and the entity has an enforceable right to payment for performance to date

---

Yes

Select single measure of progress to depict performance of that PO

- units produced or delivered (output method) may be a reasonable proxy in some cases
- input methods may need to be adjusted (eg uninstalled materials)

---

No

To recognise revenue apply definition of control (ability to direct the use and obtain the benefits of the asset)

---

PO satisfied at a point in time

Can result in change in timing of revenue compared to previous requirements
## 6. Contract costs

**Specific requirements for accounting for some costs that are related to a contract with a customer**

<table>
<thead>
<tr>
<th>Costs of obtaining a contract</th>
<th>Costs of fulfilling a contract</th>
<th>Onerous contracts</th>
</tr>
</thead>
<tbody>
<tr>
<td>(for example, selling commissions)</td>
<td>(for example, pre-contract setup costs)</td>
<td>• Apply IAS 37 Provisions, Contingent Liabilities and Contingent Assets</td>
</tr>
</tbody>
</table>

**Recognised as an asset if:**
- incremental
- expected to be recovered

**Recognised as an asset if:**
- relate directly to a contract
- relate to satisfying POs in the future
- expected to be recovered
7. Disclosures

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

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Contracts</th>
<th>Significant judgements</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Disaggregation of revenue, including relationship with segment disclosure</td>
<td>• Information about contract balances and changes in those balances</td>
<td>• Timing of and methods for recognising revenue</td>
</tr>
<tr>
<td>• Amounts recognised relating to performance in previous periods</td>
<td>• Information about POs</td>
<td>• Determining the transaction price and amounts allocated to POs</td>
</tr>
<tr>
<td></td>
<td>• Amounts allocated to remaining POs</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Information about assets recognised from costs to obtain or fulfil the contract</td>
<td></td>
</tr>
</tbody>
</table>

Enhanced information about a company’s contracts with customers and revenue from those contracts
## 8. Transition

**Choice of two methods – both provide some comparative information**

<table>
<thead>
<tr>
<th></th>
<th><strong>Full retrospective</strong></th>
<th><strong>Modified retrospective</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue in the year of application</td>
<td>Applying IFRS 15</td>
<td>Applying IFRS 15</td>
</tr>
<tr>
<td>Revenue in comparative periods</td>
<td>Applying IFRS 15</td>
<td>Applying previous requirements</td>
</tr>
<tr>
<td>Adjustment to opening retained</td>
<td>In the earliest comparative period</td>
<td>In the year of application</td>
</tr>
<tr>
<td>retained earnings to reflect</td>
<td></td>
<td></td>
</tr>
<tr>
<td>transition</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disclosures</td>
<td>• Any practical expedients used</td>
<td>• How figures in the year of application would have looked</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Explanation of significant changes</td>
</tr>
</tbody>
</table>
9. Application guidance: principal vs agent

Guidance provided to align the nature of the PO and the amount of revenue recognised

- Identify specified good or service to be provided to a customer
- Assess whether the company **controls** that good or service before it is transferred to customer

**Principal**
- controls the good or service before the customer gets it
- PO is to *provide* the good or service

**Agent**
- does not control the good or service before the customer gets it
- PO is to *arrange* for the good or service to be provided

**Indicators of control**

The company:
- is primarily responsible for fulfilling the promise to provide the good or service
- has inventory risk before the good or service has been transferred to a customer or after transfer of control
- has discretion in establishing the price for the good or service

Clear principle to help companies make judgements
9. Application guidance: licences

Guidance anchored in key steps of revenue recognition model and operationalised by differentiating between two types of licences of intellectual property (IP)

Step 2: Identify the POs

Is the licence distinct?

Yes

No

Account for bundle of goods and services

Apply criteria to determine whether nature of licence is to provide:

- a right to access the company’s IP as it exists throughout the licence period → PO satisfied over time
- a right to use the company’s IP as it exists at the point in time at which the licence is granted → PO satisfied at a point in time

For sales-based or usage-based royalties recognise revenue when (as) later of these occurs:

- the subsequent sale or usage
- the PO to which some or all of the royalty has been allocated has been (partially) satisfied

Reduced diversity in practice
Thank you