



STAFF PAPER

June 2019

IFRS® Interpretations Committee meeting

Project	Costs to Fulfil a Contract (IFRS 15)		
Paper topic	Agenda decision to finalise		
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This paper has been prepared for discussion at a public meeting of the IFRS Interpretations Committee (Committee) and does not represent the views of the International Accounting Standards Board (Board), the Committee or any individual member of the Board or the Committee. Comments on the application of IFRS Standards do not purport to set out acceptable or unacceptable application of IFRS Standards. Decisions by the Board are made in public and reported in IASB® *Update*. Decisions by the Committee are made in public and reported in IFRIC® *Update*.

Introduction

1. In March 2019 the IFRS Interpretations Committee (Committee) published a tentative agenda decision about the recognition of costs incurred to fulfil a contract as an entity satisfies a performance obligation in the contract over time.
2. In the fact pattern described in the submission, the entity transfers control of a good over time and, therefore, satisfies a performance obligation and recognises revenue over time applying paragraph 35 of IFRS 15. The entity incurs costs in constructing the good. At the reporting date, the costs incurred relate to construction work performed on the good that is transferring to the customer as the good is being constructed.
3. The Committee observed that the costs of construction described in the submission are costs that relate to the partially satisfied performance obligation in the contract—ie they are costs that relate to the entity’s past performance. Those costs do not meet the criteria in paragraph 95 of IFRS 15 to be recognised as an asset.
4. The objective of this paper is to:
 - (a) analyse the comments on the tentative agenda decision; and
 - (b) ask the Committee whether it agrees with our recommendation to finalise the agenda decision.

5. There are two appendices to this paper:
 - (a) Appendix A—proposed wording of the agenda decision; and
 - (b) Appendix B—comment letters.

Comment letter summary

6. We received six comment letters by the comment letter deadline. All comments received, including any late comment letters, are available on our [website](#). Appendix B to this paper reproduces all comments received by the comment letter deadline—the comments included in Appendix B have been analysed in this paper.
7. The Taiwan Accounting Research and Development Foundation (ARDF), the Institute of Chartered Accountants of India, Deloitte, the Institute of Indonesia Chartered Accountants and the Universidad de Chile agree with the Committee’s decision not to add the matter to its standard-setting agenda for the reasons outlined in the tentative agenda decision. Nonetheless, the ARDF questions one aspect of the tentative agenda decision.
8. Ivan Chaliy does not express an opinion on the Committee’s technical analysis or decision not to add the matter to its standard-setting agenda. However, he questions the assumptions underlying the submission to the Committee.
9. Further details about the matters raised by respondents, together with our analysis, are presented below.

Staff analysis

Reasoning behind the tentative agenda decision

Matter raised by respondent

10. The ARDF says the tentative agenda decision does not adequately explain the reason why the costs described in the submission do not meet the criteria in paragraph 95 of IFRS 15 to be recognised as an asset. It suggests that the Committee include in the

agenda decision the explanation in paragraph 9 of [Agenda Paper 2](#) to the Committee's March 2019 meeting, which said:

In satisfying the performance obligation and recognising revenue over time, the entity has transferred control of the part-constructed building to the customer and therefore does not have this resource. The entity may have a resource (eg a contract asset or receivable) that arises from its past performance under the contract—however, the entity will not use that resource in satisfying (or in continuing to satisfy) the performance obligation in the future. Accordingly, the costs incurred by the entity do not meet the criterion in paragraph 95(b) of IFRS 15.

Staff analysis

11. We think including this explanation in the agenda decision is not necessary. The agenda decision supports the Committee's conclusion with reference to the requirements in paragraph 98(c) of IFRS 15. However, we think including such an explanation would be helpful to highlight the link between paragraphs 95(b) and 98(c) of IFRS 15—ie costs that relate to past performance are, by definition, not costs that generate or enhance resources that will be used in satisfying performance obligations in the future. Accordingly, we have proposed amending the agenda decision as outlined in Appendix A.

Assumptions underlying the submission

Matter raised by respondent

12. Ivan Chaliy says the illustrative example in the submission indicates that sometimes it is unclear whether all costs incurred by an entity relate to work transferred to the customer at the reporting date. He notes that there are many methods of revenue recognition applied in practice.

Staff analysis

13. In the fact pattern described in the submission, the costs relate to construction work that has been performed on a good that is transferring to the customer as that good is being constructed. Those costs therefore relate to the partially satisfied performance obligation.
14. In addition, in the tentative agenda decision the Committee made observations relating to the selection of the method to measure progress towards complete satisfaction of a performance obligation.
15. We propose no amendments to the tentative agenda decision in this respect.

Staff recommendation

16. On the basis of our analysis, we recommend finalising the agenda decision as published in *IFRIC Update* in March 2019 with some changes. Appendix A to this paper sets out the proposed wording of the final agenda decision.

Question for the Committee

Does the Committee agree with our recommendation to finalise the agenda decision set out in Appendix A to this paper?

Appendix A—Proposed wording of the agenda decision

A1 We propose the following wording for the final agenda decision (new text is underlined and deleted text is struck through).

Costs to Fulfil a Contract (IFRS 15 *Revenue from Contracts with Customers*)

The Committee received a request about the recognition of costs incurred to fulfil a contract as an entity satisfies a performance obligation in the contract over time. In the fact pattern described in the request, the entity (a) transfers control of a good over time (ie one (or more) of the criteria in paragraph 35 of IFRS 15 is met) and, therefore, satisfies a performance obligation and recognises revenue over time; and (b) measures progress towards complete satisfaction of the performance obligation using an output method applying paragraphs 39–43 of IFRS 15. The entity incurs costs in constructing the good. At the reporting date, the costs incurred relate to construction work performed on the good that is transferring to the customer as the good is being constructed.

In considering the request, the Committee first noted the principles and requirements in IFRS 15 relating to the measurement of progress towards complete satisfaction of a performance obligation satisfied over time. Paragraph 39 states that ‘the objective when measuring progress is to depict an entity’s performance in transferring control of goods or services promised to a customer.’ The Committee also observed that when evaluating whether to apply an output method to measure progress, paragraph B15 requires an entity to ‘consider whether the output selected would faithfully depict the entity’s performance towards complete satisfaction of the performance obligation.’

In considering the recognition of costs, the Committee noted that paragraph 98(c) of IFRS 15 requires an entity to recognise as expenses when incurred costs that relate to satisfied performance obligations (or partially satisfied performance obligations) in a contract—ie costs that relate to past performance.

The Committee observed that the costs of construction described in the request are costs that relate to the partially satisfied performance obligation in the contract—ie they are costs that relate to the entity’s past performance. Those costs do not, therefore, generate or enhance resources of the entity that will be used in continuing to satisfy the performance obligation in

the future (paragraph 95(b)). Consequently, those costs do not meet the criteria in paragraph 95 of IFRS 15 to be recognised as an asset.

The Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity to determine how to recognise costs incurred in fulfilling a contract in the fact pattern described in the request. Consequently, the Committee ~~decided~~ not to add this matter to its standard-setting agenda.

Appendix B—Comment letters

To Ms Sue Lloyd, Chair,
IFRS Interpretations committee,
IFRS Foundation,
London, UK

Re: Project Costs to Fulfil a Contract (IFRS 15)

Dear Ms Sue, let me give some judgments on the *Project Costs to Fulfil a Contract* (Interpretations Committee meeting March 2019).

Proposed wording of the tentative agenda decision:

«<...>At the reporting date, the *costs incurred* **relate** to construction work performed on the good that is transferring to the customer as the good is being constructed. <...>».

Based on an illustrative example (Appendix B), a construction company cannot confidently assert that all costs incurred are **related** to work transferred to the client at the reporting date.

Many different revenue recognition mechanisms are used in construction. Output methods can be based on various milestones. In addition, an important role can play design features of the building under construction.

Therefore, conclusion of the tentative agenda decision that «the costs of construction described in the request are costs that relate to the partially satisfied performance obligation in the contract» is not quite obvious.

Yours sincerely

Ivan Chaliy

Chief-in-editor of IFRS PRACTICE JOURNAL

Ukraine

May 6, 2019

Ms. Sue Lloyd, Chair
International Financial Reporting Standards Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Ms. Lloyd,


Tentative Agenda Decision—Costs to Fulfil a Contract (IFRS 15)

The Financial Accounting Issues Task Force of the Taiwan Financial Reporting Standards Committee (TFRSC) of Accounting Research and Development Foundation in Taiwan appreciates the opportunity to respond to the above tentative agenda decision.

The attachments (Attachment 1) are our comments to this tentative agenda decision. The comments are those of the Financial Accounting Issues Task Force and do not necessarily represent official opinions of the TFRSC.

If you have any question about our comments, please contact me (via my email: ccliu@management.ntu.edu.tw) or Ms. Margaret Tsui (via her email: margaret@ardf.org.tw).

Sincerely Yours,



Chi-Chun Liu, Ph.D.

Chairman,

Taiwan Financial Reporting Standards Committee,

Accounting Research and Development Foundation, Taiwan

Attachment 1

Comments from ARDF Taiwan on Tentative Agenda Decision—Costs to Fulfil a Contract (IFRS 15)

Tentative Agenda Decision—Costs to Fulfil a Contract (IFRS 15)

Tentative Agenda Decision

The Committee received a request about the recognition of costs incurred to fulfil a contract as an entity satisfies a performance obligation in the contract over time. In the fact pattern described in the request, the entity (a) transfers control of a good over time (ie one (or more) of the criteria in paragraph 35 of IFRS 15 is met) and, therefore, satisfies a performance obligation and recognises revenue over time; and (b) measures progress towards complete satisfaction of the performance obligation using an output method applying paragraphs 39-43 of IFRS 15. The entity incurs costs in constructing the good. At the reporting date, the costs incurred relate to construction work performed on the good that is transferring to the customer as the good is being constructed.

In considering the request, the Committee first noted the principles and requirements in IFRS 15 relating to the measurement of progress towards complete satisfaction of a performance obligation satisfied over time. Paragraph 39 states that ‘the objective when measuring progress is to depict an entity’s performance in transferring control of goods or services promised to a customer.’ The Committee also observed that when evaluating whether to apply an output method to measure progress, paragraph B15 requires an entity to ‘consider whether the output selected would faithfully depict the entity’s performance towards complete satisfaction of the performance obligation.’

In considering the recognition of costs, the Committee noted that paragraph 98(c) of IFRS 15 requires an entity to recognise as expenses when incurred costs that relate to satisfied performance obligations (or partially satisfied performance obligations) in a contract—ie costs that relate to past performance.

The Committee observed that the costs of construction described in the request are costs that relate to the partially satisfied performance obligation in the contract—ie they are costs that relate to the entity’s past performance. Those costs do not meet the criteria in paragraph 95 of IFRS 15 to be recognised as an asset.

Attachment 1

Comments from ARDF Taiwan on Tentative Agenda Decision—Costs to Fulfil a Contract (IFRS 15)

The Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity to determine how to recognise costs incurred in fulfilling a contract in the fact pattern described in the request. Consequently, the Committee [decided] not to add this matter to its standard-setting agenda.

Response to the above Tentative Agenda Decision:

We agree with the conclusion that the costs to fulfil a contract in the fact pattern described in the request meet the criteria in paragraph 98(c) of IFRS 15, and therefore should be recognised as expenses. We also agree with that the principles and requirements in IFRS15 provide an adequate basis for an entity to determine the recognition of those costs. However, the reason why those costs do not meet the criteria in paragraph 95 of IFRS 15 to be recognised as an asset is not mentioned in the tentative agenda decision. In our opinion, clarify why those costs do not meet the criteria in paragraph 95 of IFRS 15 would be quite helpful for an entity to do such determinations.

Therefore, we suggest the Committee add the explanation described in paragraph 9 of the Agenda Paper 2 for the IFRS Interpretations Committee meeting held in March 2019, which explains the reasons for concluding that those costs do not meet the criteria in paragraph 95(b) of IFRS15. We believe that it would provide clarity in this respect.

10th May, 2019

Ms Sue Lloyd,
Chair, IFRS Interpretations committee,
IFRS Foundation,
London, UK

Dear Ms Sue,

Subject: Tentative Agenda Decision (TAD) March, 2019 – Public Comments by May 15th, 2019

The Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India (the ICAI) welcomes the following four tentative agenda decisions of IFRS Interpretations Committee published in March 2019:

1. Costs to Fulfil a Contract (IFRS 15)
2. Holdings of Cryptocurrencies
3. Effect of a Potential Discount on Plan Classification (IAS 19)
4. Subsurface Rights (IFRS 16)

We agree with the above mentioned clarifications.

With kind regards

CA. M.P Vijay Kumar

Chairman
Accounting Standards Board
Institute of Chartered Accountants of India

14 May 2019

Sue Lloyd
Chair
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London
United Kingdom
E14 4HD

Dear Ms Lloyd

Tentative agenda decision – IFRS 15 Revenue from Contracts with Customers: Costs to fulfil a contract

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the March 2019 IFRIC Update of the tentative decision not to take onto the Committee's agenda the request for clarification on the recognition of costs incurred to fulfil a contract as an entity satisfies a performance obligation in the contract over time.

We agree with the IFRS Interpretations Committee's decision not to add this item onto its agenda for the reasons set out in the tentative agenda decision.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Yours sincerely



Veronica Poole
Global IFRS Leader



IKATAN AKUNTAN INDONESIA
(INSTITUTE OF INDONESIA CHARTERED ACCOUNTANTS)

Jakarta, 13 May 2019

Ref.: 0689/DSAK/IAI/V/2019

Ms. Sue Lloyd, Chair,
IFRS Interpretations Committee,
IFRS Foundation,
London, UK

DSAK IAI Comments on the Tentative Agenda Decision – Cost To Fulfil a Contract (IFRS 15)

Dear Ms. Sue Lloyd,

The Indonesian Financial Accounting Standards Board (DSAK IAI), as part of the Institute of Indonesia Chartered Accountants, is the national accounting standard-setter in Indonesia.

On behalf of DSAK IAI, I am writing to comment on the tentative agenda decision – cost to fulfil a contract (IFRS 15)

Our detailed responses to the questions are attached in the Appendix to this letter below.

We hope that our comments could contribute to the IFRS Interpretations Committee's future deliberations. Should you have further concerns regarding our comments, please do not hesitate to contact us at dsak@iaiglobal.or.id.

Thank you.

Best Regards,

 **IKATAN AKUNTAN INDONESIA**
(Institute of Indonesia Chartered Accountants)

Djohan Pinnarwan

Chairman

The Indonesian Financial Accounting Standards Board
Institute of Indonesia Chartered Accountants



IKATAN AKUNTAN INDONESIA
(INSTITUTE OF INDONESIA CHARTERED ACCOUNTANTS)

APPENDIX

“DSAK IAI have the same view with the staff paper that the construction cost (in a statement – “...*the cost incurred relate to construction work performed on the good that is transferring to the customer as the good is being constructed*”) that described in the fact pattern are costs described in the requirement in IFRS 15 paragraph 98(c) and recognised as an expense when incurred.

We don't have strong argument to suggest this matter add to IFRS standard-setting agenda, so we agree with the proposed to publish a tentative agenda decision and no further comments related to the proposed wording of the tentative agenda decision.

14 May 2019

Tentative agenda decisión – IFRS 15 Revenue from Contracts with Customers : Costs to fulfill a contract

Ms Sue Lloyd,
Chair, IFRS Interpretations Committee,
IFRS Foundation,
London, UK.

Dear Ms Sue:

The IFRS Technical Committee of the Universidad de Chile is pleased to respond to the IFRS Interpretations Committee's march 2019 publication of the tentative decision not to take onto the Committee's agenda the clarification of costs incurred to fulfill a contract as an entity satisfies a performance obligation over time.

We agree with the IFRIC's decision not to include this issue onto its agenda because we agree with the arguments set out in the tentative agenda decision.

Yours sincerely,

Leonardo Torres
IFRS Technical Committee President
Universidad de Chile