

May 2014

Project Summary and Feedback Statement

IFRS 15 *Revenue from Contracts with Customers*

At a glance

We, the International Accounting Standards Board (IASB), issued IFRS 15 *Revenue from Contracts with Customers* in May 2014. IFRS 15 sets out the requirements for recognising revenue that apply to all contracts with customers (except for contracts that are within the scope of the Standards on leases, insurance contracts and financial instruments).

IFRS 15 is effective from 1 January 2017. Earlier application is permitted.

The issuance of IFRS 15 signifies the culmination of a joint project with the US national standard-setter, the Financial Accounting Standards Board (FASB), to develop a high-quality global accounting standard for revenue recognition.

IFRS 15, which is converged with Accounting Standards Update 2014-09 *Revenue from Contracts with Customers* issued by the FASB, establishes a single, comprehensive framework for revenue recognition. The framework will be applied consistently across transactions, industries and capital markets, and will improve comparability in the ‘top line’ of the financial statements of companies globally.

IFRS 15 replaces the previous revenue Standards: IAS 18 *Revenue* and IAS 11 *Construction Contracts*, and the related Interpretations on revenue recognition: IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfers of Assets from Customers* and SIC-31 *Revenue—Barter Transactions Involving Advertising Services*.

The IASB and the FASB have formed a group of external stakeholders to identify and discuss issues that may arise in the implementation of IFRS 15 and Accounting Standards Update 2014-09. The group—to be known as the Transition Resource Group—will have a limited life and will not issue guidance. More information on the Transition Resource Group is available at www.ifrs.org.

Why change the requirements for recognising revenue?

Information about revenue is used to assess a company's financial performance and position and to compare that company with other companies. However, previous revenue requirements in IFRS and US GAAP made it difficult for investors and analysts ('investors') to understand and compare a company's revenue.

Inconsistencies and weaknesses in previous revenue Standards

In IFRS, significant diversity in revenue recognition practices had arisen because previous revenue Standards contained limited guidance on many important topics, such as accounting for arrangements with multiple elements. Furthermore, the limited guidance that was provided was often difficult to apply to complex transactions, particularly because previous revenue Standards did not include any basis for conclusions. Consequently, some companies supplemented the limited guidance in IFRS by selectively applying US GAAP.

In US GAAP, broad revenue recognition concepts were supplemented by numerous industry and transaction specific requirements, which often resulted in economically similar transactions being accounted for differently. Furthermore, even with all of those specific requirements, revenue recognition questions continued to arise as new types of transactions emerged.

Disclosure requirements were inadequate

The disclosure requirements in previous IFRS and US GAAP often resulted in information that was inadequate for investors to understand a company's revenue, and the judgements and estimates made by the company in recognising that revenue. For instance, investors were concerned that the revenue information disclosed was often 'boilerplate' in nature or was presented in isolation and without explaining how the revenue recognised related to other information in the financial statements.

IFRS 15 addresses those deficiencies by specifying a comprehensive and robust framework for the recognition, measurement and disclosure of revenue. In particular, IFRS 15:

- improves the comparability of revenue from contracts with customers;
- reduces the need for interpretive guidance to be developed on a case-by-case basis to address emerging revenue recognition issues; and
- provides more useful information through improved disclosure requirements.

An overview of IFRS 15—a framework for recognising revenue

IFRS 15 establishes a comprehensive framework for determining *when* to recognise revenue and *how much* revenue to recognise.

The core principle in that framework is that a company should 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.

To recognise revenue, a company would apply the following five steps:



Identify the contract(s) with the customer

A contract is an agreement between two or more parties that creates enforceable rights and obligations. A company would apply IFRS 15 to each contract with a customer that has commercial substance and meets other specified criteria. One criterion requires a company to assess whether it is probable that the company will collect the consideration to which it will be entitled in exchange for the promised goods or services.

In some cases, IFRS 15 requires a company to combine contracts and account for them as one contract. IFRS 15 also specifies how a company would account for contract modifications.

Identify the performance obligations in the contract

Performance obligations are promises in a contract to transfer to a customer goods or services that are distinct.

In determining whether a good or service is distinct, a company considers if the customer can benefit from the good or service on its own or together with other resources that are readily available to the customer. A company also considers whether the company's promise to transfer the good or service is separately identifiable from other promises in the contract. For example, a customer could benefit separately from the supply of bricks and the supply of construction labour. However, those items would not be distinct if the company is providing the bricks and construction labour to the customer as part of its promise in the contract to construct a brick wall for the customer. In that case, the company has a single performance obligation to construct a brick wall. The bricks and construction labour would not be distinct goods or services because those items are used as inputs to produce the output for which the customer has contracted.



Determine the transaction price

The transaction price is the amount of consideration to which a company expects to be entitled in exchange for transferring promised goods or services to a customer.

Usually, the transaction price is a fixed amount of customer consideration. Sometimes, the transaction price includes estimates of consideration that is variable or consideration in a form other than cash. Some or all of the estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Adjustments to the transaction price are also made for the effects of financing (if significant to the contract) and for any consideration payable to the customer.

Allocate the transaction price

A company would typically allocate the transaction price to each performance obligation on the basis of the relative stand-alone selling prices of each distinct good or service. If a stand-alone selling price is not observable, the company would estimate it.

Sometimes, the transaction price may include a discount or a variable amount of consideration that relates entirely to a specific part of the contract. The requirements specify when a company should allocate the discount or variable consideration to a specific part of the contract rather than to all performance obligations in the contract.

Recognise revenue when a performance obligation is satisfied

A company would recognise revenue when (or as) it satisfies a performance obligation by transferring a promised good or service to a customer (which is when the customer obtains control of that good or service).

A performance obligation may be satisfied at a point in time (typically for promises to transfer goods to a customer) or over time (typically for promises to transfer services to a customer). For a performance obligation satisfied over time, a company would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied.

Other requirements

Portfolio of contracts

Although IFRS 15 specifies the accounting required for an individual contract, in some cases, a company may be able to apply the requirements to a portfolio of contracts instead of applying the requirements separately to each contract with a customer.

Contract costs

IFRS 15 also includes requirements for accounting for some costs that are related to a contract with a customer.

A company would recognise an asset for the incremental costs of obtaining a contract if those costs are expected to be recovered.

For costs to fulfil a contract that are not within the scope of other Standards, a company would recognise an asset for those costs if the following criteria are met:

- the costs relate directly to a contract (or a specific anticipated contract);
- the costs generate or enhance resources of the company that will be used in satisfying performance obligations in the future; and
- the costs are expected to be recovered.

Disclosure

To help investors better understand the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers, IFRS 15 requires a company to disclose quantitative and/or qualitative information about:

- revenue recognised from contracts with customers, including the disaggregation of revenue into appropriate categories;
- contract balances, including the opening and closing balances of receivables, contract assets and contract liabilities;
- performance obligations, including when the company typically satisfies its performance obligations and the amount of the transaction price that is allocated to the remaining performance obligations in a contract;
- significant judgements, and changes in judgements, made in applying the requirements; and
- assets recognised from the costs to obtain or fulfil a contract with a customer.

What will change from existing practice?

Before IFRS 15 was issued, inconsistencies and weaknesses in revenue Standards often resulted in companies accounting for similar transactions differently, which led to diversity in revenue recognition practices. By replacing those requirements with a comprehensive framework, contracts with customers that are economically similar will be accounted for on a consistent basis.

However, the previous diversity in revenue recognition practices will mean that the nature and extent of the changes will vary between companies, industries and capital markets.

Consequently, the requirements in IFRS 15 will result in changes in the accounting for only *some* revenue transactions for *some* companies. However, those changes are necessary to achieve consistent accounting for economically similar transactions in contracts with customers.

For many contracts, such as many straightforward retail transactions, IFRS 15 will have little, if any, effect on the amount and timing of revenue recognition.

For other contracts, such as long-term service contracts and multiple-element arrangements, IFRS 15 could result in some changes either to the amount or timing of the revenue recognised by a company.

What will change from existing practice? continued...

Remove inconsistencies	Existing practice	Requirements in IFRS 15
	<p>Incidental obligations and sales incentives</p> <p>Some companies may not separately recognise revenue for the transfer to the customer of goods or services that some consider to be sales incentives or otherwise incidental or ancillary to the other promised goods or services in the contract. That practice results in a company recognising all of the transaction price as revenue even though it has remaining performance obligations to satisfy. This sometimes occurs in the automotive industry when a manufacturer sells a car along with an incentive such as maintenance that will be provided at a later date.</p>	<p>A company will assess whether the promised goods or services arising from incidental obligations and sales incentives are goods or services that are distinct. If the goods or services are distinct, the company will recognise revenue when (or as) each distinct good or service is transferred to the customer.</p>
	<p>Contingent revenue cap</p> <p>Some practices for allocating the transaction price limit the amount of consideration allocated to a satisfied performance obligation to the amount that is not contingent on the satisfaction of performance obligations in the future. That practice is commonly used to account for telecommunications contracts that bundle the sale of a mobile phone with the provision of network services for a specified period (often for one or two years).</p>	<p>IFRS 15 does not permit the transaction price to be allocated to performance obligations on a basis that is consistent with the contingent revenue cap. Instead, IFRS 15 requires a company to allocate the transaction price—which would be any amount that the customer pays on entering into the contract and the monthly payments for the network services—to the mobile phone and the network services on the basis of the relative stand-alone selling prices of each item.</p>
	<p>No observable selling price</p> <p>For some contracts, revenue requirements preclude a company from recognising revenue on the transfer of a good or service to a customer if there is no observable evidence of the stand-alone selling prices of each of the goods or services promised in the contract. This often results in the deferral of revenue recognition because revenue could not be recognised when the first of the promised goods or services transfers to the customer. This regularly occurs in the software industry when observable prices are not available for upgrades and additional functionality for computer software.</p>	<p>If observable prices of the promised goods or services are not available, a company would allocate the transaction price on the basis of estimated stand-alone selling prices of those goods or services. The company will recognise revenue as each distinct good or service is transferred to the customer.</p>
<p>Licences</p> <p>The revenue recognition guidance on accounting for licences of intellectual property is broad. Different interpretations of that guidance has led to significant diversity in the accounting for licences.</p>	<p>IFRS 15 provides application guidance on how to apply the revenue framework to different types of licences of intellectual property.</p>	

Existing practice

Requirements in IFRS 15

Timing of revenue recognition

Because of a lack of clear and comprehensive guidance, there is some diversity in practice in determining whether a company should recognise revenue for some goods or services at a point in time or over time.

For example, some companies selling residential real estate in multi-unit developments have difficulty determining whether the construction of such assets is a service that is provided over time (and, hence, revenue is recognised over time) or a good that is transferred to the customer when construction is complete (and, hence, revenue is recognised at that point in time).

A company will be able to recognise revenue over time only if the criteria specified in IFRS 15 are met. In all other cases, a company will recognise revenue at the point in time when the customer obtains control of the promised good or service.

Estimates of variable consideration

Revenue requirements do not include detailed guidance for measuring the amount of revenue that should be recognised when the consideration is variable.

If the consideration promised by a customer is variable, a company will estimate it using either the expected value or the most likely amount, depending on which amount better predicts the amount of consideration to which the company will be entitled. Some or all of the estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Significant financing components

If a customer pays for goods or services in advance or in arrears, some companies may not consider the effects of any financing components in the contract when determining the amount of revenue to be recognised.

A company is required to consider the effects of any significant financing components in the determination of the transaction price (and thus the amount of revenue recognised). This may affect long-term contracts in which payment by the customer and performance by the company occur at significantly different times.

Disclosure

Disclosure of information about revenue is inadequate and lacks cohesion with the disclosure of other items in the financial statements. For example, many investors have said that some companies present revenue in isolation, which means that investors cannot relate revenue to the company's financial position.

IFRS 15 includes a comprehensive set of disclosure requirements that require a company to disclose qualitative and quantitative information about its contracts with customers to help investors understand the nature, amount, timing and uncertainty of revenue.

Extensive due process and outreach activities

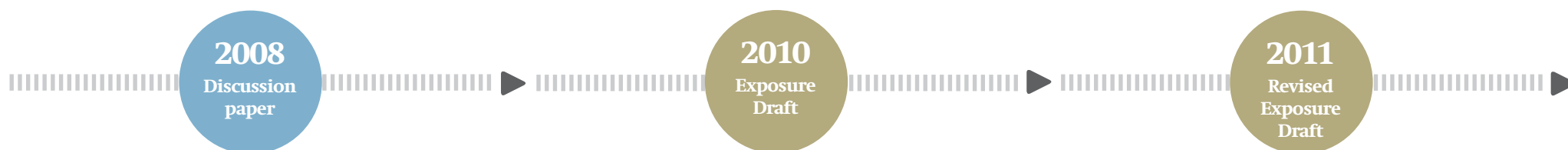
Over the course of the revenue recognition project, we consulted with many interested parties who contributed to the development of IFRS 15.

Together with the FASB, we held or participated in over 650 meetings around the world with a variety of stakeholders. We also regularly consulted with advisory groups such as the IFRS Advisory Council, the Global Preparers Forum and the Capital Markets Advisory Committee on topics such as customer credit risk, the constraint on variable consideration and licences of intellectual property.

We also went beyond the normal due process requirements by publishing a revised Exposure Draft after previously publishing both a Discussion Paper and an initial Exposure Draft. These three due process documents garnered over 1,500 comment letters in total.

Who did we hear from?

- Academics
- Accountancy bodies
- Auditors and accounting firms
- Governments
- Individuals
- Industry groups
- Investors and analysts
- Preparers
- Regulators
- Standard-setting bodies



Understanding investor needs

Because revenue is an important metric to investors' analyses, their feedback has been an important input to the development of IFRS 15.

To supplement the feedback from the comment letter process, we held meetings and discussions with various types of users of financial statements including buy-side and sell-side analysts. We also met with user groups such as the Corporate Reporting Users Forum from various jurisdictions, the User Advisory Council in Canada, the Investor Advisory Committee in the US and the Securities Analysts Association of Japan. Topics covered during those meetings included identification of performance obligations; transfer of control; accounting for, and presentation of, the effects of customer credit risk; significant financing components and constraining estimates of variable consideration.

We also conducted outreach with investors in particular sectors. For example, significant outreach was conducted to understand how analysts use revenue information to assess financial performance in the telecommunications sector.

Testing the application of the proposals

At various stages throughout the project, we held or participated in workshops (including workshops facilitated by the European Financial Reporting Advisory Group) during which preparers tested the application of the proposals. The purpose of these workshops was to identify potential implementation difficulties, assess the potential impact on the financial statements and estimate the effort required to apply the proposals. Preparers selected some of their contracts, applied the proposed requirements and reported on the findings. Those findings were considered during the redeliberations of the 2011 Exposure Draft.

Disclosure and transition workshops

Preparers and investors had the most disparate views on the proposed disclosure requirements. To reconcile these views, the boards held four workshops that served as a forum for the two groups to discuss those requirements. The discussion focused on how to achieve a balance between information that was not only helpful to users, but also not too burdensome for preparers to provide. The informative dialogue added to the boards' redeliberation discussions and as a result, some of the disclosure requirements proposed in the 2011 Exposure Draft were refined and simplified for the final Standard.



Feedback Statement

The boards received significant feedback from the outreach activities and comment letters on the three due process documents published over the course of the project—a Discussion Paper (published in 2008), an Exposure Draft (published in 2010) and a revised Exposure Draft (published in 2011). That feedback demonstrated that there is broad support for the core revenue recognition principle and the ‘5 steps’ to apply that principle to contracts with customers. These features of IFRS 15 have remained largely unchanged throughout the project.

The revenue recognition principles proposed in the Discussion Paper were further developed and refined in the Exposure Drafts published in 2010 and 2011 and in the redeliberations that followed. As the project has progressed, the issues raised by respondents have narrowed substantially. As a result, feedback on the 2011 Exposure Draft focused mainly on requests to further clarify and refine the boards’ proposals, although some respondents also disagreed with aspects of those proposals.

The following pages outline the more significant matters raised and how the boards responded:

- Performance obligations satisfied over time
- Identifying performance obligations
- Collectability (customer credit risk)
- Constraining estimates of variable consideration
- Significant financing components
- Disclosure requirements
- Transition: retrospective application
- Licensing intellectual property
- Onerous performance obligations

Performance obligations satisfied over time

2011 Exposure Draft	Feedback	The boards' response
<p>A company would recognise revenue when it satisfies a performance obligation by transferring control of a good or service to a customer—which occurs either at a point in time or over time.</p> <p>The 2011 Exposure Draft provided criteria to determine when control of a good or service transfers to a customer over time and, hence, when a performance obligation is satisfied (and the company recognises revenue) over time. Those criteria would require a company to consider whether the company's performance would create an asset with an alternative use to the company and also whether:</p> <ul style="list-style-type: none">• the customer simultaneously receives and consumes the benefit of the company's performance as it performs;• another company taking over the performance obligation would need to re-perform the work completed to date; and• the company has a right to payment for work completed to date.	<p>Most respondents supported the addition of criteria to determine when a performance obligation is satisfied over time because the criteria provided guidance to assess when control of a service or a partly completed asset transfers to a customer. However, respondents commented that the criteria in the 2011 Exposure Draft appeared complex, with duplication in the criteria identified as contributing to that complexity. Respondents also requested additional guidance to assess whether an asset has an 'alternative use' or whether a company has a 'right to payment for performance completed to date'.</p>	<p>In response, the boards clarified the application of each criterion for determining whether a performance obligation is satisfied over time and, in doing so, limited the duplication between those criteria.</p> <p>IFRS 15 also includes application guidance to explain the meaning and application of key concepts in the criteria including:</p> <ul style="list-style-type: none">• determining whether an asset has an alternative use to the company after considering any contractual restrictions or practical limitations on the company's ability to readily direct an asset to another customer; and• factors that determine whether a company has a right to payment for performance completed to date.

Identifying performance obligations

2011 Exposure Draft	Feedback	The boards' response
<p>A company would account for a promise to transfer a good or service to a customer as a performance obligation if the good or service is distinct.</p> <p>A good or service is distinct if:</p> <ul style="list-style-type: none"> it is sold separately by the company; or the customer can benefit from the good or service on its own, or together with other resources that are readily available to the customer. <p>However, a good or service promised in a bundle with other goods or services would not be distinct if:</p> <ul style="list-style-type: none"> the goods or services in the bundle are highly interrelated and the company provides a significant service of integrating them into a combined item; and the bundle of goods or services is significantly modified or customised to fulfil the contract. 	<p>Respondents generally supported the idea of identifying performance obligations on the basis of whether the goods or services promised in a contract are <i>distinct</i> and many acknowledged that the 'distinct' criteria had improved since the 2010 Exposure Draft. However, many respondents commented that the revisions in the 2011 Exposure Draft were too prescriptive, which could result in promised goods or services being accounted for in a manner that would not reflect the underlying economic substance of the contract. For that reason, some respondents suggested that the criteria should be replaced with indicators.</p> <p>Additional guidance and illustrative examples on the identification of performance obligations were requested, including clarification of the following matters:</p> <ul style="list-style-type: none"> the factors that would result in a good or service losing its distinct character on the basis of how that good or service is bundled with other promises in the contract; and the accounting for service contracts in which the same service is provided to the customer repeatedly over time. 	<p>To clarify the notion of a 'distinct' good or service, IFRS 15 specifies that, at a minimum, a good or service must be capable of being distinct. This means that the customer could benefit from the good or service on its own or together with other resources readily available to them. IFRS 15 also specifies that a company should consider whether the promised good or service is distinct within the context of other promises in the contract.</p> <p>The boards agreed to specify indicators, rather than criteria, for determining whether a good or service is distinct within the context of the contract because of the degree of judgement that may be required in making that determination in different transactions, industries and jurisdictions.</p> <p>IFRS 15 also specifies the circumstances in which promises to transfer a series of distinct goods or services repeatedly over a period of time are accounted for as a single performance obligation. IFRS 15 also includes various examples to illustrate the identification of performance obligations in a contract.</p>

Collectability (customer credit risk)

2011 Exposure Draft	Feedback	The boards' response
<p>Revenue would be recognised at the amount of consideration to which a company is entitled to receive in exchange for transferring the promised goods or services to the customer—ie revenue is recognised at a gross amount. Any impairment losses from contracts with customers (that do not include a significant financing component) would be presented adjacent to revenue.</p> <p>This proposal was a change from the 2010 Exposure Draft, which proposed that a company would recognise revenue at the amount of consideration to which the company expects to receive. Under that proposal, a company would have recognised revenue at an amount that adjusts the consideration promised for the effects of the credit risk of the customer—ie revenue would have been recognised at a net amount.</p>	<p>Most investors had disagreed with the previous proposal in the 2010 Exposure Draft to recognise revenue net of customer credit risk because separately analysing a company's revenue growth and management of credit risk would be more difficult. Consequently, they supported the revised proposals to recognise revenue at the 'gross' amount and to present impairment losses adjacent to revenue.</p> <p>Most other respondents also agreed with recognising revenue at the gross amount, but disagreed strongly with presenting impairment losses adjacent to revenue because it would significantly change the existing, and well understood, practice of presenting impairment losses as part of expenses in the statement of comprehensive income. They also suggested that the adjacent presentation proposal would inappropriately imply that:</p> <ul style="list-style-type: none">• a company's revenue should be reported net of impairment losses; and• the entirety of the impairment expense relates to revenue recognised in the current period.	<p>The boards agreed with the feedback that presenting impairment losses adjacent to revenue could lead to confusion about whether revenue should be reported gross or net of any recognised impairment losses. The boards also noted that requiring impairment losses to be presented adjacent to revenue was too prescriptive, especially because most companies have a relatively low proportion of credit sales that become impaired.</p> <p>However, the boards were concerned that if companies were to recognise revenue at a gross amount of consideration without a clear link to any associated impairment losses recognised, investors may not correctly assess the quality of the revenue recognised by companies that make credit sales to customers who have significant credit risk. Consequently, the boards decided to:</p> <ul style="list-style-type: none">• require a company to disclose impairment losses related to contracts with customers; and• include a 'collectability threshold' similar to previous revenue Standards such that it must be probable that a company will collect the consideration from the customer before the company can apply IFRS 15 to the contract.

Constraining estimates of variable consideration

2011 Exposure Draft	Feedback	The boards' response
<p>If an amount of consideration to which a company will be entitled is variable, the 2011 Exposure Draft proposed that the cumulative amount of revenue recognised to date would not exceed the amount to which the company is reasonably assured to be entitled. A company would be reasonably assured to be entitled to an amount of consideration only if both of the following criteria are met:</p> <ul style="list-style-type: none"> the company has experience with similar types of performance obligations or access to other evidence; and the company's experience (or other evidence) is predictive of the amount of consideration to which it will be entitled in exchange for satisfying those performance obligations. <p>The 2011 Exposure Draft specified various qualitative factors that a company should consider when determining whether its experience (or other evidence) would be predictive of the amount of consideration to which it will be entitled.</p>	<p>Most respondents agreed with including a constraint on the measurement of revenue because a significant portion of errors in financial statements have related to the overstatement or premature recognition of revenue.</p> <p>However, many respondents requested further guidance on when and how the constraint would apply, including clarifying:</p> <ul style="list-style-type: none"> the objective of the constraint; the scope of the constraint; in practice, whether a form of experience or evidence has predictive qualities; and the interaction between the constraint and the measurement of the transaction price. <p>Use of the term 'reasonably assured' in the constraint caused confusion because the term is also used elsewhere in accounting literature and its meaning is often interpreted differently in different contexts.</p>	<p>The boards clarified the objective of the constraint after considering the feedback from investors. Those investors indicated that the most relevant measure for revenue in a reporting period would be one that does not result in a significant reversal in a subsequent period. Consequently, the boards decided that the constraint should consider the likelihood and magnitude of any subsequent reversal of revenue arising from a change in the estimate of variable consideration.</p> <p>To avoid confusion, the boards removed references to 'reasonably assured' in the constraint. Instead, IFRS 15 requires that an estimate of variable consideration pass a 'highly probable' confidence level before it can be included in the transaction price and, therefore, in revenue. In making that assessment, the boards clarified that the factors proposed in the 2011 Exposure Draft should be considered.</p> <p>IFRS 15 also provides some additional guidance on variable consideration and the constraint has been revised to be a factor to consider when determining the transaction price rather than when recognising revenue.</p>

Significant financing components

2011 Exposure Draft	Feedback	The boards' response
<p>When determining the transaction price, a company would adjust the amount of promised consideration for the effects of the time value of money if the contract includes a financing component that is significant to the contract. The 2011 Exposure Draft included factors that a company should consider when assessing whether a financing component is significant to the contract. In addition, the 2011 Exposure Draft proposed to permit, as a practical expedient, a company to not adjust the promised consideration for the effects of financing if the period between payment and transfer of the promised goods or services is expected to be one year or less.</p>	<p>Many respondents acknowledged the theoretical basis for accounting for the effects of the time value of money in contracts with customers. However, similar to the feedback received on the 2010 Exposure Draft, many respondents continued to question whether the benefits of accounting for the time value of money would justify the complexity involved. Respondents stated that the factors proposed in the 2011 Exposure Draft would help to indicate when an adjustment should be made to the promised consideration, but even with that additional guidance, the proposals would require financing adjustments to be made on too many transactions. In particular, respondents explained that it would be inappropriate to adjust for financing when the payment terms were agreed for reasons other than financing.</p> <p>Mixed feedback was received on the one-year practical expedient. Many respondents supported the practical expedient because it would simplify compliance with the proposals. Other respondents expressed concerns that the practical expedient is arbitrary and would be inappropriate for contracts in high-inflation economies.</p>	<p>To address the concerns raised, the boards clarified circumstances in which a company would adjust the promised consideration for the effects of financing. Specifically, the boards clarified that a company should adjust for the effects of financing when one party, either the customer or the company, is receiving a significant benefit of financing. Furthermore, the boards clarified the objective of that adjustment, which is to recognise revenue in an amount that reflects the price that a customer would have paid for the promised goods or services if the customer had paid cash when (or as) those goods or services transfer to the customer.</p> <p>The boards also decided to add indicators to clarify when some payment terms may not give rise to a significant financing component.</p> <p>In the light of the many requests to simplify compliance with the proposal, the boards agreed to include the one-year practical expedient in IFRS 15.</p>

Disclosure requirements

2011 Exposure Draft	Feedback	The boards' response
<p>To enable investors to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers, a company would disclose quantitative and qualitative information.</p> <p>The qualitative information would include information about performance obligations and significant judgements made in determining the amount and timing of revenue.</p> <p>The quantitative information to be disclosed would include the following:</p> <ul style="list-style-type: none"> • disaggregation of revenue for the period; • a reconciliation of the balances in the contract asset and contract liability accounts; • the amount of the transaction price allocated to the remaining performance obligations with an expected duration of more than one year; and • assets recognised from the costs to obtain or fulfil a contract. <p>The boards also proposed amendments to their respective interim reporting standards to require a company to include those quantitative disclosures in interim financial reports.</p>	<p>The feedback received revealed a nearly unanimous divide between preparers and investors about the proposed disclosures. In general, investors agreed with the proposals. In contrast, preparers said that the proposed disclosures were excessive, overly prescriptive, and would require disclosure of information that is not needed by management in running the business and, therefore, of questionable benefit to investors.</p> <p>Discussion at workshops held with preparers and investors focused on how each proposed disclosure would be prepared and how the information would be used. The proposal to require a full reconciliation of contract asset and contract liability balances was identified as particularly difficult to prepare because existing systems would not track some reconciling amounts. Some investors noted that, especially for some contracts, useful information about contract balances and movements in those balances could be provided without requiring a full reconciliation.</p> <p>Feedback on the disclosure proposals for interim financial reports was similarly mixed. However, some investors outside of the US agreed with preparers that specifying such disclosures to be provided on an interim basis was not necessary.</p>	<p>Based on the feedback received, the boards clarified the application of some of the disclosure requirements. For the reconciliation of contract balances, the boards concluded that the preparation costs were not outweighed by the benefits. Accordingly, the boards decided to require disclosure of information about the opening and closing balances of contract assets and contract liabilities and the reasons for changes in those balances.</p> <p>The differences in feedback on proposed amendments to their respective interim reporting standards led the IASB and the FASB to reach different decisions on those amendments. The IASB amended IAS 34 <i>Interim Financial Reporting</i> to require a company to disclose disaggregated revenue information in interim financial reports. For all other disclosures related to revenue from contracts with customers, the IASB decided that the general principles of IAS 34 should apply. However, the FASB decided to require the same quantitative disclosures about revenue in interim financial reports as those required for annual financial statements (excluding the disclosures related to costs).</p>

Transition: retrospective application

2011 Exposure Draft	Feedback	The boards' response
<p>A company would apply IFRS 15 retrospectively. The boards proposed retrospective application for IFRS 15 because it would ensure that all contracts with customers would be recognised and measured consistently both in the current period and in the comparative periods regardless of whether those contracts were entered into before or after the requirements became effective. To ease the burden of retrospective application without sacrificing comparability, the boards proposed that companies could elect to use one or more practical expedients when applying IFRS 15 retrospectively.</p>	<p>Feedback from investors supported the proposal for IFRS 15 to be applied retrospectively. They explained that retrospective transition is important to preserve trend information that is used in financial analysis.</p> <p>Many other respondents acknowledged the conceptual merits of retrospective transition, but they considered that the costs required to comply with the proposed basis for transition, even after applying the proposed practical expedients, would far outweigh the benefits.</p>	<p>The boards decided to require companies to apply IFRS 15 retrospectively so that investors and analysts have access to trend information about revenue. However, in the light of the practical difficulties that companies may encounter when applying IFRS 15 retrospectively, the boards decided to allow a company to choose whether to apply IFRS 15 retrospectively to each prior period presented (with optional practical expedients) or retrospectively according to an alternative transition method. The alternative method requires retrospective application with the cumulative effect of applying IFRS 15 to be recognised in the year of initial application, but does not require restatement of comparative periods. In addition, to provide investors with sufficient trend information, this method requires a company to provide additional disclosures to illustrate the effect of IFRS 15 relative to previous revenue Standards.</p>

Licensing intellectual property

2011 Exposure Draft	Feedback	The boards' response
<p>A company would recognise revenue for a licence at the point in time it transfers to the customer. However, a company would also need to consider whether the licence is distinct, or whether the licence is combined with other goods or services in the contract. In those cases, a company would need to determine when the bundle of goods or services transfers to the customer to determine the pattern of revenue recognition.</p> <p>For licences in which the consideration is in the form of a sales-based royalty, the 2011 Exposure Draft also proposed that a company would recognise revenue only when the uncertainty related to those royalties is resolved (for example, when the subsequent sales occur).</p>	<p>Feedback from respondents indicated that they had interpreted the application guidance on licences in the 2011 Exposure Draft as requiring revenue to be recognised at a point in time for <i>all</i> licences of intellectual property. They commented that a proposal to recognise revenue at the point in time when each type of licence transfers to a customer would not appropriately reflect differences in the economic substance of different types of licences.</p> <p>Feedback was mixed on the proposed pattern of revenue recognition for sales-based royalties on licences of intellectual property. Some supported the boards' proposal. Others, however, suggested that the boards articulate the proposal as a broader principle and as part of the proposals to constrain estimates of variable consideration.</p>	<p>The boards decided to emphasise that a company should consider the requirements related to identifying performance obligations before determining when a licence transfers to a customer. That is because when a licence is not distinct, the company should recognise revenue when the bundle of goods or services (which includes the licence) transfers to a customer.</p> <p>If a licence is distinct, IFRS 15 specifies that the timing of revenue recognition depends on whether the licence provides the customer with a right to:</p> <ul style="list-style-type: none"> • access the company's intellectual property as it exists throughout the licence period (in which case, the licence transfers to the customer over time and, hence, revenue is recognised over time); or • use the company's intellectual property as it exists at the point in time the licence is granted (in which case, the licence transfers at a point in time and, hence, revenue is recognised at that time). <p>In addition, the boards decided to include requirements related to sales-based or usage-based royalties that require the recognition of revenue upon the later of when the sales or usage occurs, or when the company has transferred the licence.</p>

Onerous performance obligations

2011 Exposure Draft	Feedback	The boards' response
<p>A performance obligation would be onerous if the lowest cost of settling that performance obligation exceeds the transaction price allocated to it.</p> <p>The 2011 Exposure Draft proposed that a company would recognise a liability and a corresponding expense for an onerous performance obligation only if the performance obligation is satisfied over a period of time that is greater than one year.</p> <p>To limit the unintended consequences of applying the onerous test to some contracts, the original proposals in the 2010 Exposure Draft were revised to reduce the scope of the onerous test and to clarify the circumstances in which a performance obligation is onerous.</p>	<p>Respondents acknowledged that the revised proposals in the 2011 Exposure Draft would address some of their concerns about the application of the onerous test. However, many were still concerned that the onerous test might result in performance obligations being identified as onerous, even though the contract as a whole was profitable.</p> <p>In the light of those concerns, many respondents suggested that IFRS 15 should not include an onerous test and instead a company should apply the requirements in existing standards, which work well in practice.</p> <p>Investors had mixed views on the onerous test. Some thought the proposals would capture performance obligations where they thought it was critical that an onerous loss should be recognised. However, others thought that such a test may create results that are not useful because profitability is assessed at the contract level or higher.</p>	<p>The boards agreed that existing requirements in IFRS and in US GAAP are sufficient for accounting for contracts that are onerous. Consequently, the boards decided that IFRS 15 should not include an onerous test.</p>

Notes

International Accounting Standards Board® (IASB®)
The IASB is the independent standard-setting body of the IFRS Foundation®

30 Cannon Street | London EC4M 6XH | United Kingdom

Telephone: +44 (0)20 7246 6410 | Fax: +44 (0)20 7246 6411

Email: info@ifrs.org | Web: www.ifrs.org

Publications Department

Telephone: +44 (0)20 7332 2730 | Fax: +44 (0)20 7332 2749

Email: publications@ifrs.org

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