

# Implementing IFRS 15 *Revenue from Contracts with Customers*

IFRS Conference  
Nairobi, Kenya, August 2016  
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# Background

# Reasons for issuing IFRS 15

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May 2014

International Financial Reporting Standard\*

IFRS 15 Revenue from  
Contracts with Customers



- Old standards provided limited guidance and were difficult to apply to complex transactions
- Objective: to develop a new Standard for recognizing revenue to:
  - Remove **inconsistencies** and **weaknesses** in previous revenue requirements
  - Provide a more **robust framework** for addressing revenue issues
  - **Improve comparability** of revenue recognition practices across entities, industries, jurisdictions and capital markets
  - Provide **improved disclosures**

- **Objective**

- To establish the principles that an entity shall apply to report 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

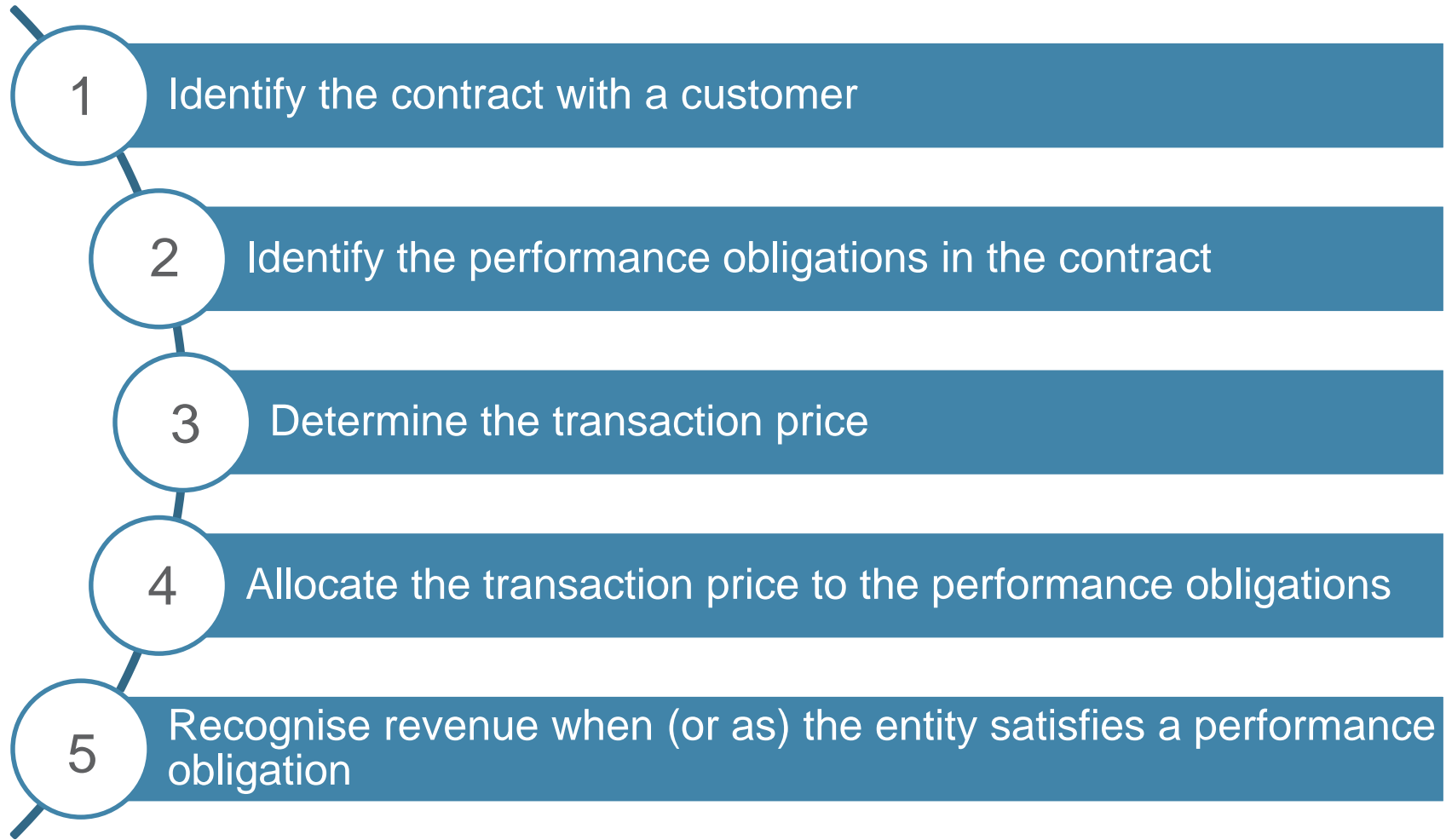
- **Core principle**

- Recognise revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services

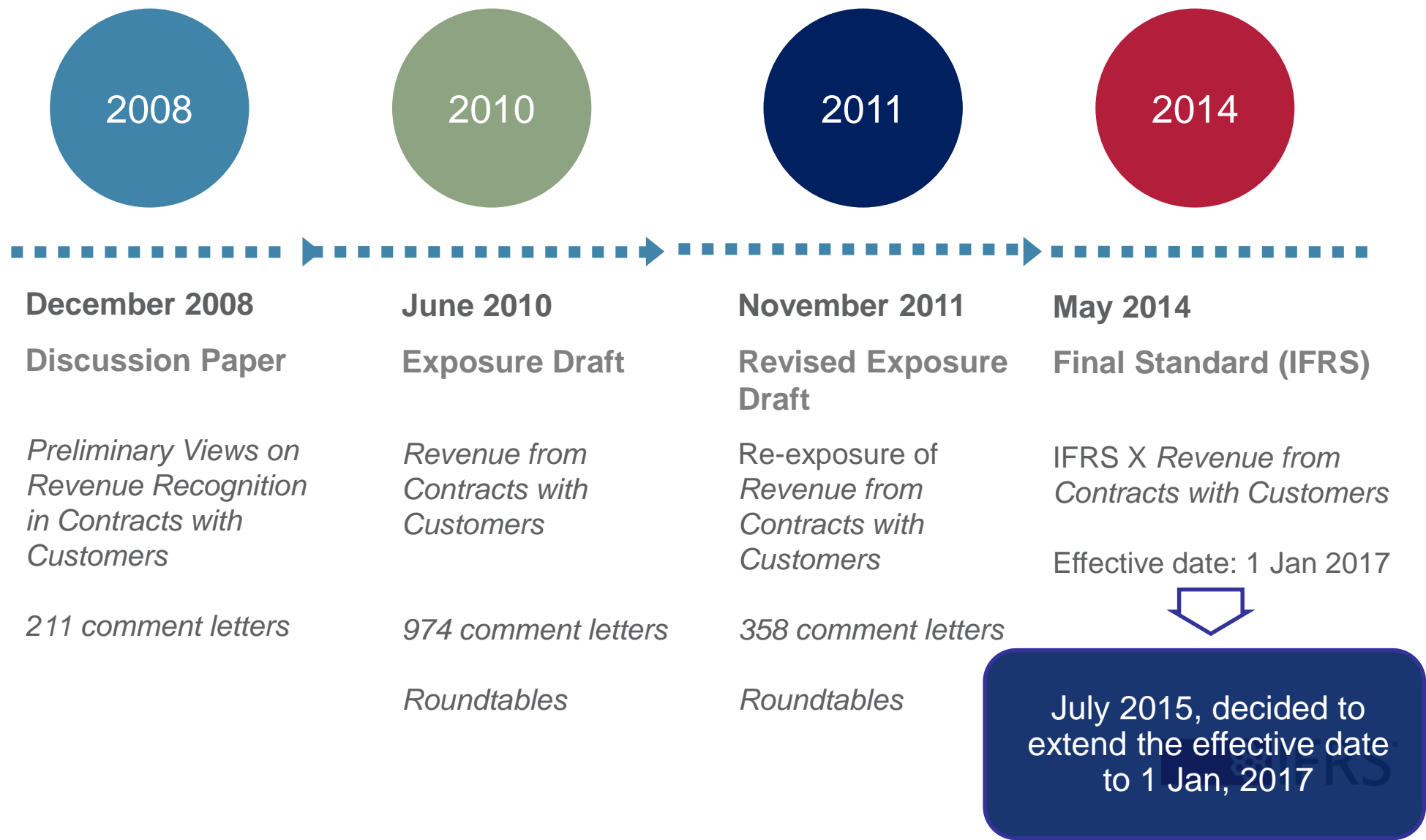
- **When**
  - Recognise revenue when the entity satisfies performance obligations by transferring goods or services to the customer
- **How**
  - The transaction price is allocated to the goods or services transferred to the customer, ie the performance obligations

# Detailed guidance in 5 steps?

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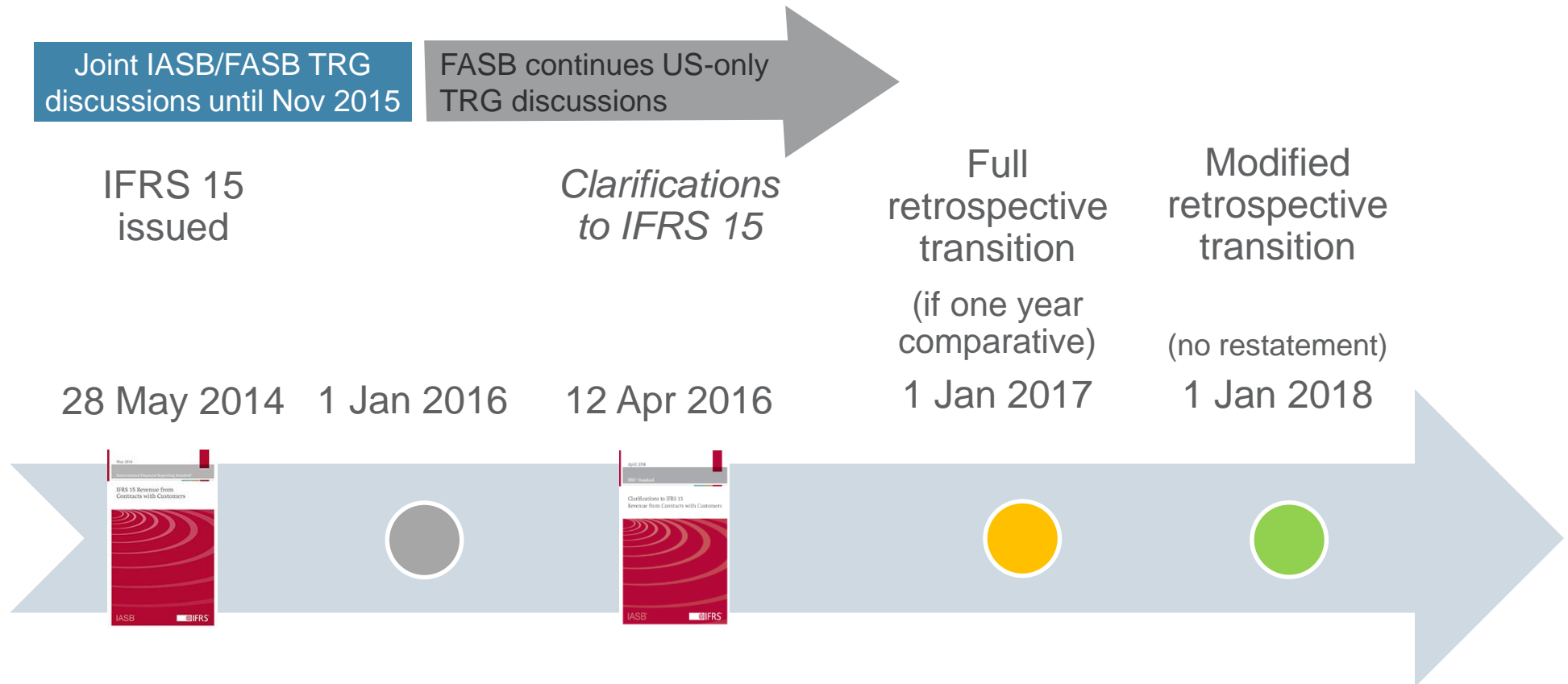


# Extensive due process





# IFRS 15 implementation timeline



# Question 1

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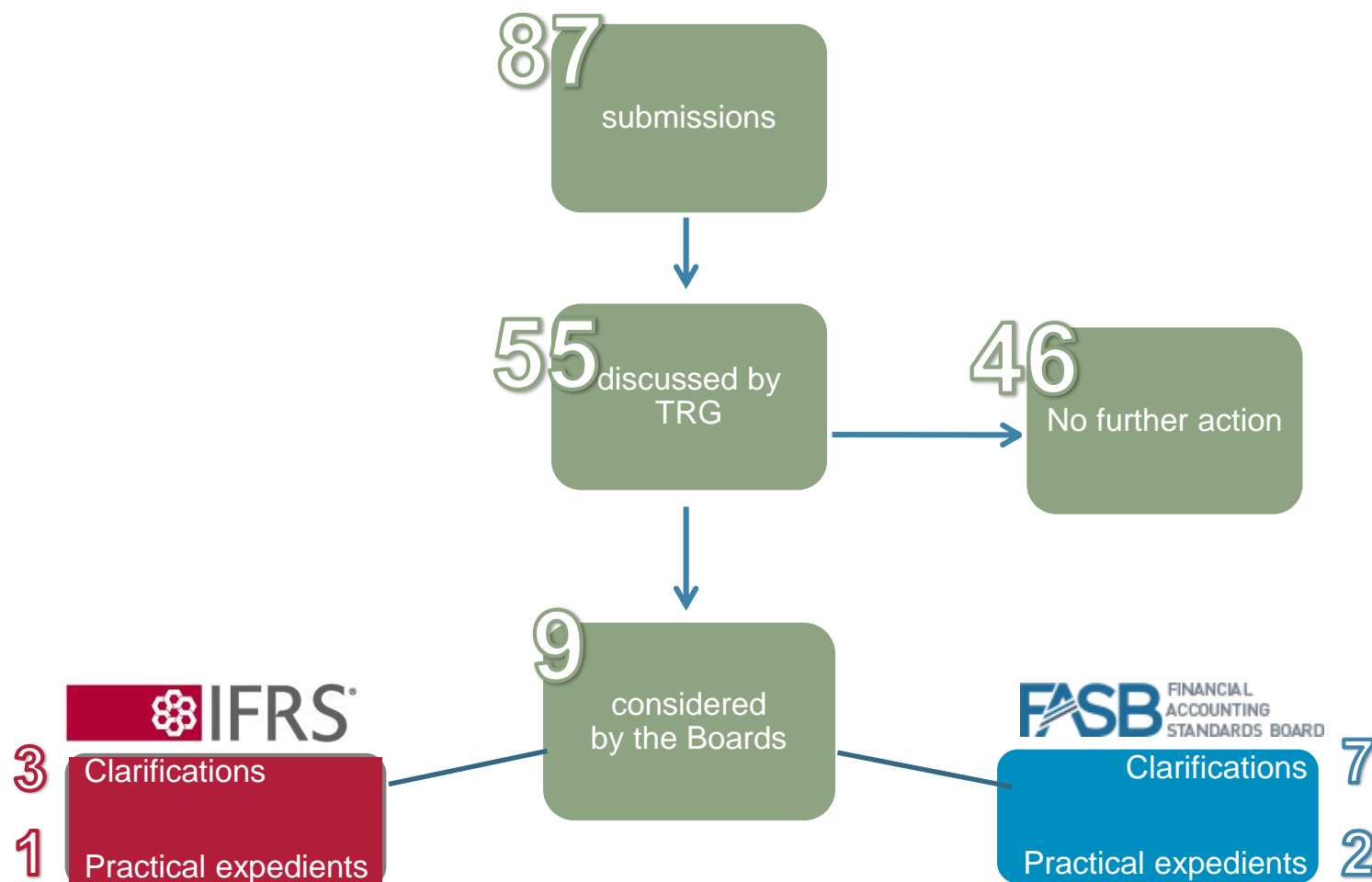
Do you plan to apply IFRS 15 in:

1. 2016?
2. 2017?
3. 2018?

# Major implementation issues

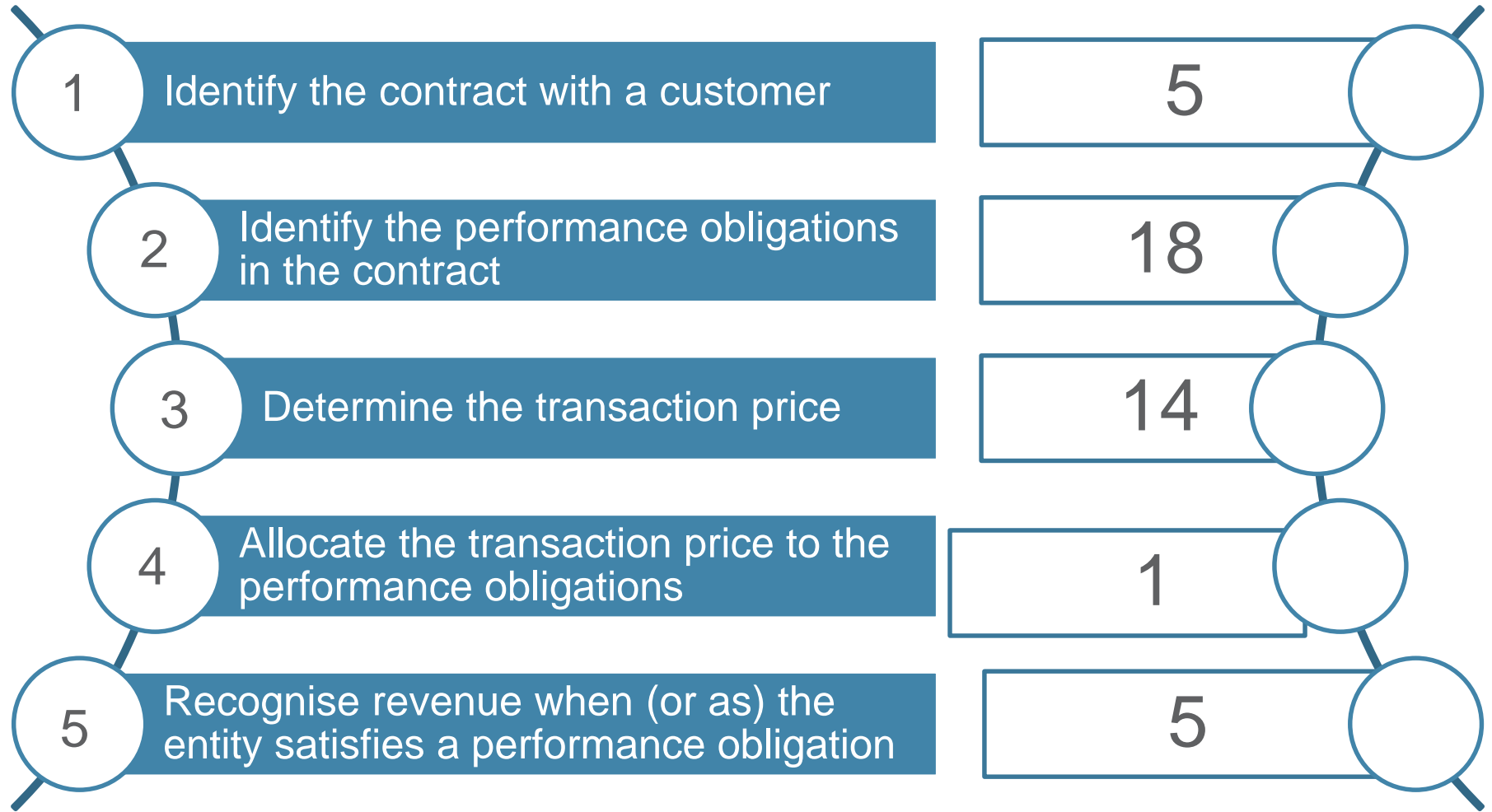
# Joint TRG activities (until Nov 2015)

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# Where are the challenges?

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# Major implementation issues

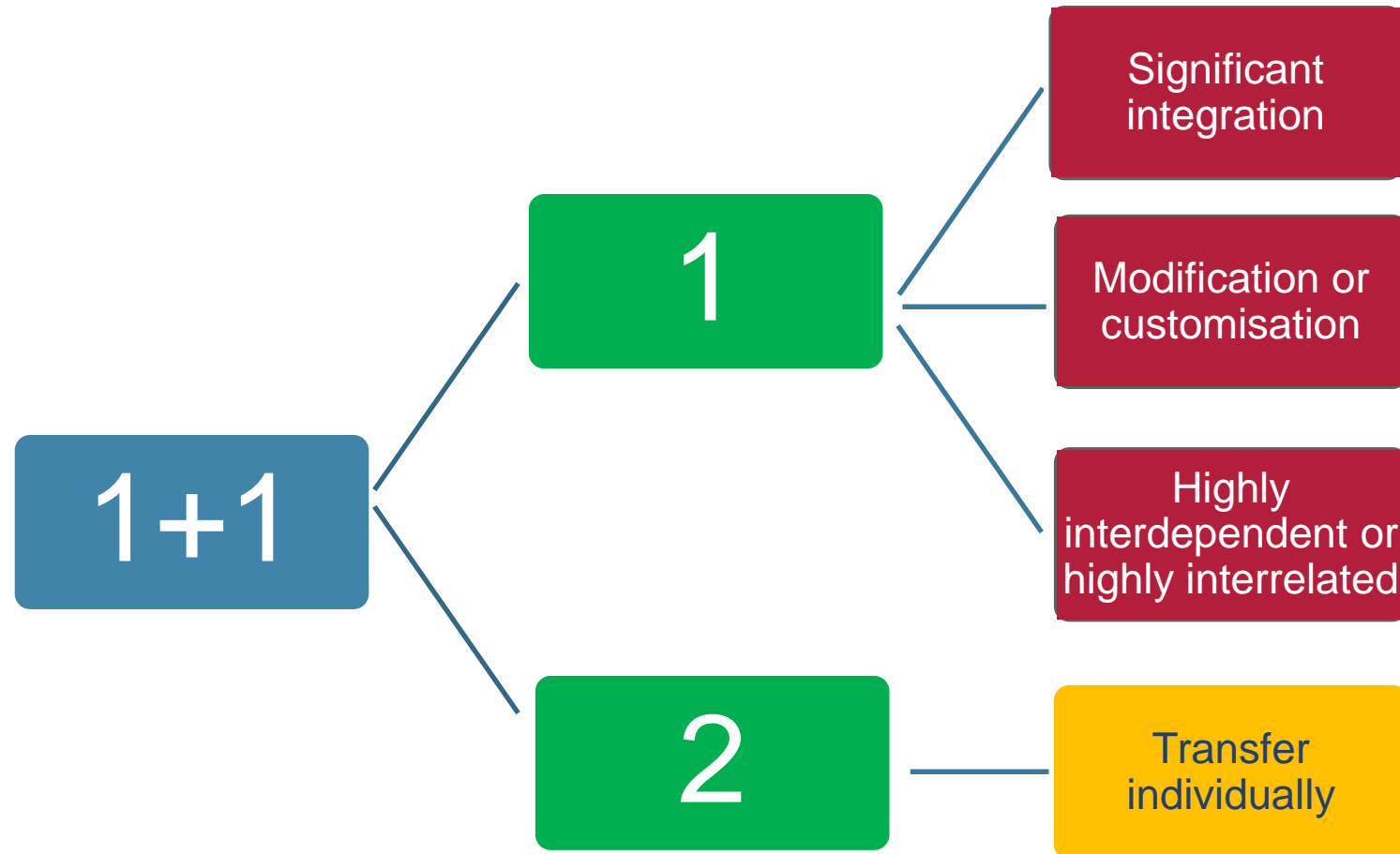
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- Distinct within the context of the contract
- Principal versus agent considerations
- Licence of IP
- Sales-based or usage-based royalties for licence of IP

# 1. Distinct within the context of the contract

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# Example 10 Case B—Contract to provide service of producing devices

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- **Facts**

- Multiple units of a highly complex, specialised device unique to the customer
- Required to establish a customised manufacturing process
- Responsible for overall contract management including integration of various activities

- **Analysis**

- Each unit CAPABLE of being distinct
- Significant integration service provided
- Promised activities highly interdependent and highly interrelated



# Example 10 Case B—Contract to provide service of producing devices

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- **Conclusions**

- Promised goods and services a single performance obligation —units not distinct within the context of the contract
- Recognise revenue over time as services provided

## 2. Principal versus agent

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Who are you?  
I am a 'principal'. I control  
the good or service before  
the customer gets it...



Another party

End customer

Who are you?  
I am an 'agent'. I don't  
control the good or  
service before the  
customer gets it...



Another party

End customer

It is all about control

### 3. Licence of intellectual property

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Will the licenced IP change when customer uses it?



Right to *use* IP

IP has significant  
standalone  
functionality

Revenue at point  
in time



Right to *access* IP

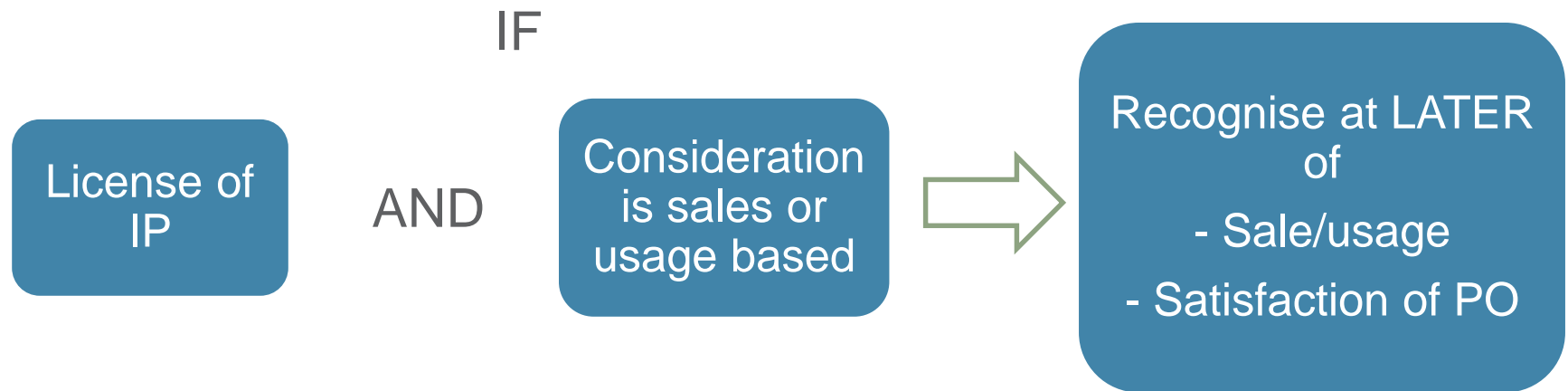
Change in form  
or functionality  
of IP

Benefits  
substantially  
derived/dependent  
on licensor's  
activities

Revenue over time

## 4. 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

# Question 2

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Will IFRS 15 change how you analyse:

1. Distinct within the context of the contract
2. Principal versus agent considerations
3. Licence of IP
4. Sales-based or usage-based royalties for licence of IP

# Implementation support

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

## 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.

### Overview materials

<i>Project Summary and Feedback Statement</i>	May 2014
Joint IASB and FASB webcast: <i>IN FOCUS: Revenue from Contracts with Customers</i>	June 2014
IASB member article—Patricia McConnell: <i>Investor Perspective: 'Revenue recognition: finally, a Standard approach'</i>	June 2014

### Summaries of issues discussed at TRG Meetings

<i>July 2014</i>
<i>October 2014</i>
<i>January 2015</i>
<i>March 2015</i>
<i>July 2015</i>
<i>November 2015</i>

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](#).

## TRG Submissions log

http://www.ifrs.org/Meetings/MeetingDocs/Other%20Meeting/2015/June/Submissions-log.pdf

WebHome < ... IFRS - Joint Tra... ifrs.org

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
18	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.  <a href="#">FASB Memo No. 1, Revenue Recognition - Collectibility, Accounting for Cash Received</a> <a href="#">IASB Agenda Paper 7B, Revenue from Contracts with Customers - Collectibility, Considerations</a> <a href="#">FASB Meeting Minutes</a> <a href="#">IASB Update</a>
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 19-Jul-15	No. 28 No. 37	

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Done

# Guidance on transition

# Transition

		PY (2017)		CY (2018)	CY Notes
Retrospective	Cumulative catch-up	Contracts under new standard  Contracts restated			
Cumulative effect at date of application		Contracts <b>not</b> restated	Cumulative catch-up	Contracts under new standard	Contracts presented under legacy IFRS

Optional reliefs include

- Completed contracts
- Modified contracts



# Question 3

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Which transition method will you use:

1. Full retrospective transition method
2. Cumulative effect at date of initial application

# Transition—focus on disclosures

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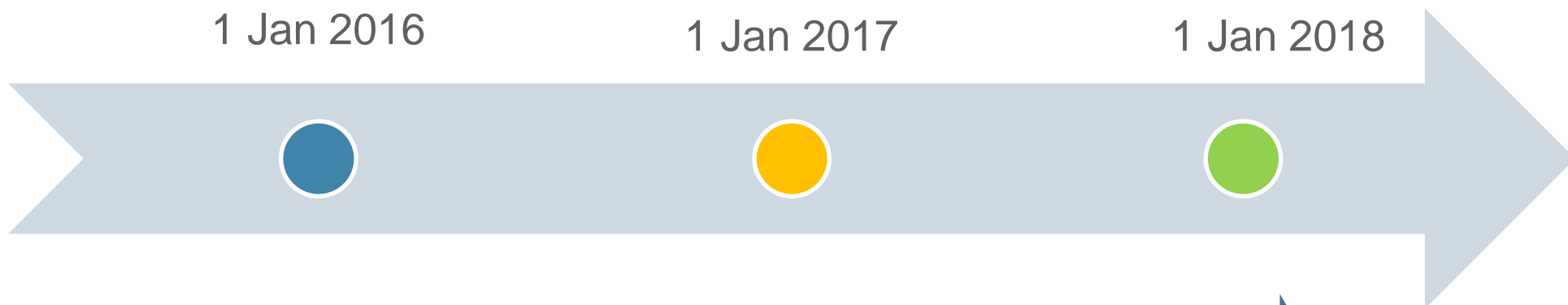
Full retrospective  
transition  
(if one year comparative)

Modified retrospective  
transition  
(no restatement)

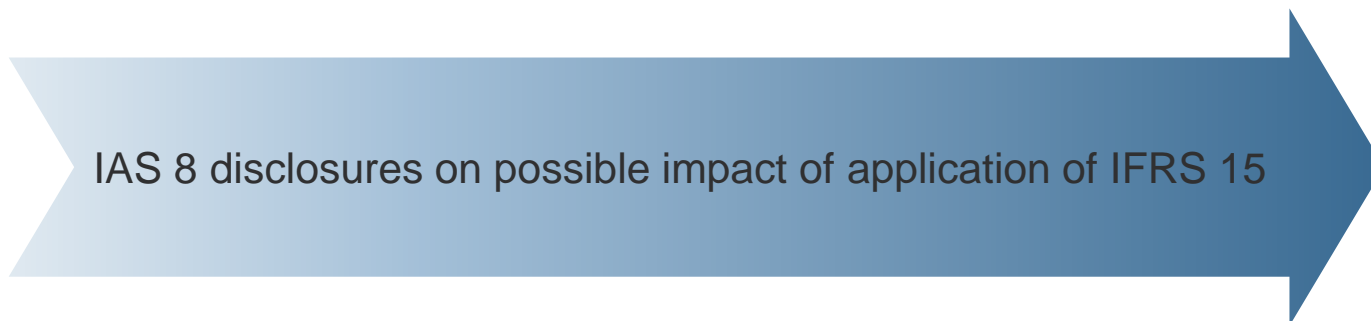
1 Jan 2016

1 Jan 2017

1 Jan 2018



IAS 8 disclosures on possible impact of application of IFRS 15



# Much change?

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Telco  
Media & Entertainment



Long term contracts  
(IT, Outsourcing)



Many retail transactions  
Simple service contracts

Disclosures  
(entity and business model specific)

# Comprehensive and cohesive disclosure requirements

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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 (also required for Interims)

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

## Judgements

Timing of and methods for recognising revenue

Determining the transaction price and amounts allocated to performance obligations

# Key messages

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2018 is  
closer than  
you think

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





Fresh look  
under the new  
5-step  
framework

Disclosures:  
Entity-specific  
and business  
model-specific


# Contact us

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-  [go.ifrs.org/email-alerts](https://go.ifrs.org/email-alerts)
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