

IFRS 15

IFRS 15 *Revenue from Contracts with Customers*
July 2021



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Agenda

- ▶ Scope
- ▶ Overview of the model
- ▶ The five-step model
- ▶ Transition requirements
- ▶ Disclosures



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What's in and out of IFRS 15?

What is in scope or affected by the standard



- ▶ Contracts with customers
- ▶ Sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., IAS 16, IAS 40, IAS 38)

What is not in scope



- ▶ Leasing contracts – IAS 17 / IFRS 16
- ▶ Insurance contracts – IFRS 4 / IFRS 17
- ▶ Financial instruments and other contractual rights or obligations contracts within the scope of – IFRS 9 and IAS 39, IFRS 10, IFRS 11, IAS 27, IAS 28
- ▶ Non-monetary exchanges between entities in the same line of business to facilitate sales to customers / potential customers (e.g., oil & gas industry)

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What's in and out of IFRS 15? - Examples

Question 1

An automobile dealer exchanges new model automobiles with another dealer to obtain the colour ordered by a customer. This transaction is

- A. inside the scope of IFRS 15; or
- B. outside the scope of IFRS 15

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What's in and out of IFRS 15? - Examples

Question 1 - Debrief

The correct answer is B.



- ▶ This non-monetary exchange is intended to facilitate a sale to a customer who is not a party to the exchange.
- ▶ In addition, it involves the exchange of inventory that both dealers hold for sale in the same line of business.
- ▶ Accordingly, this transaction is outside the scope of IFRS 15.

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What's in and out of IFRS 15? - Examples

Question 2

An office supply retailer provides office equipment and supplies to an automobile dealer in exchange for an automobile. The automobile dealer will use the office equipment and supplies in its financing department. The new equipment is an upgrade from the automobile dealer's old equipment and will allow the automobile dealer to reduce administrative expenses. The office supply retailer will use the car received in its repair department, allowing the department to reduce response times and meet service level commitments. This transaction is

- A. inside the scope of IFRS 15; or
- B. outside the scope of IFRS 15

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What's in and out of IFRS 15? - Examples

Question 2 - Debrief



The correct answer is A.

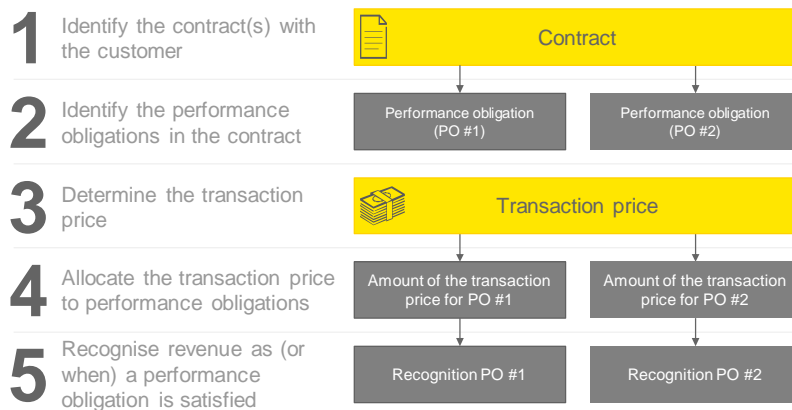
- ▶ Although the exchange involves inventory held for sale by each entity, the transaction is not an exchange of a product held for sale in the ordinary course of business for a product to be sold in the same line of business to facilitate sales to customers.
- ▶ Accordingly, this transaction is within the scope of IFRS 15 for each entity.

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IFRS 15

Overview of the model

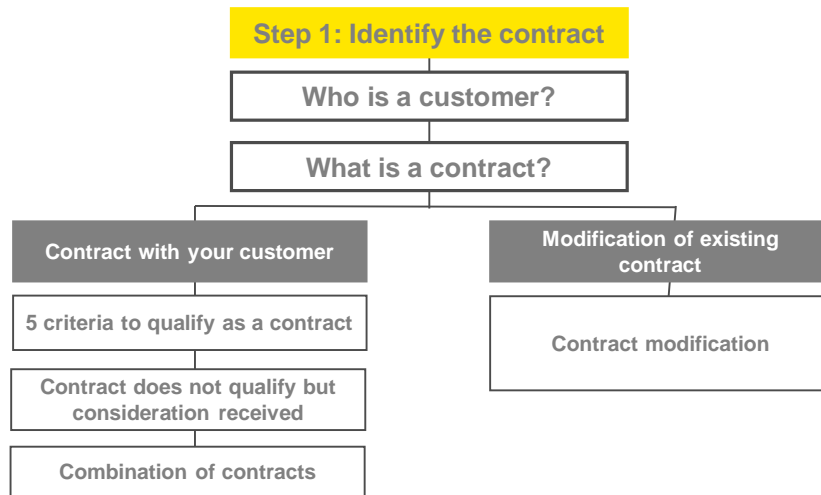
Core principle: Recognise revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity **expects** to be entitled in exchange for those goods or services



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Step 1: Identify the contract

Overview



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Who is the customer?

Question 3

An entity provides internet-based advertising services to companies. As part of those services, the entity purchases banner-space on various websites from a selection of publishers. For certain contracts, the entity provides a sophisticated service of matching the ad placement with the pre-identified criteria of the advertising party (i.e., the customer). In addition, the entity pre-purchases the banner-space from the publishers before it finds advertisers for that space. Assume that the entity appropriately concludes it is acting as the principal in these contracts. Who is the customer in this contract:

- A. The publisher; or
- B. The advertiser

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Who is the customer?

Question3 - Debrief

The correct answer is B.

- ▶ The advertiser to whom it is providing services.
- ▶ ***In other contracts, the entity simply matches advertisers with the publishers in its portfolio***, but the entity does not provide any sophisticated ad-targeting services or purchase the advertising space from the publishers before it finds advertisers for that space.
- ▶ Assume that the entity appropriately concludes it is acting as the agent in these contracts. Accordingly, the entity identifies that its customer is the publisher to whom it is providing services.

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Step 2: Identify the performance obligations

- ▶ A **performance obligation** is a promise (explicit or implicit) in a contract with a customer to transfer a good or service
- ▶ Performance obligations are identified at contract inception and determined based on:
 - ▶ Contractual terms
 - ▶ Customary business practice
- ▶ A series of goods or services that are substantially the same and have the same pattern of transfer is a single performance obligation if criteria are met

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Step 2: Identify the performance obligations

Two-step model to identify which goods or services are distinct

Step 1: Focus on whether the good or service is **capable of being distinct**

Customer can benefit from the individual good or service on its own

Or

Customer can use good or service with other readily available resources

Step 2: Focus on whether the promise to transfer the good or service is **distinct in the context of the contract**

- ▶ Evaluate whether multiple promised goods or services work together to deliver a combined output(s)
- ▶ Assess whether the good or service is integrated with, highly interdependent on, highly interrelated with, or significantly modifying or customising, other promised goods or services in the contract

Step 3: Determine the transaction price

What is transaction price?

“ Transaction price is the **amount of consideration** to which an entity **expects** to be entitled in exchange for transferring promised goods or services to a customer. ”

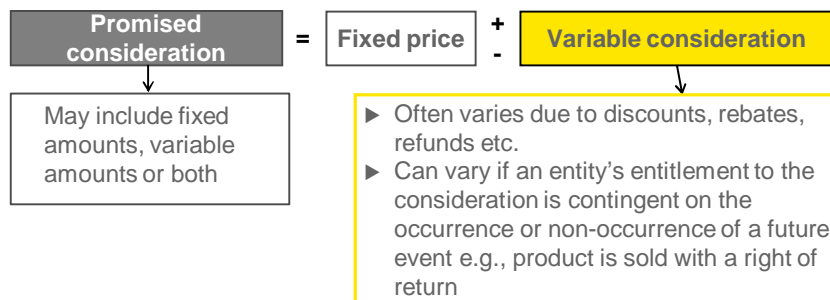
Transaction price reflects the effects of:

- ✓ Variable consideration (including application of the constraint)
- ✓ Non-cash consideration
- ✓ Significant financing component
- ✓ Consideration payable to a customer

Step 3: Determine the transaction price

What is variable consideration?

“ If the consideration promised in a **contract (explicit or implicit) includes a variable amount**, an entity shall **estimate the amount of consideration** to which the entity will be entitled in exchange for transferring the promised goods or services to the customer ”



Step 3: Determine the transaction price

Examples of variable consideration

Examples

Performance Bonuses	Incentive payments	Penalties
Returns / Refunds	Money-back guarantees	Discounts
Volume rebates	Price concessions	Liquidated damages

Step 3: Determine the transaction price

Estimate the variable consideration

“ Variable consideration is estimated using the approach that **better predicts the amount to which the company is entitled** based on its facts and circumstances ”

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Expected value

- ▶ Sum of the **probability-weighted amounts** in a range of possible outcomes
- ▶ Most predictive when the transaction has **large number** of possible outcomes
- ▶ Can be based on a limited number of discrete outcomes and probabilities

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Most likely

- ▶ The **single most likely** amount in a range of possible outcomes
- ▶ May be appropriate when the transaction will produce only **two outcomes**



- ▶ The estimation method used must be **applied consistently** throughout the contract and for similar types of contracts
- ▶ The estimate of the transaction price that includes variable consideration should be **updated at each reporting date**

Step 3: Determine the transaction price

Constraint on variable consideration

Factors that **increase** the likelihood or magnitude of a revenue reversal

Consideration is susceptible to factors outside entity's influence

Uncertainty of variable amounts is not expected to be resolved over long period of time

Entity's experience with similar contracts is limited or has little predictive value

Entity has a practice of offering price concessions or changing payment terms and conditions

Contract has a large number and broad range of possible consideration amounts

is included in the transaction price only if it is **highly probable** that there will not be a **significant reversal of cumulative revenue** when uncertainty is subsequently resolved.



- ▶ “Significant” is relative to cumulative revenue recognised.
- ▶ “Update estimates of variable consideration at each reporting date

Step 3: Determine the transaction price

Significant financing component

“ An adjustment to the promised amount of consideration if the timing of payments agreed to by the parties (either explicitly or implicitly) provides the customer or the entity with a **significant benefit of financing** ”

Consider the relevant factors:



The **difference** between promised consideration and the cash selling price



Combined effect of:

- ▶ **Expected time** between transfer of promised goods and services and payment from customer
- ▶ **Prevailing interest rates** in the relevant market



Evaluation not required if the entity expects the period between transfer of promised good or service and receipt of payment is **one year or less**

Illustration 1: Estimating the transaction price using the expected value method

Entity A enters into contracts with customers to construct commercial buildings. The contracts include similar terms and conditions and contain a fixed fee plus variable consideration for a performance bonus related to the timing of Entity A's completion of the construction. Based on Entity A's historical experience, the expected bonus amounts and associated probabilities for achieving each bonus are, as follows:

Bonus amount	Probability of outcome
CU0	25%
CU100,000	50%
CU150,000	25%

Illustration 1: Estimating the transaction price using the expected value method

Entity A determines that using the expected value method would better predict the amount of consideration to which it will be entitled because it has a large number of contracts that have characteristics that are similar to the new contract. Under the expected value method, Entity A estimates variable consideration of CU87,500, as follows:

Bonus amount (a)	Probability of outcome (b)	Expected value amount (a × b)
CU0	25%	CU0
CU100,000	50%	CU50,000
CU150,000	25%	CU37,500
	Total	CU87,500

Entity A needs to consider the effect of applying the constraint on variable consideration.

Illustration 2: Estimating the transaction price using the most likely amount

Entity A enters into a six-month advertising campaign agreement (CU500,000 fixed fee) that also includes a potential CU100,000 performance bonus linked to certain goals. Entity A estimates that it is 90% likely to receive the entire performance bonus and 10% likely to receive none of the bonus.

Because of the binary nature of the outcome (i.e., the entity will either receive the performance bonus or not receive it), Entity A determines that the most likely amount method is the better predictor of the amount to which it expects to be entitled. Because it is 90% probable that Entity A will receive the CU100,000 performance bonus, Entity A estimates the most likely amount it will receive is CU600,000 (i.e., CU500,000 fixed fee plus the entire CU100,000 bonus).

Entity A needs to consider the effect of applying the constraint on variable consideration.

Significant financing component

Determine discount rate

Adjusting the promised consideration for a significant financing component

Discount rate

- ▶ Determined at **contract inception**
- ▶ Reflects **credit characteristics** of the party *receiving* the financing in the contract
- ▶ After inception, discount rate should **not** be updated for any changes

The effect of financing would be reflected separately from revenue

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No significant financing component

No significant financing component if any of the following terms exist:

- ✓ **Advance payment** and goods or services delivery are at the **discretion of the customer**
(E.g. prepaid phone cards, gift cards and customer loyalty points)
- ✓ Consideration **amount or timing varies based on a future event that is not substantially within the control of the customer or the entity**
(E.g. sales-based royalty consideration to be received by the author of books)
- ✓ The difference between the promised consideration and the cash selling price arises for **reasons other than the provision of finance** to either the customer or the entity
 - ▶ This indicator requires **significant judgment**.
 - ▶ E.g. upfront payment to secure the future supply of goods

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Step 4: Allocating the transaction price

Overview

Step 4: Allocating the transaction price to performance obligations

Single PO

Allocate the transaction price to the PO if there is **variable consideration**

Multiple POs

- 1 Determine standalone (price at which the goods and services could be separately sold) selling prices
- 2 Consider if a discount can be allocated to one or more, but not all POs
- 3 Consider if variable consideration can be allocated to part of the contract
- 4 Compute allocated total transaction price

Step 4: Allocating the transaction price

Determine stand-alone selling price

“ Stand-alone price is the price at which an entity would sell a promised good or service **separately** to a customer and **determined at contract inception** of the each distinct good or service in the contract ”

When a stand-alone selling price is **not observable**, entity is required to **estimate** it



Maximise the use of **observable inputs**



Apply estimation methods consistently for goods / services and customers with **similar characteristics**



Three estimation methods are described in IFRS 15, but others or a combination of estimation methods are permitted

Step 4: Allocating the transaction price

How to determine stand-alone selling price?

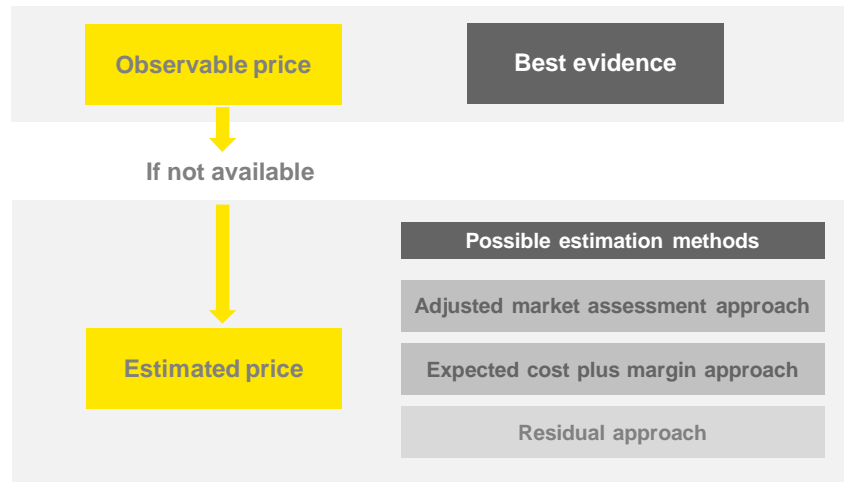


Illustration 3: Transaction Price Allocation Methodology

An entity enters into a contract with a customer to sell Products A, B and C in exchange for CU100. The entity will satisfy the performance obligations for each of the products at different points in time. The entity regularly sells Product A separately and therefore the stand-alone selling price is directly observable. The stand-alone selling prices of Products B and C are not directly observable.

Because the stand-alone selling prices for Products B and C are not directly observable, the entity must estimate them. To estimate the stand-alone selling prices, the entity uses the adjusted market assessment approach for Product B and the expected cost plus a margin approach for Product C. In making those estimates, the entity maximises the use of observable inputs (in accordance with paragraph 78 of IFRS 15). The entity estimates the stand-alone selling prices as follows:

Illustration 3: Transaction Price Allocation Methodology

Product	Stand-alone selling price	Method
	CU	
Product A	50	Directly observable (see paragraph 77 of IFRS 15)
Product B	25	Adjusted market assessment approach (see paragraph 79(a) of IFRS 15)
Product C	75	Expected cost plus a margin approach (see paragraph 79(b) of IFRS 15)
Total	150	



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Illustration 3: Transaction Price Allocation Methodology

The customer receives a discount for purchasing the bundle of goods because the sum of the stand-alone selling prices (CU150) exceeds the promised consideration (CU100). The entity considers whether it has observable evidence about the performance obligation to which the entire discount belongs (in accordance with paragraph 82 of IFRS 15) and concludes that it does not. Consequently, in accordance with paragraphs 76 and 81 of IFRS 15, the discount is allocated proportionately across Products A, B and C. The discount, and therefore the transaction price, is allocated as follows:

Product	Allocated transaction price	
	CU	
Product A	33	$(CU50 \div CU150 \times CU100)$
Product B	17	$(CU25 \div CU150 \times CU100)$
Product C	50	$(CU75 \div CU150 \times CU100)$
Total	100	



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Step 5: Recognise revenue

Overview

- ▶ Revenue is recognised when (or as) an entity satisfies a performance obligation (PO)
- ▶ A good or service is generally transferred when customer obtains control
- ▶ POs are satisfied
 - ▶ Over time or
 - ▶ At a point in time
- ▶ Criteria (next slide) to determine if control transfers over time
 - ▶ If none of criteria are met, control transfers at a point in time

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Step 5: Recognise revenue

Performance obligations satisfied over time

A performance obligation is satisfied **over time** if **one** of the following three criteria is met:

The entity creates or enhances an asset that the customer controls as it is created or enhanced

The entity's performance does not create an asset with alternative use, and the entity has a right to payment for performance completed to date

The customer simultaneously receives and consumes the benefits of the entity's performance as the entity performs

If none of the criteria are met, the performance obligation is satisfied at a point in time

Another entity would not have to re-perform work completed to date

"Pure service" contracts

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Step 5: Recognise revenue

POs satisfied at a point in time

The **indicators** of when control is transferred, include, but are not limited to:



The entity has a present **right to payment** for the asset



The customer has **legal title** to the asset



The customer has **physical possession** of the asset



The customer has the **risks and rewards of ownership** of the asset



The customer has **accepted the asset**

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Step 5: Recognise revenue

Methods for measuring progress



Revenue is recognised over time by **measuring progress toward completion**



Apply a **single method** for each performance obligation satisfied over time



Apply **consistent method** for similar performance obligations in similar circumstances



Output methods



Input methods



If unable to reasonably estimate progress, revenue is not recognised until progress can be estimated.

▶ However, if an entity **expects to recover the costs**, the entity should recognise revenue up to costs incurred.

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Revenue related line items

Contract liability

- ▶ Obligation to transfer goods or services for which the entity has received consideration (or consideration is due)

Contract asset

- Right to consideration in exchange for goods or services that the entity has transferred to a customer

Receivable

- Right to consideration that is unconditional (only the passage of time is required before payment is due)

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Transition requirements

- ▶ IFRS: **Effective 1 January 2018**. Early adoption permitted

Key considerations	Full retrospective approach <i>Excluding transition reliefs</i>	Modified retrospective approach <i>Excluding transition reliefs</i>
Applies to which periods presented?	All periods presented	Only the most current period presented
Applies to which contracts?	All contracts that would have existed during all periods presented had the new standard been applied from contract inception	Any contracts existing as of effective date (as if new standard had been applied since inception of contract), as well as any new contracts from that date forward
Recognition of the impact of adoption in the financial statements?	Cumulative effect of changes prior to periods presented are reflected in opening balance of retained earnings in the earliest period presented	Cumulative effect of changes to be reflected in the opening balance of retained earnings in the most current period presented

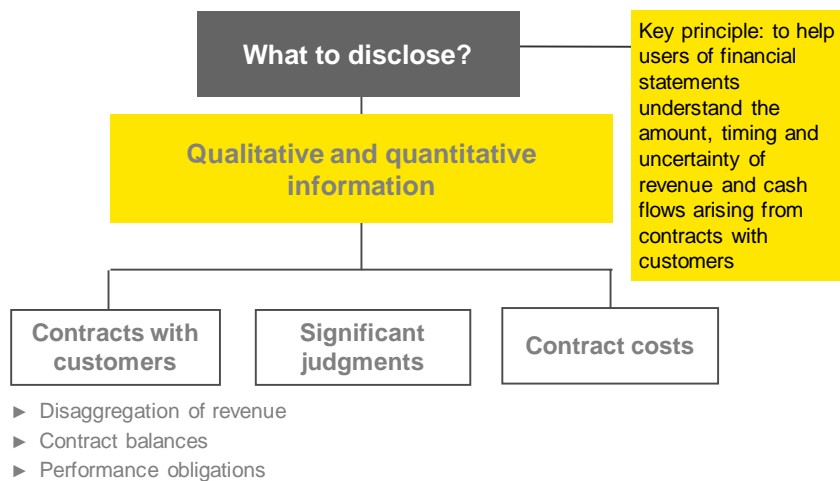
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Practical Expedients

Full retrospective approach	Modified retrospective approach
<ul style="list-style-type: none"> ▶ Entities are allowed to apply IFRS 15 only to: <ul style="list-style-type: none"> ▶ Contracts that are not completed at the beginning of the earliest period presented 	<ul style="list-style-type: none"> ▶ Entities are allowed to apply IFRS 15 either to: <ul style="list-style-type: none"> ▶ All contracts at the date of initial application; or ▶ Contracts that are not completed at that date
<ul style="list-style-type: none"> ▶ For contracts modified before the beginning of the earliest period presented, entities are allowed to use hindsight to: <ul style="list-style-type: none"> ▶ Identify the satisfied and unsatisfied performance obligations (POs) ▶ Determine the transaction price ▶ Allocate the transaction price to the satisfied and unsatisfied POs 	<ul style="list-style-type: none"> ▶ Entities are allowed a practical expedient (similar to full retrospective approach) to use hindsight for contract modifications, either: <ul style="list-style-type: none"> ▶ For all contract modifications that occur before the earliest period presented; or ▶ For all contract modifications that occur before the date of initial application

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Disclosure overview



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Disclosure

Contract with customers for annual periods

- ▶ Disaggregation of reported revenue
- ▶ Information about balances of contract assets and liabilities
- ▶ Information about performance obligations, including:
 - ▶ Typical timing of satisfaction of performance obligations (e.g., upon shipment, upon delivery, as services are rendered)
 - ▶ Significant payment terms
 - ▶ Nature of the goods or services promised
 - ▶ Obligations for returns and refunds

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Example

Disaggregation disclosure

Segments	Consumer products	Transport	Energy	Total
	CU	CU	CU	CU
Primary geographical markets				
North America	990	2,250	5,250	8,490
Europe	300	750	1,000	2,050
Asia	700	260	—	960
	1,990	3,260	6,250	11,500
Major goods/service lines				
Office supplies	600	—	—	600
Appliances	990	—	—	990
Clothing	400	—	—	400
Motorcycles	—	500	—	500
Automobiles	—	2,760	—	2,760
Solar panels	—	—	1,000	1,000
Power plant	—	—	5,250	5,250
	1,990	3,260	6,250	11,500
Timing of revenue recognition				
Goods transferred at a point in time	1,990	3,260	1,000	6,250
Services transferred over time	—	—	5,250	5,250
	1,990	3,260	6,250	11,500

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Disclosure requirements

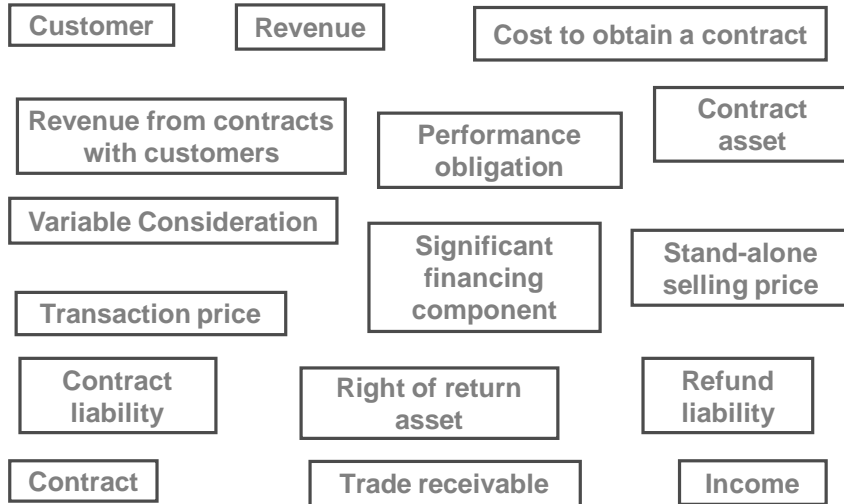
Significant judgements and contract costs for annual periods

- ▶ For significant judgements made in applying standard
 - ▶ Methods, inputs and assumptions used to determine the transaction price, apply the constraint, allocate to performance obligations and measure obligations for returns and refunds
 - ▶ Methods used to determine the timing of satisfaction of performance obligations
- ▶ For contract assets from costs to obtain or fulfil a contract
 - ▶ Qualitative information including judgements in determining amounts and amortisation methods used
 - ▶ Quantitative information including closing balances and amount of amortisation recognised during the period

More than just accounting changes



Some of the terms used in IFRS 15



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Questions?



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