Snapshot – IFRS 15 – Revenue from Contracts with Customers

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OBJECTIVE

To establish 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.

MEETING THIS OBJECTIVE

- To meet this objective, the core principle of the standard is that an entity 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 entity expects to be entitled in exchange for those goods or services.
- The standard is to be applied on an individual contract basis. However, as a practical expedient, a portfolio approach is permitted for contracts with similar characteristics provided it is reasonably expected that the impact on the financial statements will not be materially different from applying this model to the individual contracts.

THE REVENUE MODEL

To recognise revenue the following five steps should be applied

STEP 1 – IDENTIFY THE CONTRACT(S) WITH THE CUSTOMER

STEP 2 – IDENTIFY THE PERFORMANCE OBLIGATIONS IN THE CONTRACT

STEP 3 – DETERMINE THE TRANSACTION PRICE

STEP 4 – ALLOCATE THE TRANSACTION PRICE

STEP 5 – RECOGNISE REVENUE WHEN A PERFORMANCE OBLIGATION IS SATISFIED

Refer IFRS 15 Summary for detail on the five steps of the revenue model

SCOPE

The new revenue model would apply to all contracts with customers except leases, insurance contracts, financial instruments, guarantees and certain non-monetary exchanges. The sale of non-monetary financial assets, such as property, plant and equipment, real estate or intangible assets will also be subject to some of the requirements of the new model.

A contract with a customer may be partially within the scope of IFRS 15 and partially within the scope of another standard, in which case:

- If the other standards specify how to separate and/or initially measure one or more parts of the contract, then an entity shall apply those separation and measurement requirements first. The transaction price is then reduced by the amounts that are initially measured under other standards.
- If other standards do not provide guidance on how to separate and/or initially measure one or more parts of the contract, then IFRS 15 will be applied.

EFFECTIVE DATE

- Effective for annual periods beginning on or after 1 January 2017.
- Early application is permitted.
- Applies to existing contracts that are not yet complete as of the effective date and new contracts entered into on or after the effective date .

DEFINITIONS

Contract – An agreement between two or more parties that creates enforceable rights and obligations.

Customer – A party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration.

Income – Increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in an increase in equity, other than those relating to contributions from equity participants.

Performance obligation – A promise in a **contract** with a **customer** to transfer to the customer either:
- A good or service (or a bundle of goods or services) that is distinct; or
- A series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

Revenue – **Income** arising in the course of an entity's ordinary activities.

Transaction price (for a contract with a customer) – The amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

CONTRACT COST

- **Incremental cost** – If the entity expects to recover incremental costs of obtaining a contract with a customer, it shall recognise those costs as an asset. A practical expedient however exists, allowing these costs to be expensed if the amortisation period would be one year or less.
- **Cost to fulfil a contract –** These costs incurred to fulfil a contract with a customer are recognised as an asset only if **all** the criteria set out in IFRS 15 are met. An asset recognised for these costs shall be amortised on a systematic basis that is consistent with the pattern of transfer of the goods or services to which the asset relates.

Refer IFRS 15 Summary for the criteria

PRESENTATION

An entity shall present the performance of a contract in the statement of financial position as a contract asset or contract liability, depending on the relationship between the entity's performance and the customer's payment. Any unconditional rights to consideration shall be presented separately as a receivable.

Contract assets and receivables together with any impairment shall be accounted for in accordance with IFRS 9 *Financial Instruments*. The difference between the initial recognition of a receivable and the amount of revenue should be presented as an expense.

DISCLOSURE

Sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers shall be disclosed. Qualitative and quantitative information about all of the following should be disclosed to achieve this:
- Its contracts with customers;
- The significant judgements, and changes in judgements, made in applying this standard to those contracts; and
- Any assets recognised from the costs to obtain or fulfil a contract with a customer.

TRANSITION

Entities are allowed 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.