

CLARIFICATIONS TO IFRS 15

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Summary

The International Accounting Standards Board (IASB) has published Exposure Draft ED/2015/6 *Clarifications to IFRS 15* (the ED) on 30 July 2015.

The proposed amendments to IFRS 15 *Revenue from Contracts with Customers* aim to clarify the existing guidance for:

- **Identification of performance obligations**
Performance obligations are identified on the basis of distinct goods or services. To further clarify the concept, additional illustrative examples have been added with others being amended.
- **Principal vs. agent considerations**
IFRS 15 requires an entity to determine whether it is a principal or agent based on whether it controls the underlying goods or services before the transaction. In order to clarify the approach the application guidance in Appendix B has been amended and additional illustrative examples have been added.
- **Licensing agreements**
Revenue from a licensing agreement is either recognised over time or at a point in time. The pattern of revenue recognition is based on whether the entity is required to undertake activities that significantly affect the functionality of the intellectual property. The proposed amendments include additional application guidance and examples to determine when an entity's activities significantly affect intellectual property, together with clarification for arrangements involved sales-based or usage-based royalties.
- **Transitional reliefs**
Completed contracts: No requirement to apply IFRS 15 retrospectively to completed contracts at the beginning of the earliest period presented
Modified contracts: An entity is allowed to use hindsight when determining the effects of contract modifications on transition.

STATUS

Exposure Draft

EFFECTIVE DATE

To be confirmed

ACCOUNTING IMPACT

Might lead to minor differences between IFRS und US GAAP in limited circumstances.

The comment deadline for ED/2015/6 *Clarifications to IFRS 15* is 28 October 2015.

Background

Following the issuance of IFRS 15 and the equivalent US GAAP guidance (Topic 606), the IASB and the Financial Accounting Standards Board (FASB) formed the Transition Resource Group for Revenue Recognition (TRG) in order to support the implementation of the new standard.

As a result of the discussions at the TRG meetings five implementation issues were identified for further consideration by the IASB and the FASB, out of which the IASB decided to propose amendments with regard to the identification of performance obligations, principal vs. agent considerations, licensing, and limited transitional reliefs for completed and modified contracts.

The FASB decided to issue more extensive amendments to Topic 606. In addition to the above issues, the FASB addresses collectability and the measurement of non-cash considerations. However, no transitional relief is proposed under US GAAP for completed contracts.

Although the proposed changes of the IASB and the FASB are in relation to the same topics, the wording is not the same. Consequently, in certain cases the proposed amendments could result in IFRS/US GAAP differences.

Proposed changes to IFRS 15

Identification of performance obligations

The guidance in IFRS 15 requires the identification of performance obligations based on distinct goods or services. The proposed amendments to the illustrative examples enhance the guidance for when to account for goods or services as a single performance obligation (bundle) or as a separate performance obligation. For this purpose the IASB included additional examples in relation to installation services, multiple items, and equipment/consumables.

Principal vs. agent

In a transaction with more than one party, an entity is required to determine whether it acts as a principal or agent. The assessment is based on whether an entity controls the underlying goods or services before the transaction (principal) or not (agent).

Due to the fact that the assessment of the transfer of control for items purchased online is more complex in comparison to tangible assets, the IASB proposes to include additional examples that specifically address this point.

We currently expect the FASB proposals, which are to be published later in 2015, to be similar to the IASB's proposals.

Licensing agreements

Revenue from a licensing agreement is either recognised over time or at a point in time on the basis of whether the contract requires the entity to undertake activities that significantly affect the functionality of the intellectual property.

The functionality of a license to broadcast a movie or use a standard-software exists upon the transfer of control, and requires a point in time revenue recognition. On the other hand the functionality of a brand constantly changes over time and is affected by various factors (e.g. constant advertising), which requires revenue recognition over time.

In order to illustrate more clearly when an entity's activities significantly affect intellectual property, additional application guidance and examples have been proposed.

Transitional reliefs

The transitional reliefs are intended to reduce the complexity of first-time application of IFRS 15.

Contracts that are already completed would not need to be restated when an entity applies IFRS 15 retrospectively. Instead the aggregate effect of all modifications would be reflected when identifying the satisfied and unsatisfied performance obligations, and when determining the transaction price.

In addition, contracts modified before the beginning of the earliest period presented require no retrospective restatement for the modifications made. Instead, hindsight can be used with the aggregate effect of all modifications to be reflected when:

- Identifying the satisfied and unsatisfied performance obligations; and
- Determining the transaction price.


In practice, the proposed amendments would result in IFRS 15 being applied to fewer existing contracts. Note that the FASB is not proposing the practical expedient for completed contracts.

Effective date and transition

An effective date for the amendments to IFRS 15 has not yet been proposed. However, at its July 2015 meeting the IASB voted to defer the effective date of IFRS 15 by one year, to annual periods beginning on or after 1 January 2018. The FASB has also voted for a similar deferral for Topic 606. We expect the IASB's proposed amendments, when finalised, to have the same 2018 effective date.

Retrospective application of the amendments to IFRS 15 in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* has been proposed, as if they have always been included in IFRS 15. The amendments to the accounting requirements of IFRS 15 should not be applied to contracts or periods for which a transitional relief is applied. For example, no restatement of contracts is required when the entity recognises a cumulative catch-up adjustment on transition in accordance with IFRS 15.C3(b).

The deadline for comments on ED/2015/6 *Clarifications to IFRS 15* is 28 October 2015.



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