International Financial Reporting Standard IFRS 15

Revenue from Contracts with Customers

January 2016

INTRODUCTION

Introduction

Overview

IN1 International Financial Reporting Standard 15 *Revenue from Contracts with Customers* (IFRS 15) establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

IN2 IFRS 15 is effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

IN3 IFRS 15 supersedes:

(a) IAS 11 *Construction Contracts*;

(b) IAS 18 *Revenue*;

(c) IFRIC 13 *Customer Loyalty Programmes*;

(d) IFRIC 15 *Agreements for the Construction of Real Estate*;

(e) IFRIC 18 *Transfers of Assets from Customers*; and

(f) SIC-31 *Revenue—Barter Transactions Involving Advertising Services*.

Reasons for issuing the IFRS

IN4 Revenue is an important number to users of financial statements in assessing an entity's financial performance and position. However, previous revenue recognition requirements in International Financial Reporting Standards (IFRS) differed from those in US Generally Accepted Accounting Principles (US GAAP) and both sets of requirements were in need of improvement. Previous revenue recognition requirements in IFRS provided limited guidance and, consequently, the two main revenue recognition Standards, IAS 18 and IAS 11, could be difficult to apply to complex transactions. In addition, IAS 18 provided limited guidance on many important revenue topics such as accounting for multiple-element arrangements. In contrast, US GAAP comprised broad revenue recognition concepts together with numerous revenue requirements for particular industries or transactions, which sometimes resulted in different accounting for economically similar transactions.

IN5 Accordingly, the International Accounting Standards Board (IASB) and the US national standard-setter, the Financial Accounting Standards Board (FASB), initiated a joint project to clarify the principles for recognising revenue and to develop a common revenue standard for IFRS and US GAAP that would:

(a) remove inconsistencies and weaknesses in previous revenue requirements;

(b) provide a more robust framework for addressing revenue issues;

(c) improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets;

(d) provide more useful information to users of financial statements through improved disclosure requirements; and

(e) simplify the preparation of financial statements by reducing the number of requirements to which an entity must refer.

IN6 IFRS 15, together with Topic 606 that was introduced into the FASB *Accounting Standards Codification*® by Accounting Standards Update 2014-09 *Revenue from Contracts with Customers* (Topic 606), completes the joint effort by the IASB and the FASB to meet those objectives and improve financial reporting by creating a common revenue recognition standard for IFRS and US GAAP.

Main features

IN7 The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised 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. An entity recognises revenue in accordance with that core principle by applying the following steps:

(a) **Step 1: Identify the contract(s) with a customer**—a contract is an agreement between two or more parties that creates enforceable rights and obligations. The requirements of IFRS 15 apply to each contract that has been agreed upon with a customer and meets specified criteria. In some cases, IFRS 15 requires an entity to combine contracts and account for them as one contract. IFRS 15 also provides requirements for the accounting for contract modifications.

(b) **Step 2: Identify the performance obligations in the contract**—a contract includes promises to transfer goods or services to a customer. If those goods or services are distinct, the promises are performance obligations and are accounted for separately. A good or service is distinct 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 and the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract.

(c) **Step 3: Determine the transaction price**—the transaction price is the amount of consideration in a contract to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer. The transaction price can be a fixed amount of customer consideration, but it may sometimes include variable consideration or consideration in a form other than cash. The transaction price is also adjusted for the effects of the time value of money if the contract includes a significant financing component and for any consideration payable to the customer. If the consideration is variable, an entity estimates the amount of consideration to which it will be entitled in exchange for the promised goods or services. The estimated amount of variable consideration will be 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.

(d) **Step 4: Allocate the transaction price to the performance obligations in the contract**—an entity typically allocates the transaction price to each performance obligation on the basis of the relative stand-alone selling prices of each distinct good or service promised in the contract. If a stand-alone selling price is not observable, an entity estimates it. Sometimes, the transaction price includes a discount or a variable amount of consideration that relates entirely to a part of the contract. The requirements specify when an entity allocates the discount or variable consideration to one or more, but not all, performance obligations (or distinct goods or services) in the contract.

(e) **Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation**—an entity recognises 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). The amount of revenue recognised is the amount allocated to the satisfied performance obligation. 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 performance obligations satisfied over time, an entity recognises revenue over time by selecting an appropriate method for measuring the entity's progress towards complete satisfaction of that performance obligation.

IN8 IFRS 15 also includes a cohesive set of disclosure requirements that would result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. Specifically, IFRS 15 requires an entity to provide information about:

(a) revenue recognised from contracts with customers, including the disaggregation of revenue into appropriate categories;

(b) contract balances, including the opening and closing balances of receivables, contract assets and contract liabilities;

(c) performance obligations, including when the entity typically satisfies its performance obligations and the transaction price that is allocated to the remaining performance obligations in a contract;

(d) significant judgements, and changes in judgements, made in applying the requirements to those contracts; and

(e) assets recognised from the costs to obtain or fulfil a contract with a customer.

IN9 The IASB and the FASB achieved their goal of reaching the same conclusions on all requirements for the accounting for revenue from contracts with customers.

As a result, IFRS 15 and Topic 606 are substantially the same. However, there are some minor differences which are outlined in the appendix to the Basis for Conclusions.

