

Agenda item 12: Revenue Education Session

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IPSASB Meeting

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Objectives of this Education Session

- Consider the revenue model in IFRS 15, *Revenue from Contracts with Customers*
- Begin to think about implications of IFRS 15 for the IPSASB's Revenue Project

Overview of Session

- History of IFRS 15
- Scope of IFRS 15
- **5 step revenue model**
- Contract costs
- Licences
- Impact of IFRS 15
- IFRS 15 implementation issues

History of IFRS 15

- Joint IASB FASB project
- IASB FASB due process – 7 years and 1500 comment letters
 - 2008 Discussion Paper
 - 2010 1st Exposure Draft
 - 2011 2nd Exposure Draft
- Issued May 2014
- Replaces IAS 18, *Revenue* and IAS 11, *Construction Contracts*
- Effective date: 1 January 2017

Scope of IFRS 15

- A “residual” standard for **exchange** transactions
- Applies when the following standards don’t apply:
 - IAS 17, *Leases*
 - IFRS 4, *Insurance Contracts*
 - financial instruments and other contractual rights or obligations within the scope of IFRS 9, IFRS 10, IFRS 11, IAS 27 and IAS 28
- Excludes non-monetary exchanges in the same line of business to facilitate sales to customers

Scope of IFRS 15 and other IFRSs

	After IFRS 15		Before IFRS 15	
	IFRS 15	IFRS 9	IAS 18	IAS 11
Sale of goods or services	✓		✓	
Construction Contracts	✓			✓
Royalties	✓		✓	
Dividends		✓	✓	
Interest		✓	✓	

Core Principle of IFRS 15

Recognize 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 and services

5 Step Revenue Model

	Steps in Revenue Model
1	Identify contract with customer
2	Identify distinct performance obligations
3	Determine transaction price (includes variable consideration)
4	Allocate price to performance obligations
5	Recognize revenue when transfer control of asset to customer (at a point in time, or over time)

Step 1: Identify the Contract with the Customer

- Standard generally applies to a single contract
- Can be applied to a portfolio
- When a contract is modified, need to reassess

Step 2: Distinct Performance Obligations

- Promise to transfer a distinct good or service
- Two tests:
 - Can the customer benefit from the good or service on its own? and
 - Is it separately identifiable from other promises in the contract?

Step 3: Determine the Transaction Price

- Amount of consideration to which an entity expects to be entitled in exchange for goods and services
- Consideration of estimates
- Variable consideration included “only to the extent that it is highly probable that a **significant reversal** in revenue recognition will not occur when the uncertainty is resolved”

Step 4: Allocate Price to Performance Obligations

- Estimate the stand alone selling price
 - Cost plus
 - Market price
 - Residual approach
- Exceptions
 - Variable consideration
 - Discounts

Step 5: Recognize Revenue

- When, or as, a performance obligation is satisfied
- By the **transfer of control** of an asset to a customer
 - At a point in time (typically goods) or
 - Over time (typically services)

Step 5: Transfer of Control

- Some **indicators** of when revenue would be recognized “at a point in time”:
 - Entity has a right to receive payment
 - Customer has:
 - Legal title of the asset
 - Physical possession of the asset
 - Significant risks and rewards of ownership
 - Accepted the asset

Recognizing Performance Obligations over Time

- An entity satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:
 - Customer receives and consumes benefits as entity performs
 - The customer controls the asset as it is being created or enhanced (eg work in progress)
 - Asset created has no alternative use, and entity has an enforceable right to receive payment

Contract Costs

- Separate section in standard
- Costs of obtaining or fulfilling contract
- Basic rule: capitalize costs if expect to recover costs
- Amortization and impairment rules apply

Licences – Application Guidance

- Distinct licence – right to access Intellectual Property throughout licence period, recognize revenue over time
- Right to use Intellectual Property at a point in time, recognize revenue when licence granted
- Indistinct licence – recognize revenue when bundle of goods and services (including licence) transfers to customer which can be at a point in time, or over time

Impact of IFRS 15

- Standard retail sales: little, if any, impact
- Some impact on contracts which
 - Extend over time
 - Have multiple elements
- It has led to changes in amount or timing of revenue recognition

Transactions Most Affected by IFRS 15

- Construction Contracts
- Customer Incentives
- Product Warranties
- Licences
- Bundled Products

Industries Most Affected by IFRS 15

- Telecommunications
- Software
- Motor Vehicle
- Construction
- Entertainment

Telecommunications example



iPhone 6 Monthly Plan

- Upfront cost CU0
- 24 month plan CU99 per month
 - BUT Standalone phone price CU1,056
- Under IFRS 15 recognize:
 - CU1,056 immediately
 - CU55 per month

Differences from the Current Standards

- “One stop shop” for exchange transactions
- More detailed guidance than previous standards
- Transfer of control model
- Addresses new ways of doing business – bundled sales
- Guidance for licences

IFRS 15 Implementation issues

- Generally little comment about the impact of IFRS 15
- IASB & FASB Joint Transition Resource Group
 - To discuss common implementation issues
 - Not to issue authoritative guidance

IFRS 15 Implications for IPSASB's Revenue Project

- IFRS 15 should work equally well for similar transactions in the public sector
- Could the concept of “performance obligations” in IFRS 15 also be useful for revenue from non-exchange transactions?

Questions & Discussion

