

IFRS 15: key points of the revenue recognition standard

In 100 questions & answers

forvis mazars

Introduction

IFRS 15 – *Revenue from Contracts with Customers* is mandatory for financial statements prepared in accordance with IFRS from 1 January 2018.

IFRS 15 was published in May 2014 and amended in April 2016 in order to clarify certain issues. It replaced the previous revenue recognition Standards, namely IAS 11 – *Construction Contracts* and IAS 18 – *Revenue*, as well as the related Interpretations.

IFRS 15 contains a single five-step revenue recognition model that is applicable to all types of contracts with customers in all sectors, resulting in improved comparability of financial statements. It also covers the accounting for licences.

The core principle of IFRS 15 is that revenue recognition should 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. The Standard uses the concept of the transfer of control to the customer to determine when revenue from goods or services should be recognised. The transfer of control may occur at a point in time (e.g. when a good is delivered) or over time (e.g. as a service is provided, or a good is manufactured or constructed).

IFRS 15 may seem a complex Standard, as applying it requires an entity to understand the intricacies of numerous different concepts (control, performance obligations, stand-alone selling price, costs incurred to fulfil a contract, etc.), comply with the principles set out in each step of the revenue recognition model, and make frequent use of judgement while taking account of the facts and circumstances of each specific situation.

In addition, entities must also pay close attention to the disclosures in the notes to the financial statements required by the Standard.

This guidance, presented as 100 questions and answers, is meant to serve as a useful tool for as many stakeholders as possible, providing clarity and insight on the challenging issues at stake when applying IFRS 15. It does not aim to cover every possible situation that may be encountered in practice, but many topics are examined in detail.

This publication does not consider the consequences of IFRS 18, which is mandatory for financial years beginning on or after 1 January 2027.

10 Key points

1. IFRS 15 applies to all sectors and all types of sales contracts with customers (e.g. sales of goods or services, the provision of licences of intellectual property, construction contracts, etc.).
2. Revenue recognition requires analysis of contracts with customers using a five-step model.
3. The concepts of “contract” and “customer” are defined. Therefore, identifying a contract for revenue recognition purposes requires an entity to apply specified principles which may, in some cases, also require the entity to combine several legal contracts, and which provide a specific framework for accounting for contract modifications.
4. A contract with a customer, as defined in IFRS 15, may contain several components to be recognised separately, called “performance obligations”. Each separate performance obligation within a contract has its own margin and pattern of recognition.
5. Revenue from a contract is measured at an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services sold, without taking into account the probability of the customer not paying (collectability of an amount of consideration must however be deemed probable for revenue to be recognised in the first place). This measurement, referred to as the “transaction price”, includes variable consideration (but only to the extent it is highly probable there will not be a significant reversal of revenue as a result of variable consideration being included in the transaction price), significant financing components (whether the entity is financing its customer or vice versa as a result of a significant difference in the timing of delivering a good or service and receiving payment), non-cash consideration, and consideration payable to customers.
6. The transaction price is allocated to each performance obligation on a relative stand-alone selling price basis, and is recognised when (or as) control of the good or service is transferred to the customer. Thus, for revenue to be recognised over time, the entity must demonstrate that control of the good or service will be transferred over time. Otherwise, revenue allocated to the performance obligation will be recognised at a point in time.
7. IFRS 15 also addresses the accounting for costs relating to contracts with customers (i.e. costs to obtain or fulfil contracts). Capitalisation of those costs (and subsequently their amortisation) occurs only if certain conditions are met. An entity is not permitted to capitalise contract costs so as to achieve a smooth margin where revenue is recognised over time.
8. IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets* shall be used to determine whether a contract with a customer is onerous (i.e. the assessment is made at contract level, not at performance obligation level).
9. IFRS 15 includes specific requirements on disclosures in the notes, relating to profit or loss, the balance sheet and off-balance sheet items (e.g. revenue yet to be recognised from partially or wholly incomplete contracts, sometimes referred to as a “backlog” or “order book”). In particular, the Standard requires disclosures on significant judgements made by the entity.
10. The IASB worked jointly with the FASB, the US standard-setter, to develop IFRS 15. However, although largely converged, the two accounting Standards are not completely aligned.

Table of content

Overview 9

1. Does IFRS 15 apply to all sectors and all types of sales contracts with customers? 9
2. What contracts for the supply of goods and services are in the scope of IFRS 15? 9
3. How does IFRS 15 define a “customer”? 9
4. What is the accounting treatment for contracts that fall within the scope of several Standards, including IFRS 15? 10
5. What is the core principle of IFRS 15? 10
6. Does IFRS 15 permit any practical expedients? 11
7. Can IFRS 15 be applied to a portfolio of contracts? 11
8. What are the main steps of IFRS 15 implementation? 12

Step 1: identifying the contract 14

9. Step 1: how does IFRS 15 define a contract with a customer? 14
10. Step 1: what criteria must be met in order to recognise a contract with a customer? 15
11. Step 1: to what extent is credit risk taken into account in IFRS 15? 15
12. Step 1: what happens if, at a given date, the contract does not meet all the criteria for recognition and the entity receives consideration from the customer? 16
13. Step 1: under what circumstances shall an entity combine contracts? 17
14. Step 1: what is a contract modification? 18
15. Step 1: how should a contract modification be accounted for? 19

Step 2: identifying performance obligations 22

16. Step 2: how should the various performance obligations in a contract be identified? 22
17. Step 2: how should setup activities be accounted for? 23
18. Step 2: how to determine whether goods or services (or bundles of goods or services) are “distinct”? 24
19. Step 2: how to determine whether a promised good or service is “capable of being” distinct (1st criterion)? 25
20. Step 2: how is it determined whether a promised good or service is distinct within the context of the contract (2nd criterion)? 25
21. Step 2: in what situations would a series of distinct goods or services constitute a single performance obligation? 27
22. Step 2: what are the practical consequences of dividing a contract into several performance obligations? 28
23. Step 2: how should warranties be accounted for ? 29
24. Step 2: how are non-refundable upfront fees paid by customers accounted for? 29
25. Step 2: how is it determined whether a licence is distinct from other contract promises, and what is the accounting impact? 30

Step 3: determining the transaction price 32

26. Step 3: what is the transaction price? 32
27. Step 3: which specific issues need to be considered when determining the transaction price? 32
28. Step 3: how is variable consideration estimated? 33
29. Step 3: how are the principles for constraining estimates of variable consideration applied? 34
30. Step 3: how frequently should estimates of variable consideration be reassessed? 35

31. Step 3: how should a sale with a right of return be accounted for? ... 36
32. Step 3: how is it identified whether a contract contains a significant financing component? ... 37
33. Step 3: what practical expedient does IFRS 15 offer when accounting for the effects of a financing component? ... 38
34. Step 3: in what situations does IFRS 15 specify that a contract does not include a financing component? ... 39
35. Step 3: what is the approach for identifying a significant financing component in a contract that includes several performance obligations? ... 39
36. Step 3: what interest rate should be used to calculate the financing component of a contract? ... 40
37. Step 3: how should the effects of significant financing be recognised and presented? ... 40
38. Step 3: in practice, how is a significant financing component in a long-term contract identified? ... 41
39. Step 3: how should non-cash consideration be measured? ... 42
40. Step 3: in what circumstances should consideration payable to a customer be accounted for as a reduction in the transaction price? ... 42

Step 4: allocating the transaction price to performance obligations ... 45

41. Step 4: what is the objective when allocating the transaction price to the performance obligations in a contract? ... 45
42. Step 4: what are the general principles for allocating the transaction price to the performance obligations in the contract? ... 45
43. Step 4: what is the stand-alone selling price? ... 45
44. Step 4: how should the stand-alone selling price for each performance obligation be determined when this price is directly observable? ... 46
45. Step 4: how should the stand-alone selling price be estimated if it is not directly observable? ... 46
46. Step 4: in what circumstances can the residual approach be used? ... 47
47. Step 4: how should a discount offered to a customer be allocated? ... 47
48. Step 4: how should variable consideration be allocated? ... 49
49. Step 4: how should changes in the transaction price be accounted for? ... 50

Step 5: satisfaction of performance obligations ... 51

50. Step 5: when should an entity recognise revenue? ... 51
51. Step 5: how is control defined? ... 51
52. Step 5: how to determine whether revenue allocated to a performance obligation should be recognised over time? ... 52
53. Step 5: when does a customer simultaneously receive and consume benefits of service? ... 52
54. Step 5: when does the entity's performance create or enhance an asset controlled by the customer ? ... 53
55. Step 5: how is the first condition in paragraph 35(c) applied to determine whether there is no alternative use for the good or service transferred to the customer? ... 54
56. Step 5: how is the second condition in paragraph 35(c) applied to determine whether there is an enforceable right to payment for performance completed to date? ... 55
57. Step 5: how is progress for a performance obligation satisfied over time measured? ... 58
58. Step 5: what is the practical expedient offered in IFRS 15 for the recognition of revenue over time? ... 59
59. Step 5: can the technical milestones approach be used? ... 60
60. Step 5: which contract costs cannot be taken into account for measuring progress? ... 60
61. Step 5: when a performance obligation does not meet any of the criteria in paragraph 35 for over time revenue recognition, what indicators can be used to determine the point in time control of a good or service transfers to a customer? ... 62

Other accounting topics **64**
62. Contract costs: how to account for the costs of obtaining a contract? 64
63. Contract costs: can incremental costs of obtaining a contract be expensed as incurred? 65
64. Contract costs: how are costs incurred to fulfil a contract accounted for? 65
65. Contract costs: what rules govern the amortisation of capitalised contract costs? 67
66. Contract costs: what rules govern the impairment of capitalised contract costs? 67
67. Contract costs: what does IFRS 15 say about the smoothing of profit margins? 68
68. Contract costs: what does IFRS 15 say about accounting for learning curve costs? 68
69. How should the loss at completion of an onerous contract be determined? 69
70. How is it determined whether an entity acts as a principal or as agent? 71
71. How should options for additional goods or services be accounted for? 73
72. How should an entity account for a customer's exercise of an option with a material right? 76
73. How should customers' unexercised rights be accounted for? 76
74. Does IFRS 15 include specific guidance for customer loyalty programmes? 77
75. Licences: what is a "right to access" an entity's intellectual property and how should this right be accounted for? 78
76. Licences: what is a "right to use" an entity's intellectual property and how should this right be accounted for? 78
77. Licences: how is a right to access distinguished from a right to use intellectual property? 79
78. Licences: how are sales-based or usage-based royalties accounted for? 81
79. What is a repurchase agreement, and how should it be accounted for? 83
80. How should a consignment arrangement be accounted for? 85
81. How should a bill-and-hold arrangement be accounted for? 86

Presentation of the statement of financial position **87**
82. What is a contract asset and how should it be measured subsequently? 87
83. What is a contract liability? 88
84. What is a receivable and how should it subsequently be accounted for? 88

Disclosures in the notes to the financial statements **90**
85. What issues should be considered in drafting the notes to the financial statements? 90
86. What detailed disclosures should be provided in the notes? 91
87. How should revenue be disaggregated? 92
88. What disclosures should be provided for performance obligations that are not fully satisfied? 93
89. What disclosures should be provided in the notes to condensed interim financial statements? 94

Transition to IFRS 15 ..... **95**
90. When is IFRS 15 effective? 95
91. What are the transitional arrangements for IFRS 15? 95
92. What are the practical expedients offered for each transition method? 97
93. What is a "completed" contract? 98
94. What note disclosures should be provided in the period IFRS 15 is first applied? 98
95. What are the first-time application requirements under IFRS 1? 99

Background **100**
96. Why was IFRS 15 issued? 100
97. How closely converged are IFRS and US GAAP principles on revenue recognition? 100
98. What is the Joint Transition Resource Group (TRG) and where can its work be found? 101
99. What Standards and Interpretations are replaced by IFRS 15? 101
100. Are transactions for the sale of assets outside the entity's ordinary activities affected by IFRS 15? 102

Overview

1. Does IFRS 15 apply to all sectors and all types of sales contracts with customers?

[IFRS 15.3]

IFRS 15 applies to all sectors and all types of sales contracts with customers. The principle of recognising revenue when control is transferred (see question **5**) and the five-step revenue recognition model (see question **8**) apply to all contracts with customers that fall within its scope (see question **2**).

Each entity, irrespective of the sector in which it operates, must apply IFRS 15's principles consistently to contracts with similar characteristics. However, an entity may need to make numerous judgements based on the facts and circumstances in applying the five-step model, which could result in different accounting treatments for different contracts notwithstanding consistent application of the principles to those different contracts.

2. What contracts for the supply of goods and services are in the scope of IFRS 15?

[IFRS 15.5]

IFRS 15 shall be applied to all contracts with customers (see question **3**), with the exception of:

- leases within the scope of IFRS 16 – *Leases*;
- insurance contracts within the scope of IFRS 4 – *Insurance Contracts*;
- financial instruments and other contractual rights or obligations within the scope of IFRS 9 – *Financial Instruments*, IFRS 10 – *Consolidated Financial Statements*, IFRS 11 – *Joint Arrangements*, IAS 27 – *Separate Financial Statements* and IAS 28 – *Investments in Associates and Joint Ventures*;
- non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers. For example, IFRS 15 would not apply to a contract between two oil companies that agree to an exchange of oil to fulfil demand from their customers in different specified locations on a timely basis.

3. How does IFRS 15 define a "customer"?

[IFRS 15.6]

IFRS 15 is applied to a contract within the scope of the Standard (see question **2**) only if the counterparty to the contract is a customer.

IFRS 15 defines a customer as 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. The counterparty to the contract would not be a customer if, for example, it has contracted with the entity to participate in an activity or process in which the parties to the contract share in the risks and benefits that result from the activity or process (such as developing intellectual property in a collaboration arrangement) rather than to obtain an output of the entity's ordinary activities.

4. What is the accounting treatment for contracts that fall within the scope of several Standards, including IFRS 15?

[IFRS 15.7]

The accounting treatment for a contract that only partially falls within the scope of IFRS 15 depends on whether other Standards specify how to separate and/or initially measure one or more parts of the contract:

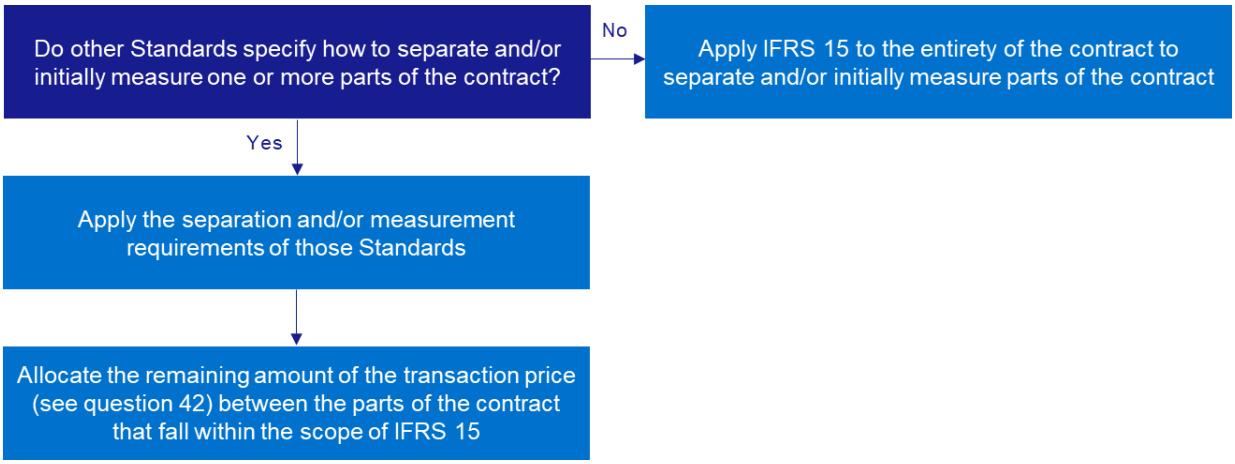


Illustration:

An entity contracts with the owner of a building to use the floor as office space for a certain period and to benefit from the housekeeping services provided by the owner to the building's occupants. The entity has elected not to apply the practical expedient in IFRS 16.15 that permits a lessee, by class of underlying asset, not to separate non-lease components from lease components (see Forvis Mazars Insight on IFRS 16, question 11).

Applying IFRS 16, the entity would first analyse the nature of the contract and identify a lease component (using a floor of the building for a certain period) and one or more non-lease components (the housekeeping services). It would then allocate the consideration in the contract between the lease component and the non-lease components based on their relative stand-alone selling prices (see Forvis Mazars Insight on IFRS 16, question 12).

Finally, the entity would analyse the non-lease components by applying the requirements of IFRS 15. For IFRS 15 purposes, the transaction price would correspond to the amount of consideration allocated to the non-lease components in the previous step.

5. What is the core principle of IFRS 15?

[IFRS 15.2]

The core principle of IFRS 15 is that the revenue recognised for goods or services transferred to customers should reflect the amount of consideration to which the entity expects to be entitled in exchange for those transferred goods or services.

Therefore, an entity recognises revenue when (or as) it satisfies a performance obligation (see question **16**) by transferring a promised good or service, i.e. an asset, to the customer. An asset is transferred when (or as) the customer obtains control of the asset (see question **51**).

It should be noted that many services are not recognised as assets by a supplier prior to being transferred because usually services are simultaneously received and consumed by the customer as the service is performed.

An entity must consider various matters when measuring the amount of consideration to which it expects to be entitled (see question **27**). However, this measurement does not factor in the probability of the customer failing to pay because this risk is considered in one of the criteria listed in step 1 for the purposes of determining if a contract with a customer even exists (see question **10**).

6. Does IFRS 15 permit any practical expedients?

[IFRS 15.3]

Yes, IFRS 15 permits several practical expedients. They fall into two categories:

- practical expedients on transition (see question **92**);
- practical expedients continually available, which relate to:
  - using a portfolio approach if certain conditions are met (see question 7);
  - not having to adjust revenue for the effects of a significant financing component in certain situations (see question **33**);
  - recognising revenue over time on the basis of amounts for which the entity has a right to invoice if this would accurately reflect the entity's performance to date (see question **58**);
  - recognising the incremental costs of obtaining a contract as an expense when incurred (despite the capitalisation criteria being met) if certain conditions are met (see question **63**);
  - not having to disclose in the notes the transaction price allocated to performance obligations not yet satisfied at the reporting date if certain conditions are met (see question **88**).

If an entity is applying any practical expedients, it must apply them consistently to contracts with similar characteristics and in similar circumstances. Furthermore, if an entity applies the practical expedients relating to the existence of a financing component or the incremental costs of obtaining a contract, it needs to disclose this fact (see question **86**).

7. Can IFRS 15 be applied to a portfolio of contracts?

[IFRS 15.4]

The default approach in IFRS 15 is to apply its requirements to each contract separately. However, as a practical expedient, the Standard can be applied to a portfolio of contracts if:

- each contract in the portfolio has similar characteristics; and
- the entity expects that the effects of applying IFRS 15 to the portfolio would not differ materially had it been applied to each contract separately.

> In July 2015, the Transition Resource Group (TRG) (see question **98** for more detail on what the TRG was and its role in interpreting the requirements of IFRS 15) indicated that if an entity considers evidence from other similar contracts when estimating variable consideration using the expected value method (see question **28**), this does not necessarily mean that it is applying the portfolio method. Therefore, it does not need to demonstrate the above two conditions have been met when estimating variable consideration by reference to experience on other similar contracts.

8. What are the main steps of IFRS 15 implementation?

The introduction to IFRS 15 sets out how the revenue recognition principle (see question **5**) should be implemented in practice. This is explained in a five-step model.

> The five-step model is not referenced in the main text of the Standard. Moreover, the Standard is not structured to follow the order of the steps set out in the model. It is also worth noting that an entity cannot always conclude on each step sequentially in the order they are set out in the model. Rather it sometimes might need to consider a later step before concluding its analysis on an earlier step. For example, in order to conclude that a series of distinct goods or services should be combined to form a single performance obligation (step 2 of the model), an entity first needs to conclude that revenue for each such distinct good or service should be recognised over time and not at a point in time – something which is considered in step 5 of the model (see question **21**).

The five steps of the revenue recognition model are as follows:

- step 1: identify the contract(s) with a customer (see questions **9** to **15**). IFRS 15 sets out the criteria for identifying whether a contract should be accounted for in accordance with its requirements. In some cases, more than one legal contracts have to be combined to form a single contract for accounting purposes. IFRS 15 also specifies the accounting treatment for contract modifications. Thus, this step involves identifying the unit of account to which the principles set out in the Standard should be applied for both revenue recognition and the information to be provided in the notes regarding the transaction price allocated to unsatisfied performance obligations (see question **88**);
- step 2: identify the performance obligations in the contract (see questions **16** to **25**). When a contract (or a group of contracts) involves the transfer of several goods or services to a customer, IFRS 15 stipulates the criteria that an entity should apply to determine whether the goods or services are distinct and, in turn, whether each constitutes a separate performance obligation;
- step 3: determine the transaction price for the contract (see questions **26** to **40**). IFRS 15 stipulates the elements to be considered when determining a contract's transaction price (e.g. fixed consideration, variable consideration, financing components, etc.) as well as how to measure each of those elements;
- step 4: allocate the transaction price to the performance obligations in the contract (see questions **41** to **49**). IFRS 15 explains how to allocate the transaction price determined in step 3 to each of the performance obligations identified in step 2 and the consequences of re-estimating the transaction price (e.g. where variable consideration is revised). It is in this step that the amount of revenue, and hence the expected margin, on each performance obligation is established;
- step 5: recognise revenue when (or as) the entity satisfies a performance obligation (see questions **50** to **61**). Once the amount of revenue to be recognised for each performance obligation has been determined in accordance with step 4, this final step requires the entity to identify when control of the underlying goods or services comprising each performance obligation is transferred to the customer. Some performance obligations within a contract may be satisfied over time, in which case revenue is also recognised over time, whereas other performance obligations are satisfied at a point in time and revenue is thus recognised at that point in time.

In summary:

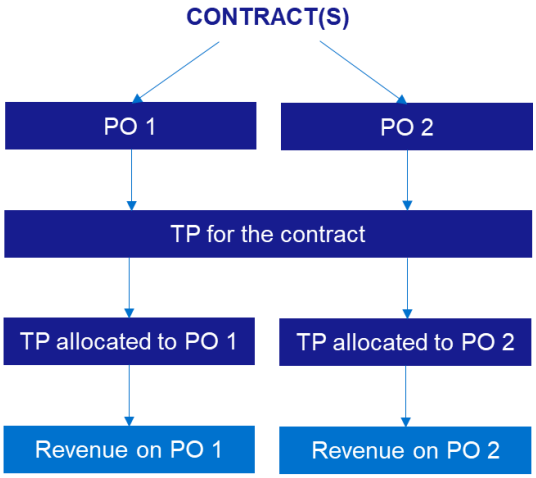
STEP 1 Identify the contract(s) with a customer

STEP 2 Identify the performance obligations (POs) in the contract

STEP 3 Determine the transaction price (TP)

STEP 4 Allocate the TP to the POs in the contract

STEP 5 Recognise revenue when (or as) the entity satisfies a PO



9. Step 1: how does IFRS 15 define a contract with a customer?

[IFRS 15.10-12]

IFRS 15 defines a contract as an agreement between two or more parties that creates rights and obligations that are enforceable as a matter of law (e.g. by a court).

When assessing enforceability, an entity must take into account the practices and processes that are specific to the entity and to the sectors within which it operates, as well as the applicable laws in the relevant jurisdiction(s).

IFRS 15 also stipulates that a contract does not exist if each party to the contract has the unilateral enforceable right to terminate a wholly unperformed contract without compensating the other party (or parties). A contract is wholly unperformed if both of the following criteria are met:

- the entity has not yet transferred any promised goods or services to the customer; and
- the entity has not yet received, and is not yet entitled to receive, any consideration in exchange for promised goods or services.

A contract for which an entity has received a significant non-refundable upfront fee is not a wholly unperformed contract (i.e. it creates enforceable rights and obligations).

> In some industries, it is common for an entity to sign a framework agreement (or master agreement) with a customer, which sets out the main principles governing the relationship between the two parties. These agreements do not usually stipulate the quantities to be purchased by the customer. Instead these are usually stipulated in separate purchase orders at a later date. Therefore, the entity must pay close attention to the nature of the reciprocal rights and obligations in order to determine which agreement (or combination of agreements) constitutes the contract as defined in IFRS 15.

An option to acquire additional goods or services does not create enforceable rights and obligations, as the customer can decide whether or not to acquire these goods and services without facing any financial consequences if it decides not to exercise the option (see question **71**). Similarly, particular attention should be paid to early termination clauses that could affect the scope of the contract, be it in terms of duration or quantities to be delivered. Therefore, if the customer can terminate the contract without having to pay a substantive penalty for goods or services not yet provided, these goods or services should be treated as optional. The entity must use its judgement and take account of all relevant facts and circumstances when assessing whether a penalty is substantive.

> In October 2014, the TRG discussed how early termination clauses should be taken into account when determining the duration of a contract. The conclusions reached were as follows:
>
> - where a contract covers a fixed period but can be terminated at any time by either party without compensating the other party, it should be concluded that the contract has no set duration and should be treated as a monthly renewable contract;
> - where a contract covers a fixed period and can be terminated by either party, but the customer would have to pay a substantial penalty to terminate the contract, the duration of the contract is the period covered by this penalty (i.e. the period for which the customer is effectively committed to the contract, as the penalty would in itself deter the entity from exercising the termination right);
> - where the customer can cancel future phases or batches without compensating the other party, provided that work relating to these goods or services has not yet begun, these phases or batches are optional.
>
> The TRG continued its discussions in November 2015 and agreed that its conclusions regarding the second situation mentioned above would not change if only the customer had the right to terminate the contract early.

The definition of a contract is supplemented by conditions (see question **10**) which must all be fulfilled in order to apply the accounting model of IFRS 15.

10. Step 1: what criteria must be met in order to recognise a contract with a customer?

[IFRS 15.9 & IFRS 15.13-14]

IFRS 15 complements the definition of a contract (see question **9**) by specifying criteria that generally must all be met before revenue can be recognised on the contract:

- the parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations;
- the entity can identify each party's rights regarding the goods or services to be transferred;
- the entity can identify the payment terms for the goods or services to be transferred;
- the contract has commercial substance (i.e. the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract); and
- it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer (see question **11**). In practice, the entity shall assess whether it is more likely than not to collect the consideration to which it will be entitled.

These criteria are assessed at contract inception. If a contract with a customer does not meet the criteria above, an entity re-assesses them on an ongoing basis to determine whether they are subsequently met. If a contract does not meet these criteria, revenue may only be recognised under very specific circumstances (see question **12**).

If a contract does meet these criteria, there is no need to reassess it unless there is an indication of a significant change in facts and circumstances. For example, IFRS 15 states that if a customer's ability to pay the consideration deteriorates significantly, an entity would reassess whether it is probable that the entity will collect the consideration to which it will be entitled in exchange for the remaining goods or services that will be transferred to the customer (see question **11**). If it is no longer probable, no further revenue may be recognised (see question **12** for the possibility of recognising additional revenue based on the cash received). Revenue recognised up to this re-assessment would not be reversed. Any write-off of a trade receivable or contract asset in relation to the previously recognised revenue would instead be classified as an expense. In practice, an entity will need to exercise judgement to determine whether it is in this situation.

The five criteria listed above also need to be met for an amount of consideration to be included in the disclosure of the transaction price allocated to unsatisfied performance obligations (see question **88**).

11. Step 1: to what extent is credit risk taken into account in IFRS 15?

[IFRS 15.9, IFRS 15.64 & IFRS 15.102]

One of the criteria used in IFRS 15 to determine whether a contract gives rise to revenue recognition relates to the customer's credit risk (see question **10**).

As we have seen, IFRS 15 requires an entity to assess whether it is probable (i.e. more likely than not) that the entity will collect the consideration to which it is entitled in exchange for the goods or services that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, the entity considers only the customer's ability and intention to pay that amount of consideration when it is due.

However, the amount of consideration the entity expects to collect may be less than the price stated in the contract if the entity has implicitly decided that it will grant the customer a price concession in order to adjust the price to the customer's actual ability to pay. For example, a supplier might agree to grant a price concession if a customer with a high level of credit risk fails to pay the contract price because the supplier wishes to enter a new market in a particular country. In this case, the collectability criterion is met, and the contract will give rise to revenue recognition, provided that it also meets the other criteria (see question **10**).

At contract inception, significant use of judgement may be required to distinguish between an implicit price concession and a significant credit risk. All relevant facts and circumstances must be taken into account in this analysis.

It should be noted that, in practice, the IASB does not expect that many contracts will fail to meet the probability of payment criterion. The non-payment risk may remain purely theoretical if the entity is able to manage its exposure by putting in place mitigation measures (e.g. by scheduling regular milestone payments, in advance of the transfer of goods or services).

When determining the transaction price for the contract (step 3), the customer's non-payment risk is not taken into account (conversely, an implicit price concession is taken into account – see question **27**). If contract assets or receivables relating to contracts with customers are impaired (as defined in IFRS 9, using the expected loss model – see questions **82** and **84**), IFRS 15 requires the impairment losses to be presented separately in the statement of comprehensive income, or to be disclosed separately in the notes (see question **86**).

12. Step 1: what happens if, at a given date, the contract does not meet all the criteria for recognition and the entity receives consideration from the customer?

[IFRS 15.15-16]

If a contract with a customer does not meet the criteria for recognition under IFRS 15 (see question **10**) and the entity receives consideration from this customer, the entity recognises the consideration as revenue only in either of the following situations:

- the entity has no remaining obligations to transfer goods or services to the customer; all, or substantially all, of the consideration promised by the customer has been received by the entity; and none of the consideration received is refundable; or
- the contract has been terminated and the consideration received from the customer is not refundable.

However, in the first situation described above, the entity takes into account its customary business practices, which may permit it to cease providing goods or services to the customer (e.g. in the case of a monthly subscription contract which is billed monthly) or to demand upfront payments. A non-refundable consideration that has already been received in exchange for distinct goods or services that have been transferred to the customer may be recognised as revenue if the entity is permitted and has decided to cease supplying goods and services to its customer. In practice, this means that an entity only needs to assess the collectability of the transaction price for distinct goods and services that are yet to be transferred.

> This clarification is explicitly stated in US GAAP (Topic 606), whereas in IFRS 15 some further explanation is provided in the Basis for Conclusions (paragraph BC46F-46H).

As a result, IFRS 15 does not allow the practice consisting in recognising revenue based on cash received to manage a high risk of customer default due to increasing financial difficulties. Unless either of the two situations described above apply, an entity cannot recognise revenue on a contract which does not meet the criteria for recognition under IFRS 15 and instead recognises any consideration received as a liability. Only after one of the events described above occurs, or once the five criteria in step 1 have been met, can the entity consider releasing

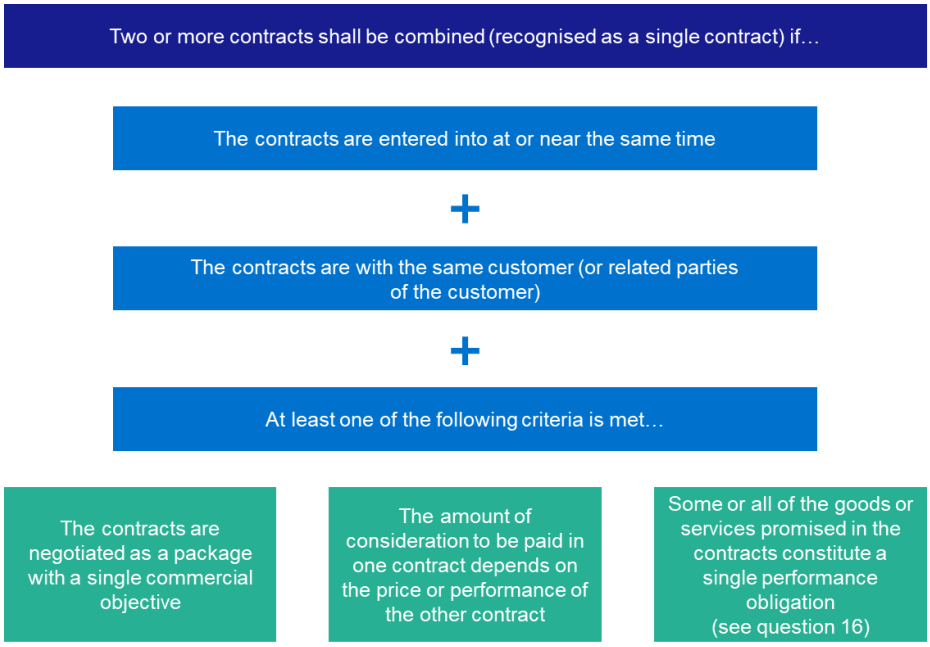
any of the liability as revenue (i.e. based on the extent to which it has transferred control of a good or service in the contract to the customer).

Depending on the facts and circumstances relating to the contract, the liability recognised represents the entity's obligation to either transfer goods or services in the future or refund the consideration received. An assessment of these facts and circumstances will determine whether the liability qualifies as a contract liability (obligation to transfer goods and services in the future) or a financial liability (obligation to refund consideration received).

13. Step 1: under what circumstances shall an entity combine contracts?

[IFRS 15.17]

An entity combines legal contracts to form a single contract for accounting purposes if certain criteria are met:



IFRS 15 does not specify the maximum time period that can be considered to be "near the same time". An entity must therefore use its judgement if two or more contracts with the same customer (or related parties of the customer) are not entered into contemporaneously. The longer the time period between the dates at which the contracts are entered into, the more likely it is that the economic circumstances affecting the contracts will have changed, i.e. the less likely it is that the fact pattern would correspond to one of the three situations described in the third criterion.

14. Step 1: what is a contract modification?

[IFRS 15.18-19]

A contract modification is a change in the scope and/or price of a contract that is approved by the parties to the contract. A contract modification:

- creates new enforceable rights and obligations for the parties to the contract; or
- changes the existing enforceable rights and obligations.

A modification could be approved by the parties to the contract in writing, e.g. a contract amendment, a change order (i.e. a modification at the customer's request), a claim (i.e. a modification at the supplier's request), by oral agreement, or implied by customary business practices.

If the parties to the contract have not approved a contract modification, the entity continues to apply IFRS 15 to the existing contract until the contract modification is approved.

A contract modification may exist in the following situations:

- the parties to the contract have a dispute about the price and/or scope of the work to which the modification is related;
- the parties have approved a change in the scope of the contract but have not yet agreed the corresponding change in price.

In these situations, an entity may still have to account for a contract modification if it determines that the new rights and obligations resulting from the modification are enforceable (for more details on the definition of this term, see question **9**). When assessing whether the new rights and obligations are enforceable, the entity considers the terms of the contract, as well as all relevant facts and circumstances and other evidence (e.g. customary business practices, jurisprudence, etc.). The judgement applied may be significant.

If the parties to a contract have approved a change in the scope of the contract but have not yet agreed the corresponding change in price, the entity applies IFRS 15's requirements on variable consideration (and on constraining estimates of variable consideration) when estimating by how much to adjust the contract price (see questions **28** and **29**).

Illustration:

An entity enters into a contract with a customer to develop and build a specialised piece of equipment. The customer provides the entity with the input data required for development studies. The contract stipulates that any changes to development resulting from a change in the input data (e.g. as a result of changes in the regulatory framework applicable to the customer) gives the entity a right to additional consideration, calculated as cost plus a margin, i.e. the amount of additional costs incurred by the entity as a result of the change, plus a percentage reflecting the profit margin on similar contracts. Applicable regulations require that these changes be agreed between the entity and its customer in the form of an amendment to the contract.

During the development phase, a change is made to the customer's regulatory framework, requiring an update to the input data. The customer produces the new data and asks the entity to make the necessary changes to the ongoing development studies. At the end of the development phase, the entity asks the customer for additional consideration to reflect the additional costs it has incurred as a result of the change. At first, the customer disputes the entity's calculation of the additional costs.

Question: may this change be considered as "approved" and recognised as a contract modification as defined in IFRS 15?

The entity considers the legal basis for its demand and concludes that under the terms of the contract, its demand is justified as it is based on enforceable rights.

Thus, even before the customer has formally agreed to the demand, the entity recognises it as a contract modification by updating the transaction price, while taking account of the constraint on estimates of variable consideration (i.e. it recognises the portion of additional revenue that is highly probable – see question **29**).

15. Step 1: how should a contract modification be accounted for?

[IFRS 15.20-21]

Some contract modifications are accounted for as a separate contract (i.e. distinct from the original contract) while others are accounted for as an adjustment to the original contract (either retrospectively or prospectively).

The contract modification is a separate contract

A contract modification is accounted for as a separate contract if the additional goods or services to be provided to the customer are distinct from those specified in the original contract (see question **18**) and the transaction price for these additional goods or services reflects their stand-alone selling prices (see question **43**).

In other words, modifications are accounted for as separate contracts if their economic terms are essentially the same as those of a new contract.

The contract modification is not a separate contract

If the contract modification does not meet the above criteria, it is accounted for as an adjustment to the original contract. Depending on the situation, such an adjustment might be accounted for either on a cumulative catch-up basis (i.e. by adjusting the cumulative revenue recognised up to the date of the contract modification in the current period) or prospectively (i.e. only the amount and/or timing of revenue to be recognised subsequent to that date is impacted).

Cumulative catch-up adjustment

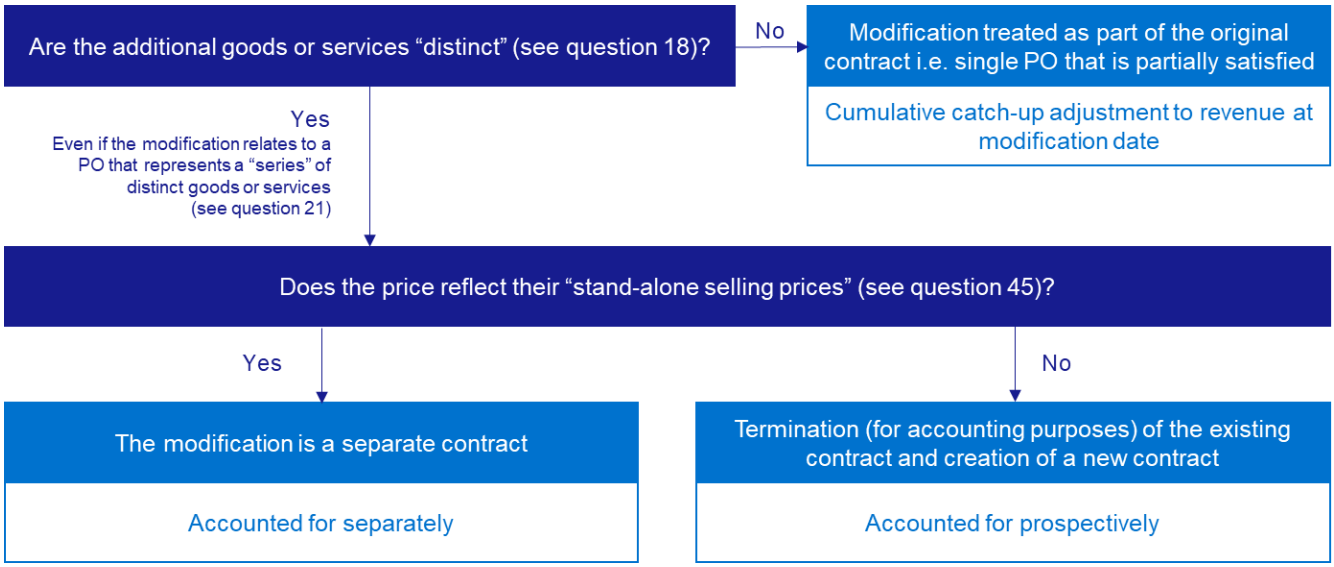
The adjustment is accounted for on a cumulative catch-up basis if the remaining goods or services are not distinct from those transferred on or before the date of the contract modification and, therefore, form part of a single performance obligation that is partially satisfied at the date of the modification. The modification is accounted for as if the changes to the contract were known from inception of the original contract with the impact of the modification on the transaction price, and on the measure of progress towards completion of the performance obligation, recognised on the modification date.

Prospective adjustment

The adjustment is accounted for prospectively if the modification relates to distinct goods and services that are provided at a price that does not reflect their stand-alone selling prices (see question **43**). In this case, the modification is accounted for as if it were a termination of the existing contract and the creation of a new contract, which includes the remaining goods or services to be delivered under the original contract, plus the additional goods or services to be delivered as a result of the modification. The consideration for the new contract is the sum of the transaction price not yet recognised as revenue from the original contract (i.e. for goods or services not yet delivered and for goods in production of which the customer has not yet obtained control) and the change to the consideration promised as part of the contract modification.

Some contract modifications could be a combination of elements of both situations (i.e. part accounted for on a cumulative catch-up basis and part accounted for prospectively).

In summary:



Illustrations:

Case 1: the contract modification is a separate contract

An entity enters into a contract to provide 40 identical products for €100k each.

The customer obtains control of each product at a specific point in time.

The parties agree a contract amendment to provide an additional 12 identical products at a unit price that reflects the stand-alone selling price of the goods at the date when the amendment is entered into (€95k).

To date, the entity has already delivered 30 products.

Question: how should this contract modification be accounted for?

	Revenue already recognised at the date of the contract modification	Accounting impact of the contract modification
Original contract	• 30 products delivered • €3m revenue recognised (30*€100k)	• 10 products still to be delivered • €1m to be recognised as revenue (10*€100k)
Contract amendment		• 12 products still to be delivered • €1.1m to be recognised (12*€95k)
Total	• **30 products delivered**	• **10 products still to be delivered at a unit price of €100k and** • **12 products still to be delivered at a unit price of €95k**

Revenue recognised to date (unchanged)

Accounted for prospectively: recognition in revenue of €100k per product delivered under the terms of the original contract and €95k per product delivered under the amendment

Case 2: the contract modification is not a separate contract (prospective adjustment)

An entity enters into a contract to provide 120 identical products (unit price of €100k).

The customer obtains control of each product at a specific point in time.

The parties agree a contract amendment to provide an additional 30 identical products at an agreed price (€80k each). This price does not reflect the stand-alone selling price of each product.

To date, the entity has already delivered 60 products.

Question: how should this contract modification be accounted for?

	Revenue already recognised at the date of the contract modification	Accounting impact of the contract modification
Original contract	• 60 products delivered • Revenue recognised: €6m (60*€100k)	• 60 products still to be delivered (unit price of €100k)
Contract amendment		• 30 products still to be delivered (unit price of €80k)
Total	• **60 products delivered**	• **90 products still to be delivered at a unit price of €93,33k** [(60*100) + (30*80)]/90

Revenue recognised to date (unchanged)

Accounted for prospectively: creation of a new contract with 90 products still to be delivered at a unit price of €93,33k (recognised as revenue on delivery of each product)

Case 3: the contract modification is not a separate contract (cumulative catch-up adjustment)

In year 1, an entity enters into a contract to construct a building on the customer's land.

The entity determines that the contract is a PO satisfied over time.

The measure of progress is based on the costs incurred to date (compared with total expected costs).

At the start of year 2, the parties agree a contract amendment to reflect a change in the floor plan of the building.

	Original contract figures (year 1)	New contract figures (year 2)
Transaction price	€1,000k	€1,200k
Estimated costs	€700k	€820k
Margin	**€300k** (i.e. 30%)	**€380k** (i.e. 31.6%)

How should this contract modification be accounted for?

	Year 1	Adjustment to revenue already recognised at date of contract modification (start of year 2)
Costs incurred to date	€420k	€420k
Measure of progress	60% (420/700)	51,2% (420/820)
Revenue	**€600k** (60%*1000)	**+€14,4k** [(1200*51,2%) – 600]

Step 2: identifying performance obligations

16. Step 2: how should the various performance obligations in a contract be identified?

[IFRS 15.22 & IFRS 15.24-26]

If an entity is selling several goods or services within a single contract, IFRS 15 requires it to carry out the following assessment at contract inception, in order to identify the "performance obligations" (POs) in the contract.

The first step in identifying the performance obligations is to identify the various "promises" involved in the contract (e.g. sale of a product coupled with provision of an installation service). As it is not always easy to identify the goods or services transferred to the customer under the contract, this often requires the use of judgement:

- most promises are explicitly stated in the contract (sale of a finished or complex product, sale of one-off or ongoing provision of services, obligation to stand ready to provide a service, etc.). Although some goods or services are ancillary or are transferred as part of a specific marketing strategy, they still count as promised goods or services (unless their transfer occurs independently of the signing of the contract);
- other promises may be implicit, if the entity's customary business practices, published policies or specific statements lead the customer to expect at contract inception that the entity will provide it with a good or a service (e.g. a product guarantee in excess of the legal warranty, software updates when they become available, etc.);
- the contract may also include tasks that do not actually transfer any goods or services to the customer (e.g. administrative tasks at the start of a subscription service, studying a facility before carrying out technical work there, etc.).

IFRS 15 requires an entity to make a distinction between activities carried out by the entity that are directly involved in the transfer of a good or service to the customer, and activities that are necessary to fulfil the contract but that do not actually lead to the transfer of a good or service.

In particular, activities carried out at the start of a contract must be assessed to determine whether the costs should be recognised in the balance sheet as costs to fulfil the contract (see question **64**), or whether they are costs that contribute directly to the provision of a good or service because the customer obtains control of this good or service (see question **17**). In some cases, a significant amount of expenses may be incurred without giving rise to revenue recognition. For example, an entity that provides maintenance services for an industrial facility that it has not built itself may incur significant costs to get to know the site in order to be in a position to carry out the maintenance procedures. Therefore, some of these costs could meet the criteria set out in IFRS 15 to be capitalised as costs incurred to fulfil a contract.

An entity may need to make other judgements in order to identify the promises in the contract:

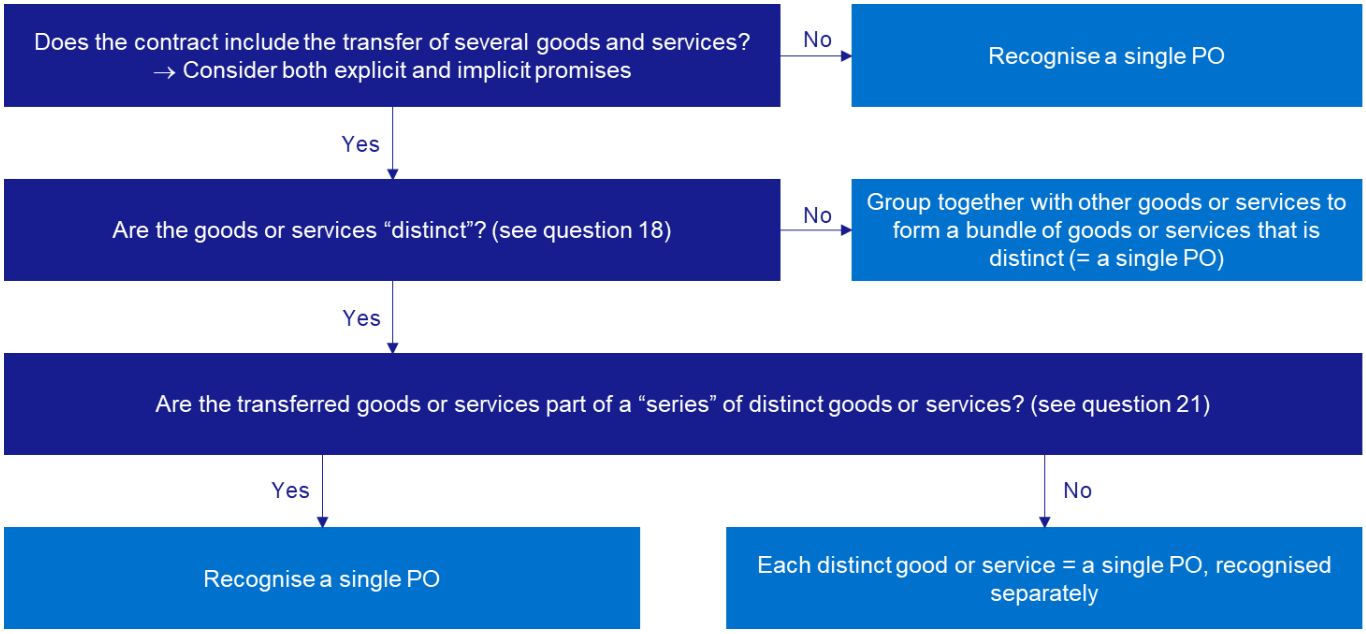
- distinguishing between warranties that provide the customer with an assurance that the product will function as the parties intended because it complies with agreed-upon specifications, and warranties that provide a service in addition to this assurance (see question **23**);
- assessing activities carried out at contract inception that give rise to a non-refundable upfront fee to be paid by the customer (see question **24**);
- assessing whether an option to acquire goods or services at a discount in the future provides the customer with a material right (see question **71**).

It should be noted that, generally speaking, the existence of an unconditional right to invoice for or collect consideration – as in the case of non-refundable upfront fees (see question **24**) – does not affect the identification of performance obligations.

Once the goods and services promised in the contract have been identified, the entity must identify the following as performance obligations:

- goods or services (or bundles of goods or services) that are "distinct" as defined in the Standard (see question **18**); or
- a "series" of goods or services that, although distinct, constitute a single performance obligation because they are substantially the same and have the same pattern of transfer to the customer (see question **21**).

In summary:



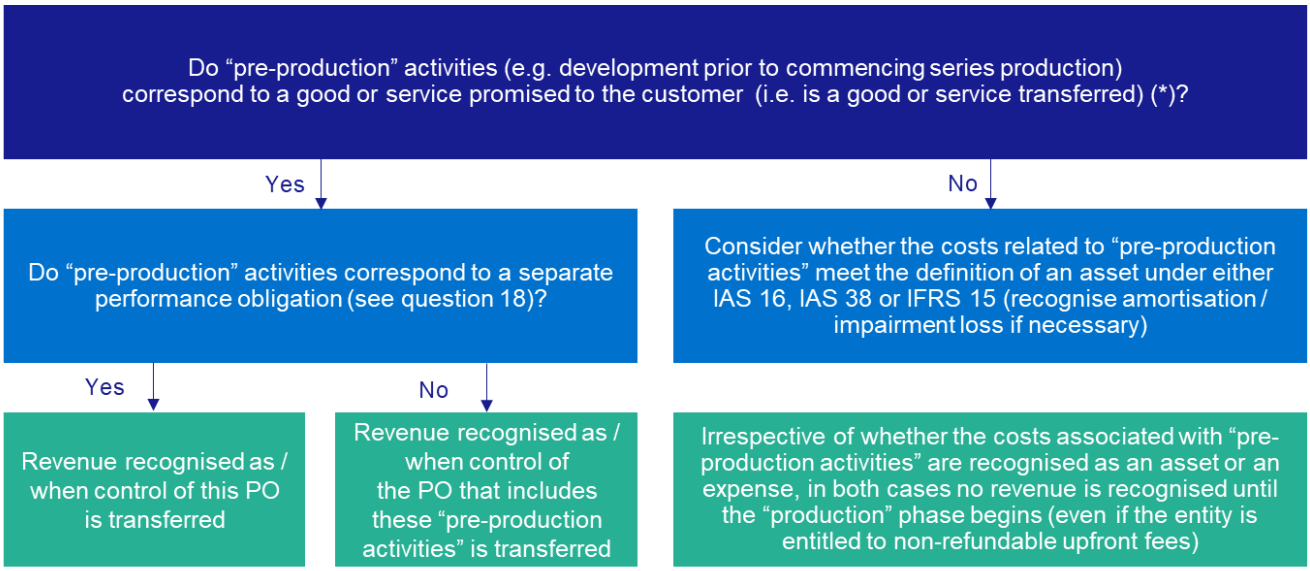
In contrast to US Topic, IFRS 15 has no practical expedient for performance obligations that the entity deems to be immaterial at contract level. Therefore, the materiality principle is applied at the level of the financial statements, as set out in IAS 1, to determine whether it is necessary to account for certain performance obligations separately.

> It is generally appropriate to set a threshold (a percentage of contract revenue) below which performance obligations may be deemed to be immaterial, meaning they do not need to be accounted for separately. This would not contravene IAS 1. For example, this could be the case for relatively insignificant handling and transportation activities carried out after control of the good has been transferred to the customer. However, this should be assessed on a case-by-case basis.

17. Step 2: how should setup activities be accounted for?

Setup activities must be assessed to determine whether they result in revenue recognition or, in other cases, capitalisation of costs incurred. This depends on whether or not these activities result in a distinct good or service being delivered to the customer (see question **16**).

This issue is particularly relevant to certain industries in which significant setup activities are required before production of specialised customer orders can commence (e.g. automotive or aeronautic suppliers) or before the entity can begin ongoing provision of tailored services (e.g. IT outsourcing).



(*) : do not take account of the level of costs incurred at the outset, or of invoicing

Following its meeting in November 2015, the TRG stated that if an entity is having difficulty determining whether “pre-production” activities transfer a promised good or service to the customer, it is helpful to consider whether control of the good or service would be transferred.

The staff gave the following example in their agenda paper for the TRG: if (i) an entity is required to perform engineering and design as part of developing, then producing, a new product for a customer and (ii) the customer will own the intellectual property (for example, patents) that results from those activities, then the entity likely would conclude that it is transferring control of that intellectual property to the customer. As a result, the engineering and design activities would be treated as a promise in the contract.

The TRG noted that such assessments could be complex and would require the use of judgement, taking all the facts and circumstances into account.

18. Step 2: how to determine whether goods or services (or bundles of goods or services) are “distinct”?

[IFRS 15.27 & IFRS 15.30]

Goods or services promised in a contract with a customer are distinct if both of the following criteria are met:

- the good or service is “capable of being” distinct: the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (see question **19**);
- the good or service is distinct “within the context of the contract”: the entity’s promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (see question **20**).

If a promised good or service is not distinct, an entity shall combine it with other promised goods or services until it identifies a bundle of goods or services that is distinct. In some cases, this will result in the entity accounting for all the goods or services promised in a contract as a single performance obligation.

19. Step 2: how to determine whether a promised good or service is "capable of being" distinct (1st criterion)?

[IFRS 15.28]

A promised good or service is capable of being distinct if the customer can use, consume, or sell it for an amount that is greater than scrap value or otherwise hold it in a way that generates economic benefits.

In some cases, a customer may be able to benefit from a good or service on its own. For other goods or services, a customer may be able to benefit from the good or service only in conjunction with other readily available resources (i.e. a good or service that is sold separately by the entity or another entity, or a resource that the customer has already obtained itself or from the entity, including goods or services that the entity will have already transferred to the customer under the contract, or from other transactions or events).

The fact that the entity regularly sells a good or service separately would indicate that a customer can benefit from the good or service on its own or with other readily available resources.

In practice, this first criterion is usually met. Examples of situations in which it is not met are as follows:

- the sale of a machine from which the customer can only benefit after an installation process that only the entity can provide;
- the sale of a piece of equipment from which the customer can only benefit following provision of a service that only the entity can provide (notably broadcasting of TV programmes via a TV decoder that is programmed to only receive signals from a particular operator); etc.

In these situations, the customer cannot benefit from the machine or equipment on its own.

Finally, it should be noted that contractual limitations that might preclude the customer from obtaining readily available resources from a source other than the entity should not be taken into account in the assessment. For example, in the case of a bundle offer comprising a mobile phone and a subscription service, the fact that the customer is contractually obliged to purchase both the subscription and the phone from the same telecoms operator does not mean that the phone is not capable of being distinct.

20. Step 2: how is it determined whether a promised good or service is distinct within the context of the contract (2nd criterion)?

[IFRS 15.29]

The second criterion set out in IFRS 15 requires the entity to assess whether its promise is to transfer each of the goods or services individually or, instead, to transfer a combined item or items to which the promised goods or services are inputs. In practice, the entity must determine whether the transfer of goods and services is in effect the transfer of a combined output that is more than, or substantively different from, the sum of those individual goods and services promised in the contract.

If the promised goods or services are capable of being distinct (see question **19**), it may be much more difficult to assess whether they are also distinct within the context of the contract. IFRS 15 is not aiming to divide up all contracts on a systematic basis. Rather, the entity will need to make significant use of judgement and take all relevant facts and circumstances into account to conclude whether this second criterion is met.

To help entities make this judgement, IFRS 15 provides a list of indicators that might suggest, within the context of the contract, that two or more promises to transfer goods or services to a customer are not separately identifiable (and thus cannot be separate performance obligations):

- the entity provides a significant service of integrating the goods or services with other goods or services promised in the contract into a bundle of goods or services that represents the combined output or outputs for which the customer has contracted. In other words, the entity is using the goods or services as inputs to produce or deliver the combined output or outputs specified by the customer, which might include more than one phase, element or unit;
- one or more of the goods or services significantly modifies or customises, or are significantly modified or customised by, one or more of the other goods or services promised in the contract;
- the goods or services are highly interdependent or highly interrelated. In other words, each of the goods or services is significantly affected by one or more of the other goods or services in the contract. For example, in some cases, two or more goods or services are significantly affected by each other because the entity would not be able to fulfil its promise by transferring each of the goods or services independently.

This list of indicators is not exhaustive. Not all the indicators need to be present for an entity to conclude that its promises to transfer goods or services are not separately identifiable. Moreover, these factors may not be relevant in some situations, in which case an entity should focus on IFRS 15's core principle to ensure performance obligations are appropriately identified (see question **5**).

The assessment of whether a good or service is distinct within the context of the contract is based on the idea of "separable risks" (a concept mentioned only in the Basis for Conclusions). In this context, the individual goods or services in a bundle would not be distinct if the risk that an entity assumes to fulfil its obligation to transfer one of those promised goods or services to the customer is a risk that is inseparable from the risk relating to the transfer of the other promised goods or services in that bundle.

In practice, this means that IFRS 15 requires an entity to assess whether there is a significant "transformative relationship" (as mentioned in paragraph BC116K of the Basis for Conclusions) between two or more items in the process of fulfilling the contract (e.g. an installation service that significantly modifies a machine in order to adapt it to the customer's production line – the various activities involved in producing and installing the machine would constitute a single performance obligation) rather than simply a "functional relationship" (e.g. a printer cannot function without an ink cartridge). If there is a transformative relationship between two or more items, these items shall be treated as not distinct within the context of the contract.

In March 2018, the IFRS Interpretations Committee (IFRS IC) published three decisions relating to the application of IFRS 15 in the real estate sector. One of these provides a concrete example of how an entity should go about identifying the performance obligations in a contract that draws on the concepts of "separable risks" and significant "transformative relationship" mentioned in the Basis for Conclusions.

Illustration:

An entity enters into a contract for the provision of a new IT solution (ERP) that will replace the existing one.

The contract is divided into 5 separate phases that are separately priced:

- design of a customized IT solution (specifications according to the users' needs and proposed architecture)
- build of the ERP according to agreed specifications
- implementation of the ERP in the customers' IT environment (development of specific and complex interfaces for the ERP to be connected with other softwares)
- data migration
- testing and go-live

Question: do the different phases constitute services that are distinct from the Build phase?

Phase	Capable of being distinct?	Distinct in the context of the contract?	Comments	Conclusion
1. Design	✓	✗	Even though design services may be provided stand alone, design is integrated in the combined output being the IT solution.	Together with Build
2. Build				Bundled PO
3. Implementation	✓	✗	Implementation implies customized developments to integrate the new solution in the customers' IT environment. Part of the combined output.	Together with Build
4. Data migration	✓	✓	Data Migration could have been done by the customer itself and does not modify the functionalities of the solution.	Separate PO
5.Testing	✓	✗	The testing phase may imply corrections / changes to the solution and is part of finalization of the combined output.	Together with Build

21. Step 2: in what situations would a series of distinct goods or services constitute a single performance obligation?

[IFRS 15.22(b) & IFRS 15.23]

A series of distinct goods or services (see question **18**) would only constitute a single performance obligation if all of the following criteria are met:

- the distinct goods or services in the series are substantially the same; and

The TRG (see question **98**) clarified after its July 2015 meeting that, where a contract is for X increments of the same type of service (e.g. providing a daily hotel management service over a given time period), the activities carried out in each time increment do not need to be identical to the activities carried out previously in order to be treated as a series of distinct services "that are substantially the same". In other words, the underlying activities carried out in order to provide the service may vary over the duration of the contract. Judgement on a case-by-case basis may be required in order to determine whether (or not) the above criterion is met.

- they have the same "pattern of transfer" to the customer, which under IFRS 15 means that both of the following criteria are met:
  - each distinct good or service in the series would meet the criteria set out in IFRS 15 to be a performance obligation satisfied over time (see question **52**); and
  - the same method would be used to measure progress for each distinct good or service in the series (see question **57**).

These criteria are included in order to simplify application of IFRS 15, but this does not mean that they are optional. As an example, they would apply equally to sales of multiple units of the same complex product (for which the criteria for recognising revenue over time are met), and to provision of repetitive services such as maintenance. It should also be noted that, if an entity applies the series guidance, the accounting consequences will not necessarily be identical to those resulting from the recognition of several distinct goods or services, when each of them constitutes a separate performance obligation (e.g. if there is a learning curve effect).

The TRG (see question **98**) clarified following its March 2015 meeting that the series guidance could apply even if the goods or services in the series are not transferred consecutively (i.e. specific facts and circumstances may result in a delay between the transfer of some elements in the series).

In practice, the provisions for series of distinct goods and services have the following major consequences:

- it leads to a smoothing of the contractual margin should the entity experience a significant learning curve in delivering earlier items of the series. This is because the transaction price will not be allocated to each distinct element in the series (see question **68**);
- an entity must account for any extension of the series (due to a contract amendment) either as (i) a separate contract (if the price for additional items in the series reflects their stand-alone selling price), or (ii) a termination of the existing contract giving rise to a new contract for the remaining goods or services under the original contract plus the additional goods or service arising from the modification. Therefore, a modification to a series cannot be accounted for as if it were part of the existing contract (see question **15**). In practice, this implies that it will never be possible to have the same margin for both the original and the modified series, as the modification will not result in a cumulative catch-up adjustment to revenue.

The series provision guidance is different from the situation described in IFRS 15 example 10 ("Goods and services are not distinct"), case B ("Significant integration service") (see paragraphs IE48A-IE48C). In this very specific case, an entity enters into a contract to set up a manufacturing process to produce multiple units of a complex, highly specialised device. Here, the entity's promise is to establish and provide a service of producing the goods ordered by the customer in accordance with the customer's specifications. In this example, the contract only includes a single performance obligation for goods and services that are not distinct, covering all the activities to be carried out by the entity in order to fulfil the contract with the customer (i.e. procurement of raw materials, selection and management of sub-contractors, establishing a dedicated production line for the contract, production, assembly and testing). An important consequence of this is that if the series is extended (due to the exercise of an option to purchase additional goods), the contract modification shall be accounted for on a cumulative catch-up basis (see question **15**). It is important to note that this analysis is not applicable to situations in which the manufacturing process can be re-used for other customers, or for other contracts with the same customer.

We believe that, in practice, this example can only be applied by analogy in a very limited number of cases, for which significant use of judgement is required.

22. Step 2: what are the practical consequences of dividing a contract into several performance obligations?

Under IFRS 15, a performance obligation (see question **16**) is the unit of account for revenue recognition. The Standard requires an entity to allocate the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the entity expects to be entitled in exchange for transferring the promised goods or services to the customer. Therefore, each performance obligation has its own portion of the revenue and the margin (see step 4 of the model, question **41**). This portion of revenue is recognised when the related performance obligation is satisfied (either over time or at a point in time, in accordance with step 5 of the model, see question **50**).

However, the contract (potentially combined with other contracts, see question **13**) remains the unit of account for assessing whether the transaction is onerous (see question **69**).

In light of the above, and given the revenue recognition challenges under the IFRS 15 model, we believe that it is not necessary to identify separate performance obligations within a contract if:

- the pattern of transfer of control to the customer (over time or at a point in time) is similar, and the transfer occurs at the same time for each distinct good or service; and
- identifying a single performance obligation for distinct goods or services does not affect the entity's financial reporting.

23. Step 2: how should warranties be accounted for ?

[IFRS 15.B28-B33]

The accounting treatment of a warranty provided in connection with the sale of a product depends on the nature of the warranty:

- an 'assurance-type' warranty: if the customer is obliged to purchase the warranty and it only provides the assurance that the product will function as the parties intended because it complies with agreed-upon specifications (e.g. a warranty required by law), the warranty is not accounted for as a separate performance obligation. Instead, a provision is recognised for the cost of settling the obligation in accordance with IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets* if the conditions set out in this Standard are met;
- a 'service-type' warranty : if the warranty is optional or provides a distinct service in addition to the above type of assurance, it constitutes a separate performance obligation to which a portion of revenue is allocated and recognised over the warranty period.

If the customer does not have the option of purchasing a warranty separately, it can sometimes be difficult to determine whether it is an assurance-type warranty or a service-type warranty. When assessing this, IFRS 15 requires the entity to consider factors such as:

- the legal obligation to provide the warranty: if the entity is required by law to provide a warranty, the existence of that law indicates that the promised warranty is not a performance obligation, because such requirements typically exist to protect customers from the risk of purchasing defective products;
- the duration of the warranty: the longer the coverage period, the more likely it is that the promised warranty is a performance obligation, because it is more likely to provide a service to the customer in addition to the assurance that the product complies with agreed-upon specifications;
- the nature of the tasks that the entity promises to perform: if it is necessary for an entity to perform specified tasks to provide the assurance that the product complies with agreed-upon specifications (for example, a return shipping service for a defective product), then it is unlikely those tasks would give rise to a performance obligation.

If the warranty provides both assurance and constitutes a service and it is not reasonably possible to account for them separately, the entity recognises them together as a single performance obligation.

The Standard also states that a law requiring an entity to pay compensation if its products cause harm or damage does not give rise to a separate performance obligation.

> Some contracts include clauses that guarantee the performance of a good or service transferred to the customer. If the the performance objectives specified in the contract are not met, or if those objectives are exceeded, the revenue from the contract may vary due to payment of penalties or receipt of a bonus respectively. This type of guarantee is not covered by the provisions described above and is instead accounted for in step 3 of the model (determining the transaction price and estimating variable consideration; see questions **28** and **29**).

24. Step 2: how are non-refundable upfront fees paid by customers accounted for?

[IFRS 15.B48-B51]

At contract inception, an entity may charge a customer a non-refundable upfront fee (e.g. entry fees or joining fees, activation fees, etc.).

Although these payments may relate to substantial costs incurred at (or prior to) contract inception, the entity must carry out an analysis to determine whether:

- the activities giving rise to those costs resulted in the transfer of a good or service to the customer (see question **16**). If it does, the entity has to assess whether this good or service is distinct from the other goods or services promised in the contract (see question **18**); or
- the non-refundable upfront fee is an advance payment for a good or service to be transferred to the customer at a future date. If it does, the non-refundable payment received from the customer is recognised in the balance sheet as a contract liability (see question **83**) until the related goods or services are transferred to the customer.

The revenue recognition period may extend beyond the initial contract term if the entity grants the customer the option to renew the contract, and this option provides a material right to the customer (see question **71**). This is the case when an entity charges a non-refundable upfront fee that the customer does not need to pay again on contract renewal (e.g. joining fees of 100 to use a sports club for 12 months, which the customer does not need to pay again if they decide to extend their membership beyond the initial 12 months). In practice, this means that revenue is recognised over a period that includes the original fixed-term contract but also any periods covered by renewal options that the customer is likely to exercise.

> In January 2019, the IFRS IC received a request regarding how a stock exchange providing listing services should account for a non-refundable upfront fee. The Committee observed that while the activities performed by the stock exchange at or near contract inception are necessary to deliver the listing service, they do not themselves transfer a service to the customer. The non-refundable upfront fee should therefore be considered an advance payment for the listing services to be provided in the future and recognised in revenue over time. Significant judgement would be needed to estimate the period over which revenue for the up-front fee should be recognised.

25. Step 2: how is it determined whether a licence is distinct from other contract promises, and what is the accounting impact?

[IFRS 15.B52-B56]

The promises in the contract may include the grant of a licence that establishes the customer's rights to the entity's intellectual property (e.g. software, trademarks etc.).

As with any promise, the first step is to determine whether it is distinct from other promises in the contract (see question **18**).

IFRS 15 gives some examples of licences that are not distinct from other promised goods or services in the contract:

- a licence that forms a component of a tangible good and that is integral to the functionality of the good (such as a licence to use software integrated into an electronic device which enables the device to function);
- a licence that the customer can benefit from only in conjunction with a related service (such as an online service provided by the entity that requires the customer to have a licence in order to access content).

If the promise to grant a licence is not distinct from other promised goods or services in the contract, it is combined with those other promised goods or services to form a single performance obligation. An entity then applies the general principles set out in IFRS 15 to determine whether revenue from the performance obligation that includes the licence is recognised over time or at a point in time (see questions **52** and **61**).

> If the licence is the primary or dominant component of the combined good or service that includes the licence, the Basis for Conclusions states that the entity takes into account the nature of the licence (i.e. the "right to access" or "right to use" the entity's intellectual property) when assessing the pattern of transfer of control (see IFRS 15.BC404).
>
> In practice, judgement may be required to determine when the specific provisions relating to licences should be applied.
>
> In all cases, the resulting accounting treatment must be consistent with the general principles of the Standard.

If the promise to grant a licence is a separate performance obligation, the entity must assess the nature of the promise in order to determine whether it provides a “right to access” or a “right to use” the entity’s intellectual property (see questions **75** and **76** respectively). This stage in the analysis, which is specific to licences, helps an entity to determine whether control of the licence is transferred to the customer over time or at a point in time. The Standard specifies the criteria used to make this distinction (see question **77**).

Step 3: determining the transaction price

26. Step 3: what is the transaction price?

[IFRS 15.46-47 & IFRS 15.49]

The transaction price is defined in IFRS 15 as the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer.

Therefore, the transaction price is the amount of revenue ultimately recognised in relation to a contract (including one or more performance obligations) as identified in step 1 of the model (see question **9**). It excludes consideration due in case a customer exercises an option to purchase additional goods or services until such time as the options are exercised, as these amounts do not result from the parties' enforceable rights and obligations.

It also excludes amounts collected on behalf of third parties (e.g. taxes collected on behalf of the State). It should be noted that, unlike Topic 606, IFRS 15 does not provide any accounting policy election regarding the inclusion in (or the exclusion from) the measurement of the transaction price of all taxes imposed by a State or similar authority that are both imposed on and concurrent with a specific revenue-producing transaction and collected from customers. Thus, this must be assessed on a case-by-case basis.

When determining the transaction price, an entity must take into account the contract terms and its customary business practices. It must also assume that the goods or services will be transferred to the customer as promised in accordance with the existing contract and that the contract will not be cancelled, renewed or modified.

27. Step 3: which specific issues need to be considered when determining the transaction price?

[IFRS 15.48 & IFRS 15.51-52]

The transaction price must take account of the following:

- variable consideration, bearing in mind that IFRS 15 places a constraint on estimates of variable consideration (see questions **28** to **30**). Variable consideration includes any amount that may lead to variation in the consideration receivable and, therefore, introduces an element of uncertainty as to the amount to which the entity will ultimately be entitled. Such amounts include *inter alia* discounts, rebates, penalties, performance bonuses, price revision clauses, customer's right of return (see question **31**). They might be explicitly stated in the contract or alternatively could arise from an entity's customary business practices, published policies or specific statements that lead the customer to expect that the entity will accept an amount of consideration that is less than the price stated in the contract (see question **11**);

It is not always easy to identify when an amount of variable consideration is present in a contract.

When reviewing a contract to identify potential variable consideration, an entity should carefully consider its terms and conditions. Even when the price stated in the contract is fixed, the contract may include one or more items of variable consideration (e.g. a price reduction of up to x% if a liquidated damages clause is upheld). An entity should also consider the effect of any legislation that creates enforceable rights and obligations, and forms part of the terms of a contract (e.g. in its September 2019 decision, the IFRS IC clarified that, when recognising its revenue, an airline should consider legislation that gives a flight passenger the right to be compensated by the airline for delays and cancellations as a source of variable consideration).

In certain situations, an entity must determine whether a mechanism constitutes variable consideration, as defined by IFRS 15, or something that is accounted for differently. It is not always easy to distinguish, for example, between:

- a price concession implicitly offered to the customer and an impairment of a receivable (see question **11**);

- a bonus or penalty linked to the performance of the asset (e.g. the number of failures over a given period for a product for which the entity provides preventive maintenance services) and a warranty (see question **23**);
- volume discounts where the fixed price per unit reduces depending on the total number of units ultimately purchased and an option to purchase additional goods and services at a discounted price (see question **71**).

- the existence of a significant financing component in the contract (see questions **32** to **38**). At contract inception, the entity must consider whether the transaction price should be adjusted to take account of the time value of money. The timing of payments agreed by the parties (either explicitly or implicitly) may provide a significant financing benefit to either the entity (in the case of consideration received upfront) or the customer (in the case of consideration received in arrears). Consequently, the transaction price may need to be adjusted for the effect of payment timing so that it (better) reflects the cash price that would have been received had the customer paid contemporaneously with obtaining control of the contracted goods or services;
- non-cash consideration (see question **39**), e.g. equity instruments of the customer;
- consideration payable to a customer (see question **40**).

28. Step 3: how is variable consideration estimated?

[IFRS 15.50 & IFRS 15.53-54]

When the transaction price includes a variable amount, the entity needs to estimate the amount of consideration to which it will be entitled in exchange for transferring the promised goods or services to the customer. This step is particularly difficult if the uncertainty that causes the variability is not resolved until after the related revenue falls to be recognised (based on transfer of control to the customer of the underlying good or service). If, by contrast, the uncertainty has already been resolved when the revenue falls to be recognised, the entity does not need to estimate the amount of variable consideration in the transaction price. Instead, it will simply recognise the amount of consideration that it knows it will receive.

When a contract includes variable consideration, it is necessary to use one of the two following methods to estimate the amount to include in the transaction price:

- the “expected value” method (the sum of the probability-weighted range of possible amounts). This method is appropriate if the entity has a large number of contracts with similar characteristics. It should be noted that this method could result in a transaction price for an individual contract that the entity could never actually receive from that contract (as it is an average value that may have been calculated using a portfolio of data relating to several contracts with similar characteristics). However, this does not mean that the method cannot be used (as confirmed by the TRG when it examined this topic);
- the “most likely amount” method (i.e. the amount that is the most likely in a range of possible consideration amounts). This method may be appropriate if the contract has only two possible outcomes (for example, if the entity is entitled to a bonus for delivering the product ahead of schedule). In practice, it would also be appropriate to use this method if probabilities appear to cluster around one particular outcome.

Illustration:

An entity enters into a contract with a customer to construct a building. The entity is entitled to a fixed consideration of €2.5m and a performance bonus of an amount between €0 and €500k.

The following information is available for estimating the performance bonus:

Probability of obtaining the bonus	Estimate of the variable amount
10%	0
30%	€100k
40%	€300k
20%	€500k

Using the "expected value" method, the entity would estimate the performance bonus at €250k:
10%*0 + 30%*100 + 40%*300 + 20%*500 = €250k

Conversely, using the "most likely amount" method, the entity would estimate the performance bonus at €300k, being the most likely of all the possible scenarios.

The decision on which method to use is not a "free choice" or an accounting policy election. For each contract assessed (or for each type of variable consideration within a contract, if the contract includes several types), the entity must use the method that is judged to better predict the amount of variable consideration to which it will ultimately be entitled. The chosen method is then applied consistently throughout the contract term.

Furthermore, the entity must take account of all the information (historical, current and forecast) that is reasonably available, and identify a reasonable number of possible consideration amounts. To do this, the entity can use information similar to that used by management during the bid-and-proposal process and in establishing prices for goods or services.

Paragraph BC201 in the Basis for Conclusions explains that IFRS 15 does not necessarily require an in-depth quantitative analysis. Specifically, an entity does not need to consider every single possible outcome when using the "expected value" method. Similarly, when using the "most likely amount" method, an entity does not need to quantify the less probable outcomes. The IASB notes that in many cases it is not necessary to use complex (and hence costly) models and techniques.

Once the entity has estimated the variable consideration, it must apply the provisions of IFRS 15 on constraining variable consideration (cf. see question **29**).

29. Step 3: how are the principles for constraining estimates of variable consideration applied?

[IFRS 15.56-57]

Once variable consideration has been estimated (see question **28**), IFRS 15 includes a mechanism for ensuring that an entity is being sufficiently prudent when estimating the transaction price. The objective is to ensure that revenue is neither overestimated nor recognised prematurely when (or as) it is recognised.

Therefore, an entity recognises an amount of variable consideration when (or as) control of a good or service is transferred to its customer only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised to date will not occur (i.e. when the uncertainty associated with the variable consideration is subsequently resolved). In practice, an entity considers both the likelihood and the magnitude of revenue reversal in deciding how much variable revenue to exclude from the transaction price.

The TRG (see question **98**) stated following its January 2015 meeting that the magnitude of a potential revenue reversal should be assessed at the contract level, rather than at the level of the performance obligation to which the variable consideration relates.

IFRS 15 lists a number of factors that could increase the likelihood or magnitude of a revenue reversal:

- the amount of consideration is highly susceptible to factors outside the entity's influence, such as volatility in a market, the judgement or actions of third parties, weather conditions, a high risk of obsolescence of the promised good or service;
- the uncertainty about the amount of consideration is not expected to be resolved for a long period of time;
- the entity's experience (or other evidence) with similar types of contracts is limited, or that experience (or other evidence) has limited predictive value;
- the entity has a practice of either offering a broad range of price concessions or changing the payment terms and conditions of similar contracts in similar circumstances;
- the contract has a large number and broad range of possible consideration amounts.

Application of the constraint does not necessarily require an entity to carry out a complex and costly quantitative analysis.

The Basis for Conclusions notes that the required analysis would be largely qualitative (see IFRS 15.BC212).

Illustration:

Following on from the illustration in question **28**, applying the constraint on estimates of variable consideration, the entity estimates that it has a 90% probability of obtaining a performance bonus of at least €100k. This is the amount that the entity uses when determining the transaction price.

As this amount is lower than those resulting from the application of each of the two possible estimation methods (the "expected value" method and the "most likely amount" method), it was therefore not necessary, at the previous stage, to assess which of these two methods was the most appropriate.

Where variable consideration takes the form of a sales-based or usage-based royalty payable in exchange for a licence of intellectual property, this is not accounted for in accordance with the general principles on variable consideration set out above. Instead, it is covered by specific provisions (see question **78**).

30. Step 3: how frequently should estimates of variable consideration be reassessed?

[IFRS 15.59]

The best estimate of the variable consideration to include in the transaction price, and the amount by which it is constrained, are always estimated at contract inception. Both the best estimate and the amount of any constraint are then re-estimated at the end of each reporting period to take account of any change in circumstances.

Any change in variable consideration arising from such re-estimation is allocated to one or more performance obligations on the same basis as it was allocated at contract inception (see question **48**). The resulting change in the transaction price is immediately recognised as revenue if the variable consideration is allocated to a performance obligation that has already been satisfied at the date when the estimate is updated (see question **49**).

31. Step 3: how should a sale with a right of return be accounted for?

[IFRS 15.55 & IFRS 15.B20-B27]

A sale with a right of return is a sale in which an entity transfers control of a product to the customer and also grants the customer the right to return the product in exchange for one or more of the following:

- a full or partial refund of any consideration paid;
- a credit note that can be applied against amounts owed or that will be owed to the entity;
- another product.

However, the following situations are not considered to give the customer a right of return, and therefore the requirements in IFRS 15 related to a right of return do not apply:

- a customer exchanges one product for another of the same type, quality, condition and price (for example, one colour or size for another);
- the contract stipulates that the customer is allowed to return a defective product in exchange for a functioning product.This situation is instead evaluated in accordance with the guidance on warranties (see question **23**).

IFRS 15 stipulates that an entity accounts for all of the following when a sale with a right of return is made:

- revenue for the transferred products in the amount of consideration to which the entity expects to be entitled. Therefore, revenue would not be recognised for the products expected to be returned;
- a liability for future refunds (to take account of expected returns and the amount of consideration which would be repaid to the customer);
- an asset (and a corresponding adjustment to cost of sales) for the entity's right to the products that are to be received back from customers as a result of the expected exercise of rights of return. This asset is initially measured by reference to the carrying amount of the inventory immediately prior to its sale less any expected costs to recover those products (including potential impairments to the extent the products could not be sold at that amount once returned).

The rules on estimating variable consideration (see question **28**) and on constraining estimates of variable consideration (see question **29**) apply when determining the amount of the liability to recognise for consideration received on sales with a right of return (i.e. the transaction price is variable because some of the consideration received might need to be repaid). In practice, an entity will often make this estimate by determining the expected value based on a number of contracts with similar characteristics.

The entity needs to update its estimate of expected returns at the end of each reporting period. Any change in the transaction price and any adjustment to the refund liability is recognised immediately as an adjustment to revenue.

Illustration:

> An entity enters into 200 contracts with customers, each of which comprises the sale of one product for €80. The entity's customary business practices permit customers to return an unused product (for whatever reason) within 15 days and to receive a full refund. The entity's cost of each product is €50.
>
> As a result of the customers' right of return, the 200 contracts include variable consideration.
>
> The entity uses information on similar contracts to estimate the variable consideration. Using the expected value method and applying the constraint on variable consideration, the entity concludes that it should recognise revenue for the sale of 170 products.
>
> The entity also estimates that the costs of recovering the products will be immaterial and expects that the returned products can be resold at a profit.

The table below shows the effect of the accounting entries on the entity's balance sheet:

Balance sheet (in €)			
Reduction in inventory (including the right to recover 30 of the 200 products transferred: 170*50=8,500)	(8,500)	Profit or loss (revenue of 170*80 = 13,600 minus cost of sales of 170*50 = 8,500)	5,100
Receivable (200*80)	16,000	Liability for future refunds (30*80)	2,400
Total assets	7,500	Total liabilities	7,500

If the entity has no reliable data on returns, the application of the variable consideration constraint would mean that the entity must wait until the 15-day return period has expired before it can recognise revenue from any of the 200 products sold.

32. Step 3: how is it identified whether a contract contains a significant financing component?

[IFRS 15.60-61]

As discussed in question **27**, the transaction price is adjusted where necessary to take account of the time value of money if the timing of payments agreed by the parties (either explicitly or implicitly) provides either the customer (in the case of payment in arrears) or the entity (in the case of upfront payment) with a significant benefit through the provision of financing.

IFRS 15 states that all facts and circumstances must be taken into account when assessing whether a contract contains a significant financing component. In particular, an entity must consider the following:

- the difference, if any, between the amount of promised consideration and the cash selling price of the promised goods or services;
- the combined effect of both of the following:
  - the expected length of time between when the entity recognises revenue (i.e. when it transfers control of the promised goods or services to the customer) and when the customer pays for those goods or services; and
  - the prevailing interest rates in the relevant market (see question **36**).

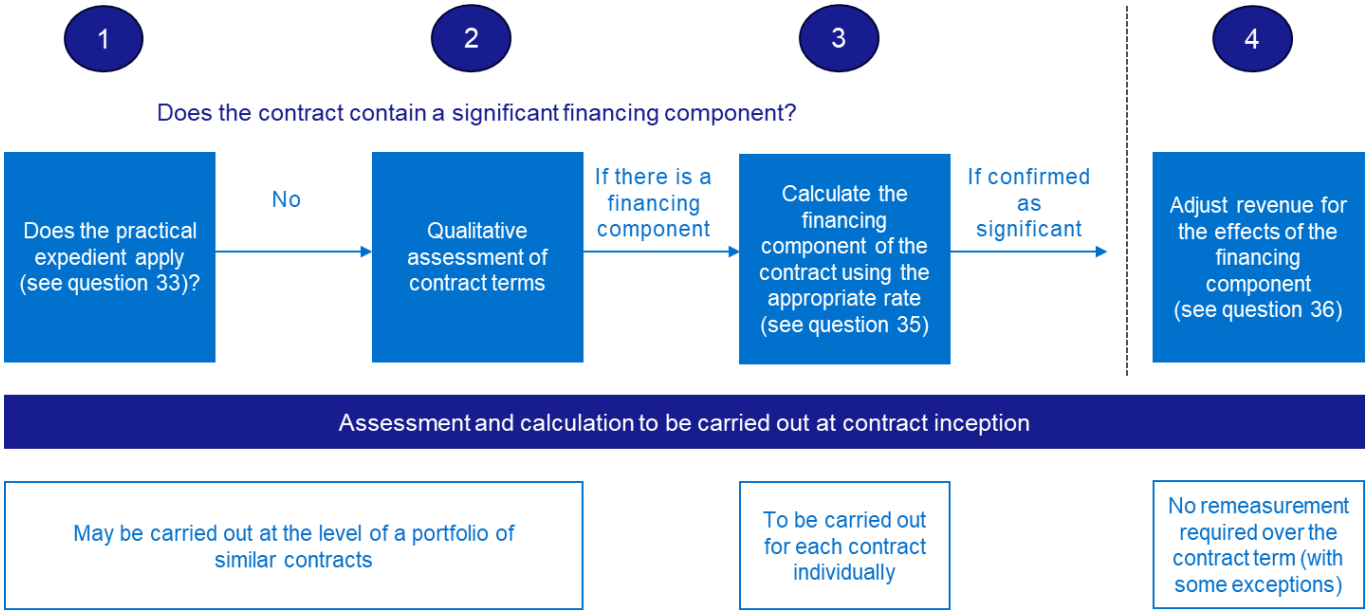
Therefore, determining whether a contract contains a significant financing component requires an entity to use judgement. In a low-interest rate environment, a long delay between revenue recognition and payment is less likely to result in the identification of a significant financing component. Conversely, in a high-interest rate environment, greater attention should be paid to the possibility that the transaction price could require adjusting for the effects of a significant financing component.

If this qualitative assessment of contract terms (taking into account the context in which the contract was entered into, in particular the level of interest rates) has not ruled out the existence of a significant financial component, then an entity must make a quantitative assessment of whether the financing component is "significant". This assessment is carried out for each contract individually. Therefore, if a financing component is not significant at contract level, but the combined effects for a portfolio of similar contracts are material to the entity as a whole (because the effects of the financing component, which are not material at the level of the individual contract, are multiplied by the number of similar contracts in the portfolio), IFRS 15 does not require the entity to adjust the transaction prices of the contracts, as the complexity of the calculations would be unduly burdensome (IFRS 15.BC234).

To reduce the cost of these requirements for preparers, IFRS 15 includes a practical expedient that allows them to ignore a significant financial component if the period between transferring a promised good or service to a customer and receiving payment for it is expected to be one year or less (see question **33**).

An entity must assess whether a contract contains a significant financing component at contract inception. It does not re-assess this subsequently, even if the customer's payment (or the entity's right to recognise revenue) is delayed from what was originally expected. However, an entity may need to re-assess the existence of a significant financial component in the event of a contract modification.

In summary:



33. Step 3: what practical expedient does IFRS 15 offer when accounting for the effects of a financing component?

[IFRS 15.63]

As a practical expedient, IFRS 15 states that an entity need not adjust the transaction price of the contract for the effects of any significant financing component if the entity expects, at contract inception, that the period between when the entity recognises revenue for the transfer of a promised good or service and when it receives payment from the customer will be one year or less.

It should be noted that this practical expedient can *de facto* be applied to contracts with an initial term of one year or less. It may also be applicable to much longer contracts. However, if revenue is recognised over time, it may in practice be difficult to predict at contract inception whether the period between revenue recognition and milestone payments will ever exceed one year over the entire term of the contract.

The practical expedient may continue to be applied if payments are delayed compared with the timing that was expected initially (and which justified the use of the practical expedient).

Like all practical expedients permitted under IFRS 15, it must be applied consistently to similar contracts in similar circumstances.

34. Step 3: in what situations does IFRS 15 specify that a contract does not include a financing component?

[IFRS 15.62]

In some cases, although there is a significant time delay between the transfer of goods or services to the customer and the payment, this is not related to a financing arrangement (see question **32**). Specifically IFRS 15 identifies the following situations as not giving rise to a significant financing component in a contract:

- the customer paid for the goods or services in advance and the timing of the transfer of those goods or services is at the discretion of the customer (e.g. mobile phone top-up cards);
- a substantial amount of the consideration promised by the customer is variable and the amount or timing of that consideration depends on the occurrence or non-occurrence of a future event that is not substantially within the control of the customer or the entity (e.g. a sales-based royalty); or
- 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, and the difference between those amounts is proportional to (i.e. consistent with) the reason for the difference (e.g. a customer retains 5% of total payments throughout a construction contract to ensure that the entity will complete its obligations satisfactorily).

The third situation discussed above seems relatively broad in scope. In contrast, the Basis for Conclusions states that an entity is not exempt from identifying (where appropriate) a significant financing component representing the effects of advance payments (see IFRS 15.BC238). This seem to apply even if the advance payments permit the entity to procure materials necessary to satisfactorily fulfil the contract or to pay sub-contractors in advance. The Basis for Conclusions also appears to suggest that an entity still needs to assess whether a significant financing component exists even if the advance payment is made to protect the entity against customer credit risk.

In practice, an entity should not exclude contracts from the analysis when a customer makes advance payments, if the entity has clearly benefited from the effect of a significant financing component. The facts and circumstances shall be assessed on a case-by-case basis and the entity will need to use its judgement.

35. Step 3: what is the approach for identifying a significant financing component in a contract that includes several performance obligations?

The process used to determine whether any significant financing component exists (see question **32**) assumes that the entity knows the length of time between when the entity recognises revenue (for which the unit of account is the performance obligation) and when it receives payment for the goods or services transferred. This can only be determined at the level of each individual performance obligation in the contract (see question **16**), after having determined the transaction price of the contract – thus having taken account of any significant financing component (see question **27**) – and having allocated it to each performance obligation (see question **42**).

IFRS 15 makes no mention of how to resolve what appears to be an inconsistency.

In such circumstances, it seems reasonable to assume that an entity would have to adopt a more qualitative approach when assessing whether a significant financing component exists.

Following its March 2015 meeting, the TRG suggested that, in certain circumstances, it would be reasonable to attribute a financing component to one or more performance obligations within a contract, but not to all of them. Some members of the TRG suggested that, in practice, a possible approach would be to draw an analogy with the provisions relating to the allocation of the transaction price to performance obligations when part of the consideration is variable (see question **48**).

36. Step 3: what interest rate should be used to calculate the financing component of a contract?

[IFRS 15.64]

IFRS 15 states that an entity uses the discount rate that would be reflected in a separate financing transaction between the entity and its customer at contract inception in order to determine whether a significant financing component exists (see question **32**). The same principle applies when determining the discount rate used to calculate the financing component of a contract.

This rate reflects the credit characteristics of the party that benefits from the effect of a financing component. In other words, it reflects the customer's credit characteristics if the entity has offered the customer favourable payment terms. Conversely, it reflects the entity's credit characteristics, if the customer is paying in advance.

It also takes account of any collateral or security provided by the customer (or the entity), including assets transferred in the contract.

The entity may be able to determine this rate by identifying the rate that discounts the nominal amount of the promised consideration to the price that the customer would pay in cash for the goods or services when (or as) they transfer to the customer. However, the rate implicit in the contract does not necessarily reflect the discount rate that would be used by the parties in a separate financing transaction (in which case it would not be appropriate to use the implicit rate to calculate the financing component).

The discount rate used to identify and calculate any significant financing component is determined at contract inception and is not subsequently updated, irrespective of whether interest rates change subsequently or other changes in circumstances occur (e.g. a change in the assessment of customer credit risk).

37. Step 3: how should the effects of significant financing be recognised and presented?

[IFRS 15.65]

If the application of IFRS 15 has led the entity to identify a significant financing component (see question **32**), the transaction price is adjusted to take account of the time value of money.

If payments are received after the good or service is transferred, the entity is financing the customer and revenue is adjusted such that the transaction price (and hence revenue recognised) is lower than the payment received. The difference is recognised as interest revenue (compensation receivable from the customer for the financing provided).

If payments are received before the good or service is transferred, the customer is financing the entity and revenue is adjusted such that the transaction price (and hence revenue recognised) is higher than the payment received. The difference is recognised as interest expense (the cost of the financing provided by the customer to the entity).

The imputed interest income or expense arising from applying the above principles is an accounting construct designed to reflect the amount of interest that would have been received or paid had consideration been received contemporaneously with the transfer of goods and services. In other words, the objective is to have an entity recognise revenue at an amount that reflects the cash selling price of the products or services sold.

IFRS 15 stipulates that the effects of financing (interest revenue or expense) must be presented separately from revenue in the statement of comprehensive income, but does not specify the heading under which this revenue or expense should be presented. We believe it will generally be most appropriate to present it within total finance income or finance expense respectively in the statement of profit or loss.

This interest revenue or expense is recognised only to the extent that a contract asset (or a receivable – see questions **82** and **84**) or a contract liability (see question **83**) is recognised.

38. Step 3: in practice, how is a significant financing component in a long-term contract identified?

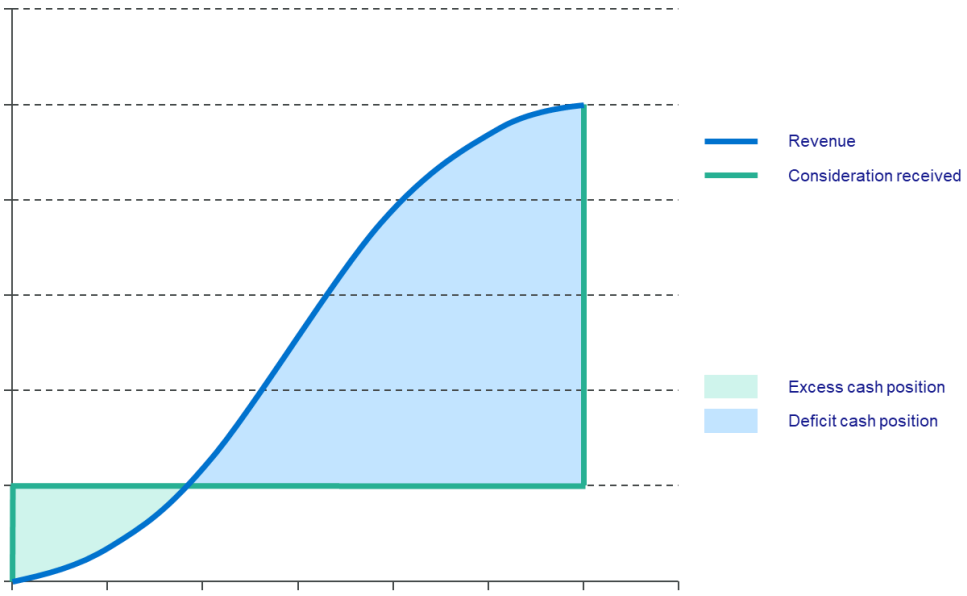
The approach used to determine whether a significant financing component exists (see question **32**) is applicable to all types of contract, including long-term contracts.

However, applying the approach to long-term contracts may give rise to particular implementation challenges, particularly when assessing whether the practical expedient permitted by IFRS 15 (see question **33**) can be applied to performance obligations satisfied over time.

Furthermore, it should be noted that IFRS 15 requires an entity to determine whether any significant financing component exists based on the difference between revenue recognised and consideration received from the customer. Consequently, under IFRS 15, it is no longer a question of calculating the net cash position of the contract (by summing cash receipts and deducting cash disbursements) to determine whether it generates a cash surplus over the life of the contract, and recognising the projected amount of financial interest received at the end of the contract using the percentage-of-completion method.

For a long-term contract, the financing component may be calculated as follows:

- the entity identifies the average under/over-financing for the contract for a given period, using the relevant discount rate (see question **36**), so as to determine the financing component for the period;
- the total financing component for the contract is the sum of all the components identified for the various periods.



39. Step 3: how should non-cash consideration be measured?

[IFRS 15.66-69]

IFRS 15 requires consideration receivable in a form other than cash be measured at fair value. If an entity cannot reasonably estimate this fair value, it measures the consideration by reference to the stand-alone selling price (see question **43**) of the goods or services promised to the customer in exchange for the consideration.

The fair value of the non-cash consideration might vary because of the form of the consideration (for example, the customer's equity shares). If the fair value of the non-cash consideration varies for reasons other than only the form of the consideration, the IFRS 15's provisions on constraining estimates of variable consideration apply (see question **29**).

In some cases, an entity will need to determine whether it has obtained control of goods or services provided by the customer (i.e. contributed for free) to facilitate the entity's fulfilment of the contract (e.g. raw materials, equipment or labour). If control is transferred, these goods or services form part of the transaction price and are accounted for in the same way as described above.

Finally, it should be noted that the Standard does not stipulate the date at which non-cash consideration should be measured. This has been discussed by the TRG (see question **98**) but, unlike the FASB, the IASB decided not to amend IFRS 15 to clarify this point.

In the absence of any guidance from the Standard, measuring the non-cash consideration at any of the following dates would be acceptable:

- at contract inception (as required under Topic 606);
- when the non-cash consideration is received from the customer; or
- at whichever is the earlier of the date when the non-cash consideration is received from the customer and the date when the performance obligation is fulfilled.

Therefore, an entity has a choice of accounting policy, but the date selected must be applied consistently to all non-cash consideration received from customers. If non-cash consideration is significant, the entity should disclose the policy applied in the notes (see question **86**).

40. Step 3: in what circumstances should consideration payable to a customer be accounted for as a reduction in the transaction price?

[IFRS 15.70-72]

An entity may pay, or expect to pay, consideration to a customer. Consideration payable to a direct customer (such as a distributor) or an indirect customer (such as a consumer who purchases the entity's goods or services from an intermediary) may take several forms (coupons, volume rebates, slotting fees, etc.). It might include payments to any party in the distribution chain, be they companies or individuals.

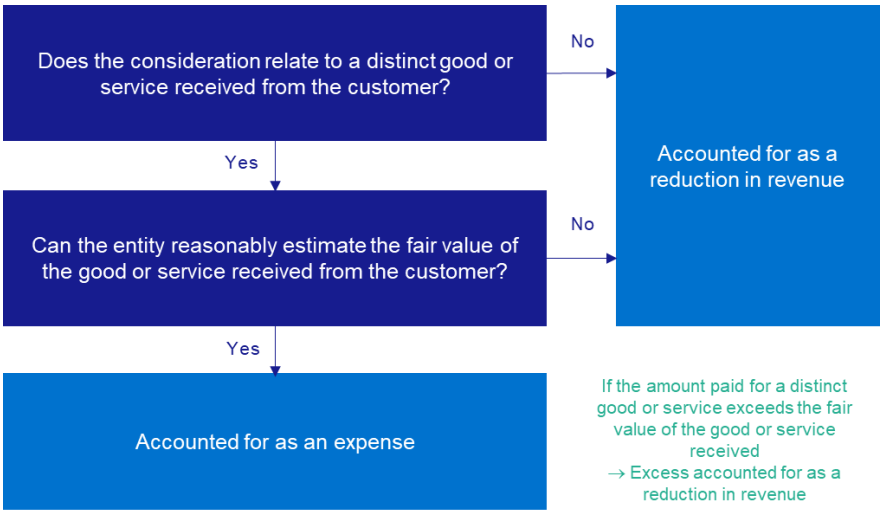
This issue most often arises in the consumer goods sector, where it is difficult to distinguish between a trade discount (accounted for as a reduction in revenue) and a distribution/marketing cost (accounted for as an expense). However, industrial companies (e.g. in the aeronautical sector) may also make payments to a customer at contract inception, offering a "trade concession" in order to win a contract with a customer.

IFRS 15 stipulates that consideration payable to a customer is accounted for as a reduction in revenue, unless the payment to the customer is in exchange for a distinct good or service received from the customer (in which case the customer is also a supplier) and the entity can reasonably estimate the fair value of this good or service.

If both these conditions are fulfilled, the consideration is accounted for as a normal purchase from a supplier. If the amount of consideration payable to the customer for the purchase of a distinct good or service exceeds the fair value of the good or service received from the customer, the excess is accounted for as a reduction in revenue. If

the entity cannot reasonably estimate the fair value of the good or service, it accounts for all of the consideration payable to the customer as a reduction in revenue.

In summary:



It should be noted that these provisions are largely based on previous US GAAP provisions. Therefore, when assessing whether a good or service received from a customer is "distinct", the entity should use the former US GAAP concept of "identified benefit". This was described as a good or service that is sufficiently separable from the customer's purchase of the entity's products such that the entity could have entered into an exchange transaction with a party other than the customer in order to receive that benefit. In other words, an entity must assess whether it would be able to obtain an identical good or service from another party, independently of the sale of its own goods and services. Judgement may be required to distinguish between consideration that is inseparable from the sale to the customer, and consideration for a distinct good or service received from the customer.

If consideration payable to a customer is accounted for as a reduction in revenue, an entity recognises the reduction when (or as) the later of the following two events occurs:

- the entity recognises revenue for the transfer of the related goods or services to the customer; or
- the entity pays or promises to pay the consideration (even if the payment is conditional on a future event). That promise might be implied by the entity's customary business practices.

An entity might make a payment to a customer (or potential customer):

- even if a contract as defined in IFRS 15 does not exist at the time of payment (see question **9**) in anticipation of future purchases by this customer; or
- where a contract as defined in IFRS 15 exists, but the payment relates to both the current contract and future contracts that the entity expects to enter into with the customer.

In these situations, a question arises as to whether the payment should be capitalised, and then amortised over time as a reduction in revenue as the related goods and services are transferred to the customer, taking account of contracts that do not yet exist as defined in the Standard. If they should not be capitalised, the payments would be recognised as a reduction in revenue from the existing contract; if no contract as defined in IFRS 15 exists, the payments would be immediately recognised in revenue (i.e. "negative" revenue would be recognised).

At its November 2016 meeting, the TRG (see question **98**) concluded that either approach could be appropriate depending on all the facts and circumstances, notably the reasons for the payment, the rights and obligations resulting from the payment (if any), and the nature of the promise(s) in the contract (if any).

Therefore, this is not an accounting policy election.

The TRG noted that recognising the consideration as an asset (usually a contract asset) at or before contract inception, and subsequently amortising it as a reduction in revenue as the goods and services are transferred to the customer under the existing contract (if one exists) and any expected future contracts, presupposes that the consideration meets the definition of an asset at the time of recognition.

These situations usually require significant judgement, firstly to determine whether an asset shall be recognised, and secondly to determine the period over which any such asset shall be amortised.

Step 4: allocating the transaction price to performance obligations

41. Step 4: what is the objective when allocating the transaction price to the performance obligations in a contract?

[IFRS 15.73 & IFRS 15.75]

The objective when allocating the transaction price is to reflect the amount of consideration to which the entity expects to be entitled in exchange for transferring each of the promised goods or services to the customer.

When allocating the transaction price is not straightforward, for example if it is necessary to estimate stand-alone selling prices (see question **45**) or if the contract includes variable consideration (see question **48**), an entity must keep this objective in mind to ensure that the allocation complies with the general principles of IFRS 15.

In practice, step 4 can often be ignored if there is only one performance obligation (see question **16**).

However, if an entity has identified that a contract comprises a series of distinct goods or services that constitute only a single performance obligation (see question **21**), and the transaction price includes variable consideration, then it will be necessary to apply the guidance in IFRS 15 to determine how to allocate that variable consideration between the goods and services in the series (see question **48**).

42. Step 4: what are the general principles for allocating the transaction price to the performance obligations in the contract?

[IFRS 15.74 & IFRS 15.76]

Usually, the transaction price is allocated to the performance obligations in the contract on a relative stand-alone selling price basis (see question **43**). Specific rules apply if the customer receives a discount (see question **47**) or if the contract includes variable consideration (see question **48**).

The allocation of the transaction price is performed at contract inception. It is not subsequently updated to reflect changes in the relative stand-alone selling price of performance obligations. This does not preclude the need to update the transaction price in certain circumstances, such as a re-estimation of the amount of variable consideration to include in the transaction price or a contract modification (see question **49** for a discussion on how such changes are allocated to performance obligations).

Allocating the transaction price to performance obligations (see question **16**) significantly impacted revenue accounting in some sectors when IFRS 15 was first applied, because of different industry practices under IAS 18. In the telecom sector, revenue recognised at the point of sale of a handset (as part of a bundle that also included a subscription) was historically limited to the consideration received from the customer for the handset. However, this payment does not usually reflect the handset's stand-alone selling price, as telecom operators are often "subsidising" the customer's purchase of the handset.

43. Step 4: what is the stand-alone selling price?

[IFRS 15.77]

The stand-alone selling price is the price at which an entity would sell a good or service to a customer separately from the other promises in the contract.

In some situations, the stand-alone selling price is directly observable (see question **44**). In other situations, it must be estimated (see question **45**).

44. Step 4: how should the stand-alone selling price for each performance obligation be determined when this price is directly observable?

[IFRS 15.77]

The stand-alone selling price for a performance obligation may be readily determined based on observable selling prices if the entity sells the underlying goods or services separately in similar circumstances and to similar customers.

The contractually stated prices for each good or service (or group of goods or services) that constitute a given performance obligation might be their stand-alone selling prices, but IFRS 15 specifies that an entity cannot presume this to be true. In practice, if an entity sells specific goods or services to a given customer and the contract is *de facto* the only available price reference, an entity may frequently conclude (in the absence of any evidence to the contrary) that the contractually stated prices reflect the stand-alone selling prices and, therefore, can be used for the purposes of recognising revenue on each performance obligation. However, this would not be appropriate if the entity has information demonstrating that the contractually specified prices are not the stand-alone selling prices (e.g. because the customer asked for a price reduction on a particular good or service when negotiating the contract, which was then offset by a price increase on another good or service promised in the contract).

It should also be noted that a list price is not always an appropriate reference for determining the stand-alone selling price of a good or service (e.g. when the entity's customary business practices involve using list prices as a starting point for negotiations and ultimately offering customers a discount on a systematic basis).

If the stand-alone selling price is not directly observable, it must be estimated (see question **45**).

45. Step 4: how should the stand-alone selling price be estimated if it is not directly observable?

[IFRS 15.78-79]

If a selling price is not directly observable (see question **44**), the stand-alone selling price of a good or service (or a group of goods or services) is estimated taking account of all information that is reasonably available (e.g. market conditions, entity-specific factors and information about the customer or class of customer). In practice, although IFRS 15 does not establish a hierarchy of evidence, an entity should maximise the use of observable data.

The approaches used to estimate stand-alone selling prices must be applied consistently in similar circumstances.

IFRS 15 gives three examples of suitable estimation approaches:

- adjusted market assessment approach: the entity evaluates the market in which it sells the goods or services and estimates the price that a customer in that market would be willing to pay. This approach might also include referring to prices from the entity's competitors for similar goods or services and adjusting those prices as necessary to reflect the entity's costs and margins;
- expected cost plus a margin approach: the entity estimates the expected cost of satisfying a performance obligation and then adds an appropriate margin for that good or service;
- residual approach (see question **46**).

46. Step 4: in what circumstances can the residual approach be used?

[IFRS 15.79-80]

IFRS 15 stipulates that an entity can only use the residual approach to estimate the stand-alone selling prices of a distinct goods or services in limited situations (see question **45**).

In practice, this approach involves estimating the stand-alone selling price of a good or service as the difference between the total transaction price and the sum of the observable stand-alone selling prices of other goods or services promised in the contract.

Under IFRS 15, this approach may only be used if one of the following criteria is met:

- the selling price of the good or service is highly variable because the entity sells it to different customers (at or near the same time) for a broad range of prices. In other words, a representative stand-alone selling price is not discernible from past transactions or other observable information; or
- the selling price of the good or service is uncertain because the entity has not yet established a price for it, as it has not previously been sold on a stand-alone basis.

If a contract includes at least two goods or services with highly variable or uncertain selling prices, an entity may use the residual approach to estimate the aggregate stand-alone selling price for these goods or services, then use another method to allocate this aggregate to each one.

Finally, if a discount is allocated to some, but not all, of the performance obligations in the contract (see question **47**), the discount is allocated before the residual approach is applied.

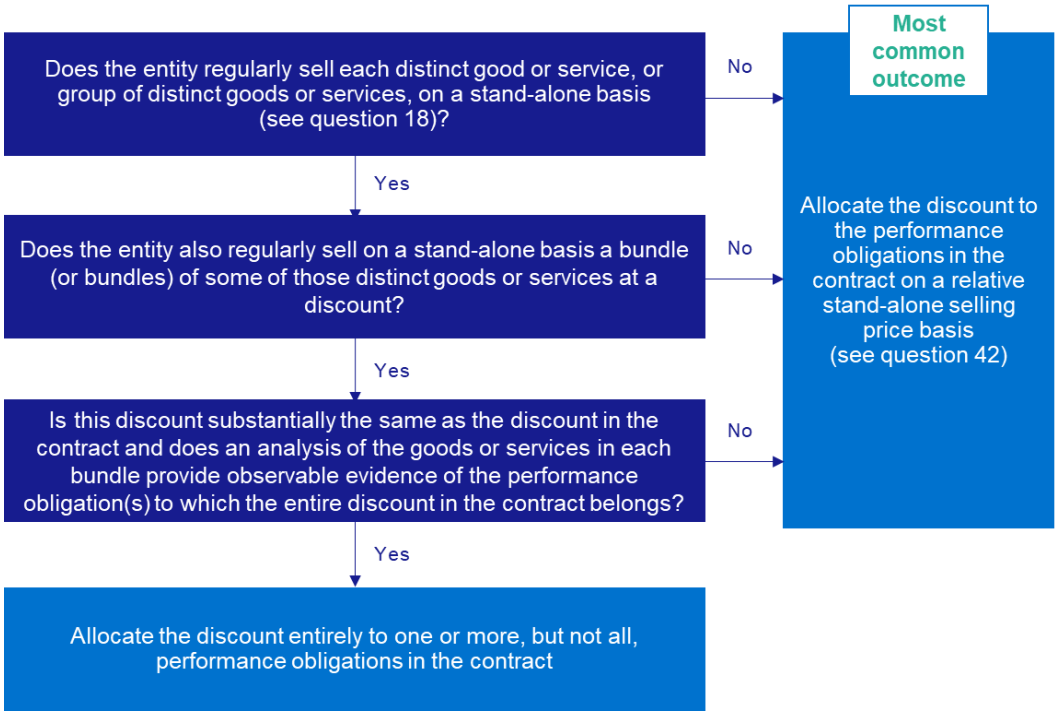
47. Step 4: how should a discount offered to a customer be allocated?

[IFRS 15.79-80]

A customer receives a discount if the sum of the stand-alone selling prices (see question **43**) of the promised goods or services in the contract exceeds the transaction price.

Bearing in mind that the general principle is to allocate the transaction price to the performance obligations in the contract on a relative stand-alone selling price basis (see question **42**), the default approach is to allocate the discount proportionately to each of those performance obligations.

However, this does not always meet the objective of step 4 of the revenue recognition model (see question **41**). Therefore, IFRS 15 includes specific guidance for identifying situations in which a discount is allocated to one or more, but not all, of the performance obligations in the contract:



A discount offered to a customer constitutes variable consideration if the amount of the discount depends on future events (e.g. a discount that depends on the quantity ultimately purchased by the customer). In this specific situation, the question may arise in practice as to which of the provisions in the Standard should be applied to allocate this discount to the performance obligations in the contract (noting that the Standard contains specific provisions for the allocation of both discounts and variable consideration to the performance obligations in the contract).

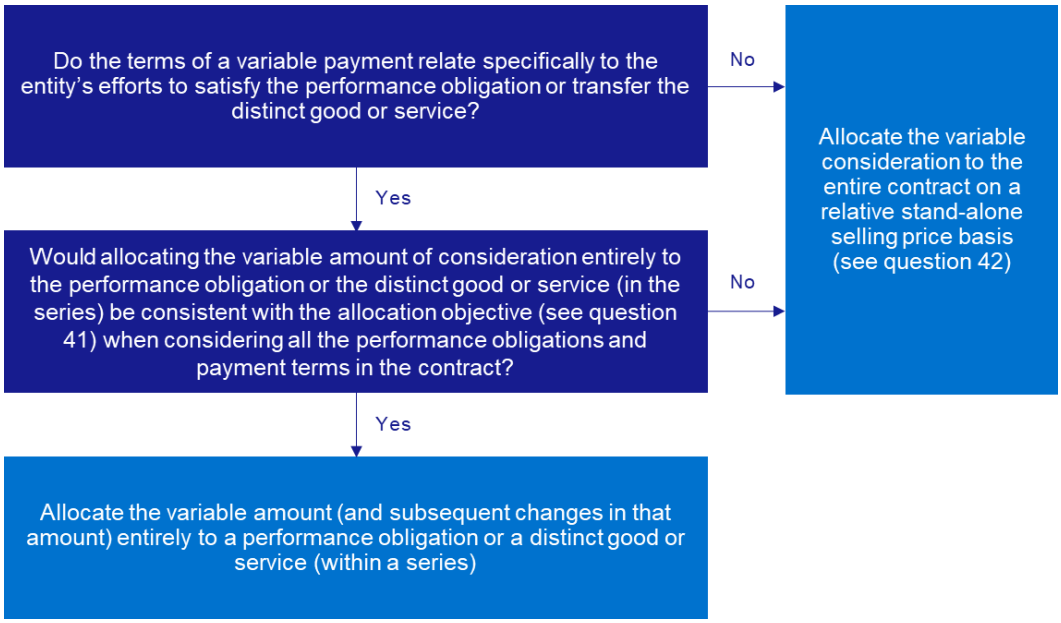
In March 2015, the TRG (see question **98**) stated that the following approach should be used to determine whether a variable discount should be allocated to some performance obligations rather than others:

- first, apply the provisions on allocating variable consideration (see question **48**);
- second, apply the provisions on allocating discounts (set out above).

48. Step 4: how should variable consideration be allocated?

[IFRS 15.75 & IFRS 15.84-86]

IFRS 15 includes guidance on allocating variable consideration included in the transaction price. Specifically, if certain criteria are met, the variable consideration is not proportionately allocated to all the performance obligations in the contract (see question **42**) but is instead allocated to one or more individual performance obligations or one or more distinct goods in a series (see question **21**).



Examples of situations where variable consideration would not be allocated proportionately to all distinct goods and services include the following:

- when the payment of a bonus may be contingent on an entity transferring a promised good or service within a specified period of time;
- if the series provision applies, when the consideration promised for the second year of a two-year cleaning service contract may increase on the basis of changes in a specified inflation index.

In practice, applying IFRS 15 in such situations may be complex and require the use of judgement.

Illustration:

A digital services company enters into a "build and run" contract with a customer (an insurance company) to develop a claims processing platform over 12 months and then operate it for five years.

The platform is tailored to the customer and the contract also specifies that the entity will provide the customer with all the documentation and support necessary for it to transfer the operation of the platform to another supplier at any time, if it so wishes. Moreover, because there is no transformative relationship between the development of the platform and the operations services provided, the provision of the platform is judged to be a separate performance obligation from the provision of the operations services.

The contract includes the following payment terms:

- a one-off payment of €10m for the development of the platform;
- late penalties if the entity does not meet the deadline specified in the contract for delivery of the platform, at a rate of 1/1,000th of the above amount per day, up to a maximum of €1m;
- following delivery of the platform, an annual payment of €200k for ongoing operations services (updated each year in line with wages and salary inflation in the IT sector).

The above amounts are derived from detailed quotes including a reasonable margin, and are judged to be consistent with customary pricing practices in the sector for the same type of services provided separately. The late penalties specified in the contract are specifically aimed at ensuring development of the platform is completed by a given deadline. Moreover, in the light of the customary pricing practices and methods used to arrive at contract prices in the sector, allocating all of the one-off payment of €10m and the late penalties to the delivery of the platform would seem reasonable and consistent with the allocation objective of IFRS 15 (see question **41**).

Assuming the criteria specified in IFRS 15 for recognising revenue on the platform over time are met (see question **52**), the entity must, throughout the construction phase, update its estimate of the amount for which it is highly probable that a significant revenue reversal will not occur.

The ongoing operations services are substantially the same each year and have the same pattern of transfer to the customer (see question **21**). Therefore, under IFRS 15, they constitute a series of distinct services (each period of service is distinct from the other periods) to which the series provision is applied and, therefore, accounted for as a single performance obligation. Given the above, allocating the remaining amount of the transaction price (i.e. €200k a year for five years) to this second performance obligation is straightforward.

However, it is less obvious to determine how the entity should account for the variability resulting from the inflationary uplifts, in particular whether and how the entity should allocate the contractually stated amounts to the periods of service after the platform has been delivered.

In a multi-year contract, updating prices in line with an inflation index is usually intended to ensure that the contractually stated prices remain in line with the customary selling prices for similar goods or services provided separately during that period. This is indeed the case here: for example, if we consider the increase in the amount due for year 2 of the operations services (i.e. year 3 of the contract), we see that it reflects the impact on the entity's cost structure of salary changes between the signing of the contract and the second year of operations in the price of the operations services provided in the second year. The entity would most probably take account of this impact if it were called upon to determine a price for the provision of similar services under a new contract during this second year.

49. Step 4: how should changes in the transaction price be accounted for?

[IFRS 15.87-90]

The transaction price could change over the contract term, as a result of either a contract modification (see question **14**) or a new estimate of variable consideration (see question **30**).

In the former case, the provisions of IFRS 15 on contract modifications apply (see question **15**).

In the latter case, IFRS 15 requires that the new estimate be allocated to the performance obligations in the contract on the same basis as the allocation carried out at contract inception, including in cases where an amount of consideration is variable (see questions **42**, **47** and **48**). In practice, this means that additional revenue (or a reduction in revenue) is recognised immediately if it is allocated to a performance obligation that has already been satisfied at the time of the price change. The objective of this is to ensure that the entity has recognised the revenue relating to each performance obligation as if the final transaction price had been known from the outset.

In the specific case where a re-estimation of the transaction price (due to a re-estimation of variable consideration) follows a contract modification, the entity must consider whether the new estimate relates to variable consideration promised before the contract modification. If it does, and if the contract modification was accounted for prospectively (i.e. as if it were a termination of the existing contract and the creation of a new contract that includes the goods or services yet to be delivered under the original contract and as a result of the modification), the entity allocates the change in the transaction price to the performance obligations identified in the contract before the modification. In effect, this means that revenue from performance obligations that have already been satisfied at the time of the price change is adjusted immediately to take account of the change.

In all other cases in which the modification was not accounted for as a separate contract, an entity allocates the change in the transaction price to the performance obligations in the modified contract (i.e. the performance obligations that were unsatisfied or partially unsatisfied immediately after the modification).

Step 5: satisfaction of performance obligations

50. Step 5: when should an entity recognise revenue?

[IFRS 15.31-32]

An entity recognises revenue when (or as) it satisfies a performance obligation (see question **16**) by transfering a promised good or service (i.e. an asset) to the customer. An asset is transferred when (or as) the customer obtains control of the asset (see question **51**).

Therefore, an entity determines when to recognise revenue at the level of each performance obligation. Revenue allocated to one performance obligation in a contract (see question **42**) may need to be recognised over time, whereas revenue allocated to another performance obligation in the same contract may need to be recognised at a point in time.

Under IFRS 15, an entity cannot automatically conclude that revenue should be recognised over time due to the nature of the goods or services in question. Rather, it depends on the pattern of transfer of control to the customer. If an entity does not satisfy a performance obligation over time (see question **52**), this means that it satisfies the performance obligation at a point in time (see question **61**).

51. Step 5: how is control defined?

[IFRS 15.33-34]

IFRS 15 defines control of an asset (whether a good or a service) as the ability to direct the use of the asset and to obtain substantially all of the remaining benefits of it (i.e. potential cash flows, whether inflows or savings in outflows, that can be obtained directly or indirectly by using, reselling, exchanging or holding the asset, or pledging it to secure a loan). Control includes the ability to prevent other entities from directing the use of, and obtaining the benefits from, an asset.

> The Basis for Conclusions to IFRS 15 states that control should be assessed from the perspective of the customer (even though assessing control from the perspective of the entity would lead to the same conclusion in many situations – see IFRS 15.BC121). This perspective minimises the risk of an entity recognising revenue that does not coincide with the transfer of goods or services to the customer.

In addition to the definition of control, the Standard also includes a list of indicators to help an entity to determine the point in time at which control is transferred to the customer (when it is not transferred over time). These indicators represent attributes of control that may be more or less relevant in different situations (see question **61**).

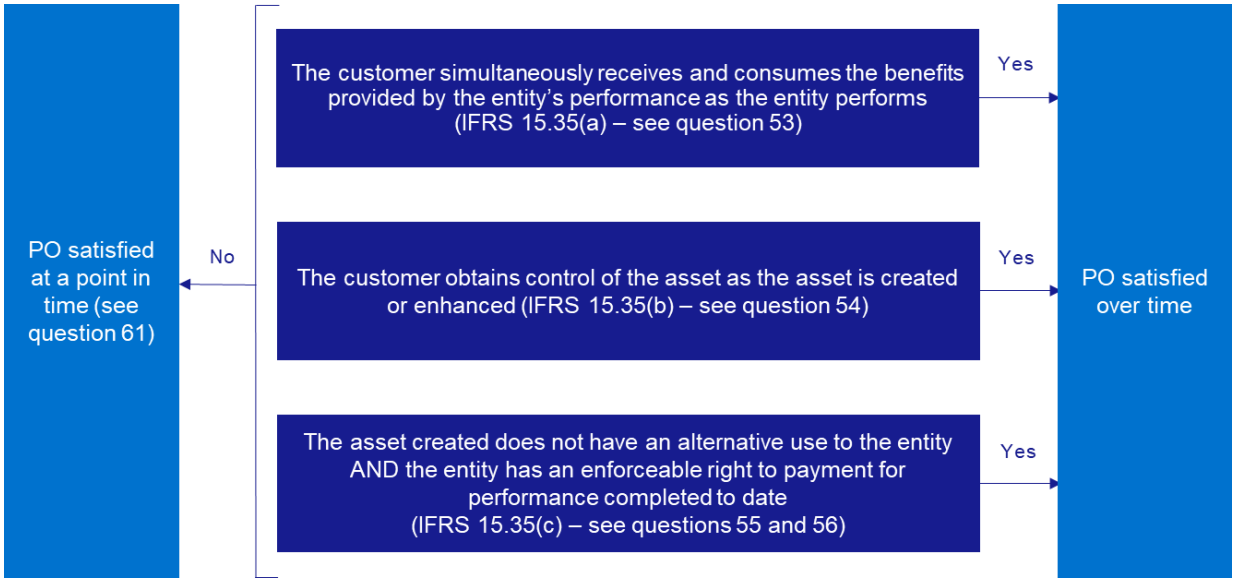
In practice, it can be difficult to assess transfer of control where the asset concerned is a service. IFRS 15 includes criteria to determine whether control is transferred to the customer over time (see question **52**). The Standard notes that one of these criteria is typical of many service contracts because the asset created by the entity's performance is immediately consumed by the customer.

Finally, when evaluating whether a customer obtains control of an asset, an entity needs to consider any right or obligation to repurchase the asset (see question **79**).

52. Step 5: how to determine whether revenue allocated to a performance obligation should be recognised over time?

[IFRS 15.35]

To determine whether revenue allocated to a performance obligation should be recognised over time, IFRS 15 requires an entity to consider three criteria. If any one of them is met, this means that control is transferred to the customer over time, meaning revenue should likewise be recognised over time. The entity makes this assessment at contract inception.



These criteria are applied to all goods and services sold by the entity, irrespective of sector.

However, the Basis for Conclusions suggests that these criteria are likely to be more relevant in some situations than others (see IFRS 15.BC125, IFRS 15.BC129 and IFRS 15.BC132):

- "typical" (i.e. relatively simple) service provisions should generally be accounted for over time under criterion 35(a);
- the second criterion (35(b)) applies when the customer clearly controls work in progress;
- the last criterion (35(c)) would normally be considered if the application of the previous two criteria proves to be difficult (for example, services tailored to a customer that ultimately result in the delivery of a report, or the construction of a complex industrial asset on the entity's premises).

53. Step 5: when does a customer simultaneously receive and consume benefits of service?

[IFRS 15.35(a) & B3-B4]

This criterion is typically relevant to contracts for the provision of routine and/or recurring services (e.g. cleaning services, transaction processing for the customer, supplying qualified personnel, etc.).

The IFRS 15 application guidance states that sometimes it is not so easy to readily identify whether this criterion is met. It explains that a customer would also simultaneously receive and consume the benefits of a service if another entity would not need to substantially re-perform the work that the entity has completed to date in fulfilling the remaining performance obligation to the customer. When carrying out this analysis, the entity:

- disregards potential contractual restrictions or practical limitations that would prevent the entity from transferring the remaining performance obligation to another entity. In other words, the entity assumes that nothing would prevent another supplier from taking over the contract; and
- presumes that another entity fulfilling the remainder of the performance obligation would not have the benefit of any asset that is presently controlled by the entity and that would remain controlled by the entity if the performance obligation were transferred to another entity.

Illustration

> The IASB illustrates this situation by the example of an entity entering into a contract to provide monthly payroll processing services to a customer for one year.
>
> In this situation, the customer simultaneously receives and consumes the benefits of the entity's performance in processing each payroll transaction as and when each transaction is processed.
>
> It is also clear that another entity would not need to re-perform payroll processing services for the service that the entity has provided to date. The IASB specifies that, in making this assessment, the entity disregards any practical limitations on the transfer of the remaining performance obligation, including any set-up activities that would need to be undertaken by another entity.

Therefore, in practice, this criterion would not apply to (for example) consulting services that ultimately result in the delivery of a professional opinion or a report (for which paragraph 35(c) might be relevant) or to any performance that gives rise to work in progress (whether tangible or intangible) over the contract term (for which paragraph 35(b) might be relevant).

54. Step 5: when does the entity's performance create or enhance an asset controlled by the customer ?

[IFRS 15.35(b) & B5]

This criterion typically applies to situations in which the control of the asset being created (or enhanced) is clearly transferred to the customer, either because the entity is building an asset on the customer's land (or installing equipment on the customer's production line), or because the entity is enhancing (i.e. maintaining, upgrading, repairing, etc.) an asset that already belongs to the customer.

In situations where the analysis is less straightforward, the entity will need to refer back to the definition of control (see question **51**) and, where necessary, to the indicators provided in the Standard in order to determine at what point control is transferred (see question **61**).

Therefore, in practice, if it can be demonstrated that the customer has the ability to direct the entity during the contract term (e.g. by changing the technical specifications of the good or service) and to obtain the benefits from the work in progress (e.g. because the contract specifies that ownership of work in progress is transferred automatically), the criterion is met and control is transferred over time.

However, the entity should check that control of work in progress is actually transferred, and not merely a protective right granted to the customer.

An entity may sometimes carry out preliminary tasks to enable it to provide the good or service promised in the contract (e.g. the design and manufacture of specialised components to be integrated into the customer's assembly line as part of an upgrade, which constitutes a single performance obligation). In this case, criterion 35(b) of IFRS 15 cannot be met until the entity begins to transfer control of the asset to the customer (in this case, on commencement of the upgrade work carried out on the customer's premises). In practice, assuming that criterion 35(c) is not met (i.e. the entity has no right to payment for performance completed to date: see question **56**), this means that the entity would recognise work in progress during the preliminary phase of manufacturing the components, and would not recognise revenue until the point at which it commences work on the customer's premises (with a catch-up adjustment at the point when control of the specialised components is transferred).

55. Step 5: how is the first condition in paragraph 35(c) applied to determine whether there is no alternative use for the good or service transferred to the customer?

[IFRS 15.35(c)-36 & IFRS 15.B6-B8]

When neither of the two first criteria for the transfer of control over time are satisfied (i.e. those specified in paragraph 35(a) and 35(b)), an entity should consider whether the two conditions specified in IFRS 15.35(c) are fulfilled (see question **52**). If either condition is not met, control will be assumed to transfer to the customer at a point in time, and revenue cannot be recognised over time.

The first condition requires a demonstration that the good or service transferred to the customer has no alternative use for the entity. The second condition is discussed in question **56**.

Whether the good or service has an alternative use to the entity is determined (at contract inception) by reference to the good or service to be delivered to the customer in its completed state. Therefore, the fact that a good or service is not customised until the end of the production process does not mean that the good or service necessarily has an alternative use for the entity. In other words, the basic design of the asset may be the same for all contracts, and the significant customisation may occur at a later stage in production. This in itself does not prevent the entity from concluding on contract inception that it has no alternative use for the entity.

The Standard also indicates that an entity must take account of contractual and practical restrictions preventing it from readily directing the good or service to another customer:

- contractual restrictions: this will be the case if the asset is clearly identified in the contract and the customer has the right to prohibit it from being directed to another customer (e.g., the sale of an apartment that is part of a real estate complex). However, contractual terms preventing an entity from readily directing an asset to another use must be substantive for the asset not to have an alternative use to the entity;

A contractual restriction is substantive if a customer could enforce its rights to the promised asset if the entity sought to direct the asset for another use. In contrast, a contractual restriction is not substantive if, for example, an asset is largely interchangeable with other assets that the entity could transfer to another customer without breaching the contract and without incurring significant additional costs that otherwise would not have been incurred.

- practical limitations: a practical limitation exists if an entity would incur significant economic losses to direct the asset for another use (for example, because the entity would incur significant costs to modify the asset, or would only be able to sell the asset at a loss).

Other examples can be considered: design specifications that are unique to a customer (i.e. significant costs to rework the asset), an asset that can only be used by a single customer, negative consequences of a severe manufacturing delay (e.g. significant procurement or production delays i.e. significant "lead time", weak monthly production, or substantial penalties payable to the initial customer), etc.

This analysis is completed at contract inception and should not be updated, unless the parties approve a contract modification that substantially modifies the performance obligation in question.

56. Step 5: how is the second condition in paragraph 35(c) applied to determine whether there is an enforceable right to payment for performance completed to date?

[IFRS 15.35(c)-37 & IFRS 15.B9-B13]

The first condition in IFRS 15.35(c) requires an assessment of whether the good or service has an alternative use to the entity (see question **55**). The second condition requires that the entity has an enforceable right to payment for performance completed to date at all times throughout the duration of the contract (see question **9** for the definition of "enforceable").

An entity has such a right if, at any time throughout the duration of the contract, it is entitled to an amount that at least compensates it for its performance to date were the contract to be terminated by the customer (or another party) for reasons other than the entity's failure to perform as promised. The cases of termination considered by the Standard therefore include termination for the convenience of the customer (e.g. the customer decides during the contract that it no longer wants the good or service), customer default, termination for public interest reasons (e.g. where the customer is a public sector entity).

The analysis is generally theoretical, because termination for reasons other than the entity's failure to perform as promised is rare in practice.

> In March 2018, the IFRS IC clarified that the probability that the customer will exercise this right is not relevant to the analysis. The assessment is focused on the existence of the right and its enforceability (see further development below).

If the customer has no right to terminate the contract for a reason other than the entity's failure to perform as promised, the entity might be entitled to oblige the customer to accept the goods for which it has contracted, and to pay the agreed consideration (i.e., to enforce the performance of contract, where the entity has not failed to perform the contract as promised). Under these circumstances, there is a right to payment for performance to date, and the second condition of criterion 35(c) is satisfied.

When would an amount at least compensate the entity for performance completed to date?

IFRS 15 explains that such compensation would be an amount that approximates the selling price of the goods or services transferred to date, giving as an example recovery of the costs incurred by the entity up to the point of cancellation plus a reasonable profit margin, rather than compensation for only the entity's potential loss of profit.

IFRS 15 further explains that reasonable compensation need not equal the expected profit margin if the contract was fulfilled as promised because the value transferred to the customer in a contract terminated early may not be proportionate to the value which would have transferred had the contract been completed. However, an entity should be entitled to compensation for either of the following amounts:

- a proportion of the expected profit margin in the contract that reasonably reflects the extent of the entity's performance under the contract before termination; or
- a reasonable return on the entity's cost of capital for similar contracts (or the entity's typical operating margin for similar contracts) if the contract-specific margin is higher than the return the entity usually generates from similar contracts.

To conduct this analysis, an entity should use its own judgement to assess the return that would be considered reasonable.

There is also an area of judgement concerning how to assess completed performance to date throughout the duration of the contract since the right to payment is assessed in relation to this performance, as measured throughout the contract. This issue is related to measuring progress for a performance obligation satisfied over time, which is discussed in question **57**.

Determining whether an entity will be entitled to an amount approximating the selling price of the goods or services transferred to date therefore often requires judgement based on careful analysis of termination clauses (for reasons other than the entity's failure to perform) or other relevant legal documentation.

The amount due from the customer in application of a termination clause is not the only element to be taken into account when assessing whether an entity is entitled to an amount approximating the selling price of the goods and services transferred to date. In practice, an entity must also consider any non-refundable payments already received from the customer at the time of termination. For example, milestone payments already received under the contract would be considered, in addition to any compensation due in application of a termination clause, if they are non-refundable in case the contract is terminated for a reason other than the entity's failure to perform as promised.

In March 2018 the IFRS IC further clarified that the payments to be taken into account in analysing the enforceable right to payment are those to which the entity is entitled under the contract between the entity and its customer. Hence, the analysis must ignore any sums that an entity could obtain from reselling the asset to a second customer, even if the first customer is obliged to compensate the entity for any loss of profit that might be experienced on the resale. This is because, in this situation, the payment to which the entity has a right under the existing contract with the first customer does not at all times throughout the duration of the contract approximate the selling price of the performance completed to date.

Illustration:

An entity enters into a contract with a customer for the supply of a machine customised for that customer, to be delivered within 12 months.

The contractual payment schedule is as follows:

- on contract signature: 20% of the contract price;
- every 3 months for 12 months: 10% of the contract price (i.e. 40% in total);
- on acceptance by customer following delivery and achievement of contractually required performance tests: the balance of the contract price (40%).

The payments are non-refundable except if the entity fails to perform the contract as promised.

In the event of termination of the contract by the customer, the entity is entitled to retain the payments received to date, but is not entitled to subsequent instalments.

In order to determine whether the performance obligation corresponding to the supply of the machine is satisfied at a point in time or over time, the entity, having already concluded that the performance obligation does not meet the criteria in IFRS 15.35(a) and IFRS 15.35(b), but that there is no alternative use for the machine, examines whether it has an enforceable right to payment at all times for performance completed to date.

The entity observes that at various times during the contract, the cumulative amount of consideration paid by the customer could be less than the selling price of the partially completed equipment (i.e. could be less than the costs incurred plus a reasonable profit margin at that time).

Because the entity's right to payment does not correspond, at all times throughout the duration of the contract, to at least the amount necessary to compensate the entity for performance completed to date, the entity therefore concludes that the performance obligation does not meet both of the conditions in IFRS 15.35(c) required for revenue to be recognised over time. Consequently, the performance obligation is satisfied at a point in time (none of criteria in IFRS 15.35 are met), meaning revenue is only recognised in full on customer acceptance (all instalments received before this date will be deferred on balance sheet as a contract liability).

When is the right to payment "enforceable"?

A right to a payment where a contract is terminated for a reason other than the entity's failure to perform as promised is enforceable if the applicable legislation enables enforcement of this right (the concept of an "enforceable" right is the same as that applied in step 1 to determine whether a contract exists within the meaning of IFRS 15 – see question **9**). It is therefore not necessary for the entity's right to payment for performance completed to date to be a present unconditional right (i.e. a receivable – see question **84**), as such a right generally only becomes unconditional when a specified stage identified in the contract is reached, or when the performance obligation is satisfied.

In assessing the existence, and the enforceable nature, of a right to payment, an entity considers not only the contractual terms but also any legislation or legal precedent that could supplement or override those contractual terms. Hence, in practice, even if the contract does not mention the customer's right to terminate the contract for a reason other than the entity's failure to perform, if legislation (or legal precedent) gives the customer such a right, the analysis must take account of the amount that would be obtained by the entity if the customer exercised this right. Similarly, if legislation (or legal precedent) calls into question the right to payment mentioned in the contract, the entity must take account of this in assessing the enforceable nature of the contractual right.

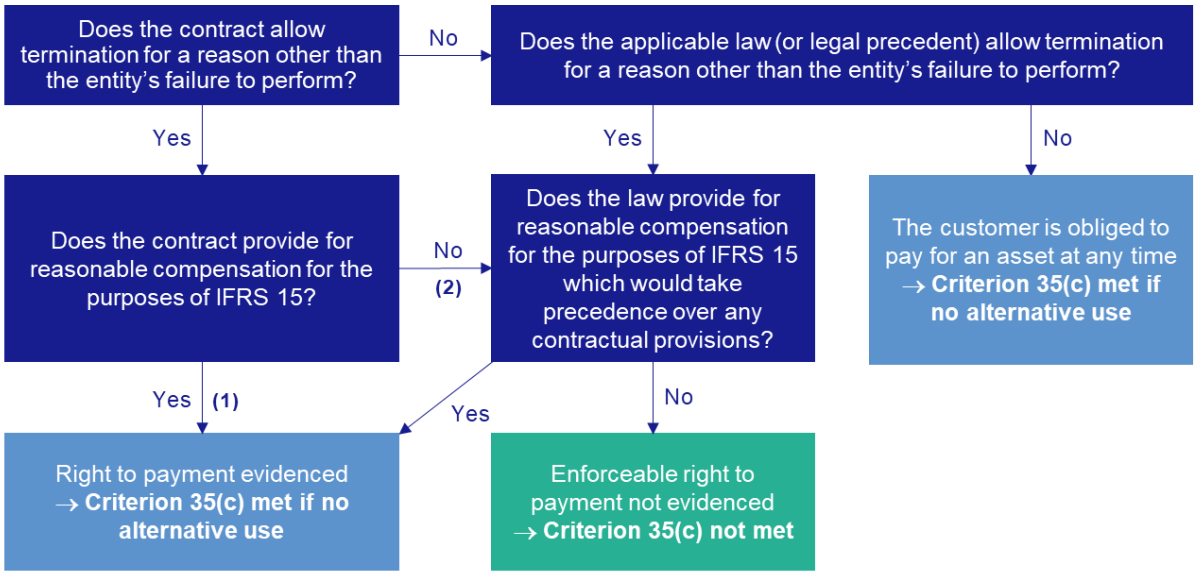
> In March 2018, the IFRS IC published a decision concerning the case of a real estate construction contract in a legal environment where the courts had authorised the termination of similar contracts for reasons other than the entity's failure to perform (for example, when it had been shown that the customer – a private individual – was not financially able to satisfy the conditions of the contract), even where the customer had no contractual right of termination. At the time of termination, the entity was merely entitled to termination compensation (not an amount corresponding to the selling price of the performance completed to date). In this instance, the IFRS IC concluded that the enforceable right to payment had not been evidenced.

A legal analysis of the contract, taking account regulation and legal precedent in the jurisdiction concerned, must therefore be conducted in order to prove the existence of any such right, and to assess its enforceability.

> In March 2018, the IFRS IC indicated that an entity need not undertake an exhaustive search for evidence. However, it would be inappropriate to ignore the relevant existing legal precedents, or to anticipate decisions that might be made (or not) in the future.
>
> The Committee also indicated that only the enforceability of the right to payment needs to be considered. There is no need to take account of the probability that the entity will exercise the right.

In summary:

In practice, we believe it is possible to adopt the following approach:



(1) Particular attention needs to be paid to the situations (likely to be rare in practice) where the law (or legal precedent) might suggest that the contractual right to payment is not enforceable.

(2) In the event that the contract allows termination for a reason other than the entity's failure to perform, the law may specify/clarify the existence of a right to payment when the contract is not explicit in terms of compensation, or if the (favourable) legislation takes precedence over the (unfavourable) contractual clauses.

In November 2016, the TRG (see question **98**) discussed the relationship between the timing of the customisation of a good, the right to payment and the measure of progress.

The TRG discussed scenarios where an entity does not have a right to payment before the start of the product customisation. Such a case may arise when manufacturing the asset requires the supply and production of generic parts which are not physically integrated into the customer's specific order until a certain stage in the production process.

The fact that an entity does not have a right to payment before the start of product customisation would not necessarily prevent the right-to-payment criterion from being met. This is because, according to TRG's discussions, the right-to-payment criterion is satisfied if the entity has such a right for performance completed to date, which should in principle coincide with how an entity defines the nature of its performance obligation and how it measures progress towards completion of that performance obligation. It follows that the right-to-payment criterion is met if the entity's performance obligation is such that the entity begins to satisfy it at the start of product customisation and its right to payment from that date is consistent with how it measures progress towards satisfying that performance obligation.

57. Step 5: how is progress for a performance obligation satisfied over time measured?

[IFRS 15.39-45 & IFRS 15.B14-B19]

Where revenue falls to be recognised over time on a performance obligation (see question **52**), an entity needs to measure at each reporting date its progress towards completion of that performance obligation. The method used to measure progress should faithfully depict the entity's performance in transferring control of the goods or services promised to the customer (that is, the extent to which the performance obligation has been satisfied).

An entity must apply a single method of measuring progress for each performance obligation satisfied over time, and apply that method consistently to similar performance obligations in similar circumstances.

IFRS 15 lists two main categories of methods of measuring progress:

- output methods: revenue is recognised on the basis of direct measurements of the value to the customer of the goods or services transferred to date relative to the remaining goods or services promised under the contract. Examples of these methods include appraisals of results achieved, milestones reached (under certain conditions: see question **59**), an estimate of the time elapsed or a calculation of the units produced or delivered. A practical expedient is offered under certain conditions (see question **58**);
- input methods: revenue is recognised on the basis of the entity's efforts or inputs to date (for example, resources consumed, labour hours expended, costs incurred, time elapsed or machine hours used) relative to the total expected inputs to the satisfaction of that performance obligation. If the entity's efforts or inputs are expended evenly throughout the performance period, it may be appropriate for the entity to recognise revenue on a straight-line basis. The use of these methods requires an entity to exclude from an input method the effects of any inputs that do not depict the entity's performance in transferring control of goods or services to the customer (see question **60**).

In July 2015, the TRG (see question **98**) clarified that the principle of applying a single method of measuring progress for a given performance obligation is also applicable when multiple goods or services are included in a single performance obligation (see question **16**). Hence, it is not appropriate to apply several methods depending on the stage of performance, even if these methods all belong to one of the two major categories of methods presented below (output methods vs input methods), for example a method measuring progress on the basis of hours expended, and a method measuring progress on the basis of labour costs incurred.

Furthermore, the TRG observed that it can be challenging to identify a single measure of progress when multiple goods or services are included in a single performance obligation. The TRG believes that judgement is required, and that entities should consider the reasons why they assessed that the goods or services are not distinct, and the nature of the overall promise. If it appears that a single method of measuring progress towards completion is not appropriate, this might be an indicator that the step 2 analysis is incorrect and that some goods and services are distinct.

An entity will need to apply judgement to determine an appropriate method of measuring progress towards completion. As the Basis of Conclusions to IFRS 15 makes clear, an entity does not have a "free choice" (see IFRS 15.BC159). It must take account of the nature of the promised good or service, while bearing in mind the objective set out above (i.e. depicting the entity's performance in transferring control of the promised goods or services to the customer). These principles can be illustrated through the following two cases:

- a cost-to-cost method of measuring progress for a performance obligation would generally be relevant for aircraft maintenance (i.e. costs incurred to date compared with total expected costs over the duration of the performance obligation), even if the obligation is invoiced by flight-hour. This is because control of the service is transferred to the customer as it is performed (i.e. with each actual intervention on the aircraft, it being assumed here that the aircraft remains in the customer's control throughout the contract) and not in accordance with the pattern of use of the aircraft by the customer;
- when the entity's obligation consists of standing ready to perform a service (a "stand-ready obligation") rather than the service itself, a linear method of measuring progress towards completion would generally be appropriate (i.e. time elapsed since contract inception as a proportion of the total contractual term). An example would be a gym membership in which the performance obligation consisting of "standing ready" to provide a customer (i.e. member) access to the gym over a specified period (say a 1-year membership). The revenue to recognise at the reporting date would be the proportion of the annual membership which has elapsed.

> In January 2015 the TRG (see question **98**) clarified that a linear method is not appropriate to a stand-ready obligation if the benefit of the service is not spread evenly throughout the contract (for example, an annual contract to clear snow from an airport runway, where the customer receives the benefits of the service only in winter).

An entity only recognises revenue for a performance obligation satisfied over time if it can reasonably measure its progress towards complete satisfaction of the performance obligation, i.e. if reliable information is available to it to apply an appropriate method of measuring progress.

Where an entity is not able to reliably measure the outcome of a performance obligation (for example, at the start of the contract), but the entity expects to recover the costs incurred in satisfying the performance obligation, it must only recognise revenue to the extent of the costs incurred until it is able to reasonably measure the outcome of the performance obligation.

58. Step 5: what is the practical expedient offered in IFRS 15 for the recognition of revenue over time?

[IFRS 15.B16]

If an entity has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the entity's performance completed to date (for example, a service contract in which an entity bills a fixed amount for each hour of service provided), the entity may recognise revenue in the amount to which the entity has a right to invoice.

> In July 2015, the TRG (see question **98**) clarified that this practical expedient can be applied in the case of a long-term contract to provide goods or services in which the price per unit changes over the duration of the contract (for example, an IT contract with rates that decrease as the entity passes on the benefits of the learning curve to the customer). An entity must nevertheless exercise judgement, taking account of the facts and circumstances, to assess whether use of this practical expedient to measure progress is possible. In particular, it may be difficult to decide whether the practical expedient can be applied in cases of advance payments, or significant retrospective price reductions.

In terms of disclosures, and by way of simplification (in addition to the expedient presented above), an entity need not provide the information required by IFRS 15 about the transaction price allocated to unsatisfied performance obligations (i.e. the "backlog" or "order book" under IFRS 15 – see question **88**) if progress towards these performance obligations is measured using the practical expedient set out above.

59. Step 5: can the technical milestones approach be used?

[IFRS 15.B15]

Among the appropriate methods of measuring progress towards completion, IFRS 15 mentions output methods (see question **57**), which include the technical milestones method. The Standard states that when an entity applies a method to measure progress, it must include in its measurement all the goods and services for which control is transferred to the customer when it satisfies the performance obligation. Hence, a method based on outputs would not provide a faithful depiction of the entity's performance if the outputs selected fail to measure some of the goods or services for which control has transferred to the customer.

The technical milestones method consists of recognising revenue over time whenever a "milestone" is reached (whether contractual or defined by the entity for the purposes of monitoring the contract). This method implies that no revenue is recognised between two milestones. If the entity carries out work to satisfy the performance obligation between them, the related costs are accounted for in works in progress until a new milestone is reached.

In practice, such a method (like methods based on the number of units delivered) is not permitted under IFRS 15, unless it can be shown that work in progress is immaterial at all times over the duration of the performance obligation. The amount of this work in progress should also be immaterial to the entity for all the performance obligations for which the technical milestones method is used.

> In April 2016, the TRG (see question 98) was asked whether control of a good or service underlying a performance obligation could be gradually transferred to the customer at discrete points in time (that is, at a number of precise moments, rather than strictly continuously, during the period over which the performance obligation is satisfied). TRG members clarified that the transfer of control over time, in application of any one of the Standard's criteria (see question **52**), implies that control cannot transfer at discrete points in time. Consequently, an appropriate method of measuring progress should not lead an entity to account for significant work in progress that is associated with the entity's performance under a contract with a customer.

The accounting treatment of costs incurred to fulfil a contract is discussed further in question **64**.

60. Step 5: which contract costs cannot be taken into account for measuring progress?

[IFRS 15.B18-B19]

Among the appropriate methods of measuring progress towards completion, IFRS 15 mentions input methods (see question **57**), which include the "cost-to-cost" method (under which progress is measured on the basis of the costs incurred to date to satisfy a performance obligation as a proportion of the total estimated costs that will be incurred).

However, there may not be a direct and proportional relationship between an entity's inputs and the transfer of control of goods or services to a customer. Therefore, an entity must exclude the effects of any inputs that do not depict the entity's performance in transferring control of goods or services to the customer. Such adjustments affect the margin recorded at the end of each reporting period, resulting in a margin rate that differs from that obtained by "mechanically" applying a cost-to-cost method (see question **67**).

Specifically, when using a cost-based input method, an adjustment to the measure of progress may be required in the following circumstances:

- significant inefficiencies (or significant wasted materials): an entity may encounter difficulties in performing an obligation leading it to incur significant inefficiencies that are not reflected in the contract price (for example, the costs of unexpected amounts of wasted materials, labour or other resources that were incurred to satisfy the performance obligation). Under these circumstances, an entity must exclude these significant inefficiencies from the cost-to-cost ratio (both from the numerator and denominator). This means that, unlike the costs that

reflect the transfer of control to the customer, the recognition as expense of these inefficiencies does not result in the recognition of additional revenue at the time they are recorded;

Illustration:

An entity concludes a contract with a customer for the development, production and installation of a specific item of equipment in three years' time for €500m. The contract is considered as including a single performance obligation satisfied over time. Progress is measured using a cost-to-cost method.

Given the nature of the activity, it appears normal and inevitable that there will be some losses of materials, labour or other resources. This has been taken into account in the initial project cost estimated by the entity (estimated at a total of €400m) and in the price agreed with the customer.

This contract therefore has a margin on completion of €100m.

Following a major IT incident, the entity accidentally loses some of the development study data, and is obliged to recreate them during the first year. The associated cost overrun is estimated at €40m. The total costs incurred at the end of the first year, including this overrun, stand at €160m. Aside from this event, there has been no significant deviation from the initial budget forecast.

Given its origin and magnitude, the €40m overrun is regarded as representing a significant inefficiency, and is therefore excluded from the calculation of progress.

At the end of the first year, the calculation of the percentage of completion is as follows:
(€160m - €40m) / (€440m - €40m) = 30%

Revenue recognised at the end of the first year is therefore:
30% x €500m = €150m

The gain (loss) recognised at the end of the first year is therefore: €150m - €160m = -€10m
of which:

- €30m represents the margin that would have been recognised at this stage in the absence of significant efficiency (30% x €100m); and
- -€40m represents the cost overrun due to a significant inefficiency.

The contract remains profitable at the end of the first year (the residual contract margin to be recognised stands at: €100m - €30m = €70m), so no provision for an onerous contract needs to be recognised.

In our view, the concept of significant inefficiency should be distinguished from the costs that an entity incurs repeatedly because the activity it must carry out to satisfy the performance obligation requires complex iterative processes, with some uncertainty as to the number of iterations necessary (which would logically be reflected in the selling price).

- "uninstalled materials", for which there is no proportional relationship between the costs incurred and progress towards performance of the obligation: under certain conditions (see below), the cost of these materials is also excluded from the cost-to-cost ratio. Nonetheless, revenue is recognised, but only to the extent of the costs incurred (i.e. no margin is recognised for these materials at that point). The Standard states that such a measure of progress is appropriate if the entity expects at contract inception that all of the following conditions will be met:
  - the good is not distinct;
  - the customer is expected to obtain control of the good significantly before receiving services related to the good;
  - the cost of the transferred good is significant relative to the total expected costs to completely satisfy the performance obligation;
  - the entity procures the good from a third party and is not significantly involved in designing and manufacturing the good (but the entity is acting as a principal – see question **70**).

Illustration:

In March of year N, an entity concludes a contract with a customer for construction of a factory for €100m.

The construction of the factory is the only performance obligation in the contract. The entity determines that it acts as a principal (see question **70**). This performance obligation is satisfied over time, and progress is measured using a cost-to-cost method.

The total expected costs stand at €80m, including €30m for relatively generic equipment (transformers) bought from a third party. The customer obtains control of these items when they are delivered to the construction site in December of year N. The factory is expected to be completed in June N+1.

Given this information, the equipment bought from third parties has the characteristics of "uninstalled materials" as described in IFRS 15.B19.b. The transformers must therefore be excluded from the measurement of progress using a cost-to-cost method.

At the end of December N:
Costs incurred (excluding the equipment bought from a third party) stand at €20m.

Total costs (excluding the equipment bought from a third party) stand at €50m (€80m - €30m), so progress at December N is estimated at: €20m / €50m = 40%

The entity therefore recognises €58m in revenue, calculated as the sum of:

- 40% x (€100m - €30m) = €28m for completed performance, excluding the supply of equipment purchased from a third party; and
- €30m (i.e. to the extent of costs) for the transfer of control of equipment purchased from a third party.

The margin resulting from the impacts accounted for in respect of this contract at the end of December N stands at: [€58m - (€20m + €30m)] / €58m = 13.8%.

This rate is lower than is anticipated at the end of the contract (20%) because of recognition of the equipment without margin and the relative weight of the "uninstalled materials" in the completed performance to date.

IFRS 15 does not clarify when the margin on these uninstalled materials should be accounted for. In our view, an entity can either decide to recognise all the margin once the good is installed, or allocate the margin to other elements of the performance obligation and recognise it over time, in line with the progress of these other elements.

61. Step 5: when a performance obligation does not meet any of the criteria in paragraph 35 for over time revenue recognition, what indicators can be used to determine the point in time control of a good or service transfers to a customer?

[IFRS 15.38 & IFRS 15.B83-B86]

If a performance obligation is not satisfied over time (see question **52**), it is satisfied at a point in time.

To determine the point in time at which a customer obtains control of a promised asset (and in turn when the entity satisfies a performance obligation so that revenue is recognised), the entity must first consider the definition of control given by IFRS 15 (see question **51**).

An entity should also consider indicators of the transfer of control which include, but are not limited to, the following:

- the entity has a present right to payment for the asset;
- the customer has obtained legal title to the asset. However, if an entity retains legal title solely as protection against the customer's failure to pay, those rights of the entity would not preclude the customer from obtaining control of an asset;

- the entity has transferred physical possession of the asset. However, physical possession does not necessarily coincide with control of an asset. For example, in some repurchase agreements and in some consignment arrangements, a customer or consignee may have physical possession of an asset that the entity controls (see question **80**). Conversely, in some bill-and-hold arrangements (see question **81**), the entity may have physical possession of an asset that the customer controls;
- the customer has the significant risks and rewards of ownership of the asset. An entity excludes any risks that give rise to a distinct performance obligation in addition to the performance obligation to transfer the asset (for example, an entity may have transferred control of an asset to a customer but not yet satisfied an additional performance obligation to provide maintenance services related to the transferred asset);
- the customer has accepted the asset (relevant if there are contractual customer acceptance clauses allowing the customer to cancel the contract or require the entity to take remedial action if a good or service does not meet agreed-upon specifications). If customer acceptance is not a formality, the entity cannot conclude that the customer has obtained control until the entity receives the customer's acceptance. When an entity delivers a product to a customer for trial or evaluation purposes and the customer is not obliged to pay any consideration until the trial period expires, control of the product is not transferred to the customer until either the customer accepts the product, or the trial period expires.

As is clear from both the Standard and its Basis for Conclusions, the above list of indicators is not exhaustive (see IFRS 15.BC155). These indicators are often present if a customer has control of an asset and so may assist entities in applying the transfer -of-control principle, which is the general criterion for recognising revenue in IFRS 15 (see question **50**).

One consequence of this is that the transfer of significant risks and rewards inherent in the ownership of the asset, while an important indicator for the analysis, is not necessarily sufficient for determining the date on which to recognise revenue for a performance obligation satisfied at a point in time (IAS 18, by contrast, based the recognition of the revenue from goods on the transfer of the significant risks and rewards).

62. Contract costs: how to account for the costs of obtaining a contract?

[IFRS 15.91-93]

An entity must recognise the costs of obtaining a contract with a customer as an asset in the following two situations:

- if two cumulative conditions are met:
  - they are incremental (i.e. marginal) costs of obtaining a contract with a customer: the incremental costs are those which would not have been incurred if the contract had not been obtained (for example, a sales commission); and
  - the entity expects to recover those costs (i.e. it expects that the margin on the contract, including anticipated contracts, will be sufficient to absorb them: see question **66**) ;
- where the costs of obtaining a contract are not incremental but are explicitly re-chargeable to the customer whether or not the contract is obtained.

Costs of obtaining a contract that do not fall under either of these headings must be immediately recognised as an expense when they are incurred.

> Care is needed with regard to the nature of success fees. For example, a commission paid to a salesman reflecting a target based on the total turnover contracted over a given period (e.g. a year) does not meet the definition of an incremental cost to obtain a contract because it cannot be directly associated with a specific contract. It is therefore essential to properly understand how any commission paid is determined.

Furthermore, the Standard clarifies that the costs of obtaining a contract must be presented separately from contract assets (see question **82**) and contract liabilities (see question **83**).

Finally, specific disclosures are required (see question **86**).

Illustration:

An entity wins a competitive bid to provide consulting services to a new customer. The entity incurred the following costs in preparing the proposal and obtaining the contract:

Access to external databases: €20,000
Travel costs for the preparation and submission of the proposal: €10,000
Graphic design / marketing cost: €5,000
Commissions to sales staff: €15,000

Only the commissions paid to sales staff are incremental costs of obtaining a contract because they would not have been incurred had the contract not been obtained. Furthermore, they can only be recognised as an asset if the margin expected on the contract is sufficient (i.e. they are recoverable). The costs of accessing external databases, travel expenses and the graphic design / marketing cost would have been incurred regardless of whether the contract was obtained. Consequently, no asset can be recognised for these costs unless the terms of the competitive bid explicitly give the entity the right to recharge the costs.

The Standard does not make any distinction between internal and external costs. What matters is the fact that the costs would not have been incurred had the contract not been obtained.

63. Contract costs: can incremental costs of obtaining a contract be expensed as incurred?

[IFRS 15.94]

As a practical expedient, an entity may recognise the incremental costs of obtaining a contract (see question **62**) as an expense when incurred if the amortisation period of the asset that the entity would otherwise have recognised is one year or less.

To determine the length of the amortisation period, it is necessary to take account of anticipated contracts, if any (see question **65**).

64. Contract costs: how are costs incurred to fulfil a contract accounted for?

[IFRS 15.95-98]

When the costs incurred to fulfil a contract do not represent a good or service that was transferred to the customer at the time they were incurred, the question arises as to whether they meet the definition of an asset.

To answer this question, it must first be determined whether these costs are covered by another Standard (for example IAS 2 – *Inventories*, IAS 16 – *Property, Plant and Equipment* or IAS 38 – *Intangible assets*).

If they are, then the costs are accounted for in accordance with those other Standards. For example, development costs related to an intangible fixed asset generated internally for use in the fulfilment of several contracts with customers should be accounted for in accordance with IAS 38 (i.e. recognition as an asset if all the criteria in that Standard are met).

It follows that if these costs are to be accounted for in accordance with another Standard and this Standard prohibits their capitalisation, then it is not possible to subsequently apply the IFRS 15 criteria to recognise them as assets (as explained below). For example, expenditure incurred to train staff in the use of a new asset are required to be expensed under paragraphs 5 and 29 of IAS 38. Therefore, they cannot be capitalised under IFRS 15 either. This was clarified by the IFRS IC in its March 2020 decision.

When the costs incurred to fulfil a contract are not dealt with by another Standard, they fall within the scope of IFRS 15 (for example, the costs of site familiarisation incurred specifically to fulfil a maintenance contract, as described in question **16**). Such costs are recognised as assets only if they meet all the following conditions:

- they relate directly to an existing or to an anticipated contract that the entity can specifically identify (for example, costs relating to services to be provided under renewal of an existing contract, or costs of designing an asset to be transferred under a specific contract that has not yet been approved, but which the entity expects to obtain);

> The concept of an “anticipated contract that the entity can specifically identify” can be difficult to grasp in practice, especially when it does not refer to the renewal of an existing contract but to the expectation of obtaining a new contract with a customer. This is because, for as long as a new contract is not signed, it can be tricky to assess the extent to which costs incurred are recoverable.
>
> In the case of a long-term contract, it often happens that during the bid process an entity starts to incur costs associated with the fulfilment of the contract (for example, design expenses to meet the customer’s specifications). The question here is, therefore, whether the costs incurred should be capitalised under IFRS 15 as costs to fulfil a contract. In our opinion, achieving preferred bidder status marks an important stage, enabling an entity to assume that the costs that it incurs from that moment onwards to fulfil the anticipated contract must be accounted for as assets if the IFRS 15 criteria are met (for costs not falling within the scope of another Standard). An entity must, in every case, exercise judgement to assess the moment from which these costs must be capitalised.

The TRG (see question **98**) discussed the subject a partial satisfaction of performance obligations prior to identifying the contract in March 2015. This discussion clarified that the costs to fulfil a contract that the entity expects to conclude are accounted for as assets (provided that the criteria are satisfied) until the date at which a contract exists under IFRS 15. At the date on which the criteria for identifying a contract are considered to be met (see question **10**), these costs are recognised immediately as an expense if they relate to costs incurred for goods or services transferred to the customer at that date. Otherwise, they are amortised over the period over which the remaining goods or services are delivered or performed (see question **65**).

- the costs generate or enhance the entity's resources to be used in satisfying (or in continuing to satisfy) future performance obligations. This condition is intended to preclude an entity from deferring costs purely to smooth the profit margins by allocating revenue and costs evenly over the contractual term (smoothing the margins in not permitted under IFRS 15 for the reasons explained in question **67**); and

The concept of "resource" here mirrors that used in the definition of an asset in IAS 38.8: "An asset is a resource: (a) controlled by an entity as a result of past events; and (b) from which future economic benefits are expected to flow to the entity." In our view, the concept of "resource" employed here by IFRS 15 implies that it is something the entity controls.

- the costs are expected to be recovered (the analysis can include any expected contract renewal).

IFRS 15 states that the costs that relate directly to a contract (or to a specific anticipated contract) include the following:

- the costs of direct labour (for example, salaries and wages of employees who provide the promised services directly to the customer);
- the cost of direct materials (for example, supplies used in providing the promised services to a customer);
- allocations of costs that relate directly to the contract or to contract activities (for example, costs of contract management and supervision, insurance and depreciation of tools and equipment, and right-of-use assets used in fulfilling the contract);
- costs that are explicitly chargeable to the customer under the contract; and
- other costs that are incurred only because an entity entered into the contract (for example, payments to subcontractors).

In contrast, an entity recognises the following costs as expenses when incurred:

- general and administrative costs (unless those costs are explicitly chargeable to the customer under the contract);
- costs of wasted materials, labour or other resources to fulfil the contract that were not reflected in the contract price (see question **60**);
- costs that relate to satisfied performance obligations (or partially satisfied performance obligations) in the contract (i.e. costs that relate to past performance); and

Costs relating to work performed on the construction of a good (representing a single performance obligation) which is transferred to a customer as the good is being constructed should be recognised as expenses, as these costs relate to past performance of the entity. This applies regardless of the method used to measure progress, including where the entity constructing the good uses an output method (as clarified by the IFRS IC in its June 2019 decision).

- costs for which an entity cannot distinguish whether the costs relate to unsatisfied performance obligations or to satisfied performance obligations (or partially satisfied performance obligations).

Furthermore, IFRS 15 clarifies that the costs of fulfilling a contract, in the same way as incremental costs to obtain a contract (see question **62**), must be presented separately from contract assets (see question **82**) and contract liabilities (see question **83**).

Finally, specific disclosures are required (see question **86**).

65. Contract costs: what rules govern the amortisation of capitalised contract costs?

[IFRS 15.99-100]

Capitalised costs to obtain or fulfil a contract a (see questions **62** and **64**) are amortised on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates.

The amortisation period may extend beyond the contract if the costs relate to multiple contracts, whether signed or anticipated (consistent with the notion of amortising an asset over its useful life as set out in IAS 38 and IAS 16).

> During its November 2016 meeting, the TRG (see question **98**) clarified that the practical expedient permitting incremental costs of obtaining a contract to be expensed as incurred (see question **63**) is not available if the amortisation period, taking account of anticipated contracts, extends beyond one year.

Determining how far the capitalised contract costs relate to goods or services beyond the initial contract may require judgement. In particular, in the case of a sales commission capitalised as an incremental contract cost, paragraph BC 309 of Basis for Conclusions clarifies that amortising over a longer period than the initial contract would not be appropriate in situations where a commission equivalent is paid on each renewal at an amount which is commensurate with the initial commission.

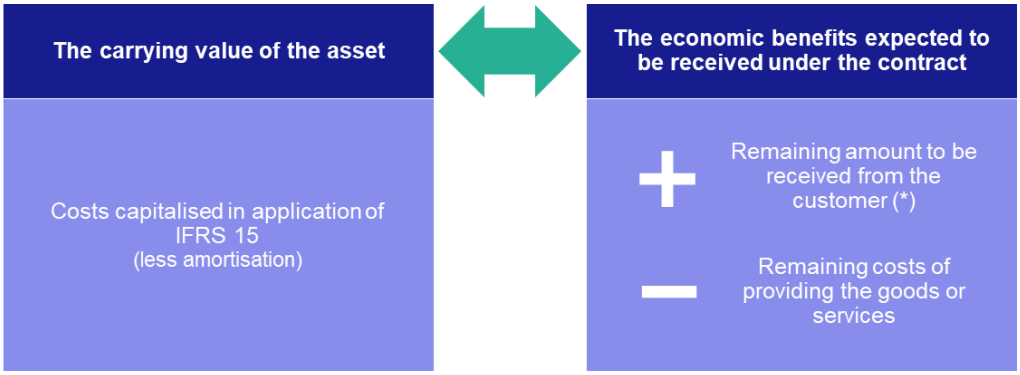
The amortisation period must be updated to reflect any significant change in the entity's expected timing of transfer to the customer of the goods or services to which the costs relate (any such revision is accounted for prospectively as a change in accounting estimate in accordance with IAS 8).

IFRS 15 is not prescriptive as to the classification of these assets in the entity's statement of financial position. However, presentation in current assets seems appropriate, since they are amortised in the entity's normal operating cycle in application of IAS 1. IFRS 15 is also silent on classification of the expense resulting from their amortisation in profit or loss. Where an entity chooses to present its profit or loss by function of expense in accordance with IAS 1.103, it should, in our opinion, be classified under 'cost of sales'.

66. Contract costs: what rules govern the impairment of capitalised contract costs?

[IFRS 15.101-104]

Special rules apply to the impairment of contract costs recognised as an asset under IFRS 15 (see diagram below). To conduct the impairment test, an entity must compare:



(*) measured by the same method as the transaction price, except as regards:

- the constraint on estimates of variable consideration (cf. question 29): i.e. for impairment testing purposes, an entity may be led to take account of future cash flows that are not sufficiently certain for inclusion in revenue;
- contract extensions or renewals: in our view, for impairment testing purposes, an entity should take account of the whole period over which it expects to receive economic benefits from the contract asset (consistent with the amortisation period – cf. question 65).

Before applying these provisions, an entity recognises any impairment loss for assets related to the contract that are recognised in accordance with another Standard (for example, IAS 2, IAS 16 or IAS 38).

After applying the impairment test described above, the resulting carrying amount is included in the carrying amount of the cash-generating unit to which the asset belongs for the purpose of applying IAS 36 – *Impairment of Assets* to that cash-generating unit.

An impairment loss resulting from the application of the special rules in IFRS 15 is reversed through profit or loss when the impairment conditions no longer exist or have improved. The increased carrying amount of the asset can not exceed the amount that would have been determined (net of amortisation) if no impairment loss had been recognised previously.

67. Contract costs: what does IFRS 15 say about the smoothing of profit margins?

[IFRS 15.95]

The provisions of IFRS 15 relating to the recognition of costs incurred to fulfil a contract specify the conditions under which such costs are recognised as assets (see question **64**). Among these conditions, the Standard stipulates that these costs should generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future. Therefore, it is not possible to defer expenses incurred relating to goods or services that have already been transferred to the customer.

> The Basis for Conclusions to IFRS 15 clarifies (if such clarification were needed) that an entity is precluded from deferring costs merely to normalise profit margins throughout a contract by allocating revenue and costs evenly over the life of the contract (see IFRS 15.BC308).

Nonetheless, where progress is measured using a cost-to-cost method, the profit margin for a given performance obligation is necessarily smoothed, subject to the adjustments necessary to faithfully reflect the entity's performance towards complete satisfaction of the performance obligation (see question **60**).

68. Contract costs: what does IFRS 15 say about accounting for learning curve costs?

Where an entity delivers several units of the same good or service, it can incur greater costs in the early stages of a contract due to the learning curve. The impact of the learning curve on unit production costs may be more or less significant depending on the entity's experience, the nature of its business, etc. When a learning curve is an integral part of the way an entity conducts its business and negotiates its contracts with customers, it might expect to be able to spread the accounting effects of these variations over the duration of the contract.

However, as we have seen, IFRS 15 does not permit the smoothing of profit margins (see question **67**). It is not possible to defer the recognition of costs solely by allocating them to units that have not yet been produced. Some costs (in particular the significant inefficiencies not foreseen in the contract price – see question **60**) make no contribution to the fulfilment of the contract.

The Basis for Conclusions nevertheless does address the subject of accounting for learning curve costs (see IFRS 15.BC312-BC313) when:

- an entity has a single performance obligation to deliver a specified number of substantially similar units; and
- the performance obligation is satisfied over time.

In practice, these conditions reflect the guidance on goods and services forming a 'series' (see question **21**).

In this particular situation (i.e. a single performance obligation for distinct but similar goods or services, control of which is transferred over time), an entity must choose an appropriate method of measuring progress (see question **57**). As the costs incurred at the beginning of the series are significant, a cost-based method of measuring progress would result in the entity recognising more revenue for the early units produced relative to the later units in the series. The Basis for Conclusions states that this accounting treatment is appropriate because of the greater value of the entity's performance in the early part of the contract. This is because, if an entity were to sell only one unit, it would charge the customer a higher price for that unit than the average unit price the customer pays when it purchases more than one unit (see IFRS 15.BC314). Therefore, in this instance, IFRS 15 can be applied in such a way that in practice a constant margin per unit produced will be obtained.

However, it is important to bear in mind that the smoothing of the learning curve achieved here is a consequence of the requirements of IFRS 15, rather than an objective in itself. All the requirements in the Standard continue to apply. In some cases, these requirements may severely restrict the smoothing of learning curve costs. For example, extending the series by increasing the number of units would necessarily lead to the identification of a new performance obligation with its own margin (see question **21**).

When the different units promised to the customer do not constitute a series under IFRS 15 (in particular because each unit are not substantially the same or because criterion 35(c) of the Standard to recognise revenue over time is not met – see question **55**), the IASB states that the rules existing in other Standards should be applied, in particular IAS 2 – *Inventories*. Therefore, in practice, the costs incurred in the production of multiple units (including learning curve costs) are incorporated in the cost price of each unit produced and recognised in profit or loss based on the transfer of control of each unit. As a result, the margin recognised on the later units delivered is likely to be higher than the margin recognised on the first units delivered (assuming that the revenue recognised for each unit is relatively constant), because of the learning curve.

69. How should the loss at completion of an onerous contract be determined?

IFRS 15 does not directly address the issue of losses at completion of contracts with customers (unlike IAS 11 – *Construction contracts*). The Basis for Conclusions of the Standard states that entities should apply existing Standards (see IFRS 15.BC296). In particular, IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets* should be used to determine whether a contract with a customer is onerous and, where applicable, how much provision to recognise. IAS 2 – *Inventories* may also apply.

IAS 37 defines an onerous contract as a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs of a contract reflect the least net cost of exiting from the contract, which is the lower of the cost to fulfil it and any compensation or penalties arising from failure to fulfil it. However, before making separate provision for an onerous contract, an entity recognises any impairment loss that has occurred on assets assigned to that contract in application of IAS 36 – *Impairment of Assets*.

An important clarification in the IFRS 15 Basis for Conclusions is that the test conducted to determine whether to recognise a provision should be applied to the whole contract, and not to distinct performance obligations (i.e. even when steps 2 and 4 of the Standard give rise to an individual margin per performance obligation).

In our view, the unit of account to which the test is applied should be consistent with that used in application of step 1 of IFRS 15. This means that if one or more legal contracts have been combined in step 1 (see question **13**), it is that combination of legal contracts which together comprises the contract for accounting purposes and which is, therefore, analysed to determine whether to recognise a provision for an onerous contract.

Consequently, a provision for an onerous contract is only recognised when the revenue to be recognised over the remainder of the accounting contract is expected to be lower than the costs to complete. A provision would not be recognised for future losses on individual performance obligations if the accounting contract as a whole is still expected to be profitable.

Illustrations:

Consider a contract with an overall margin of +30 comprising three performance obligations (POs) that will be met one after the other:

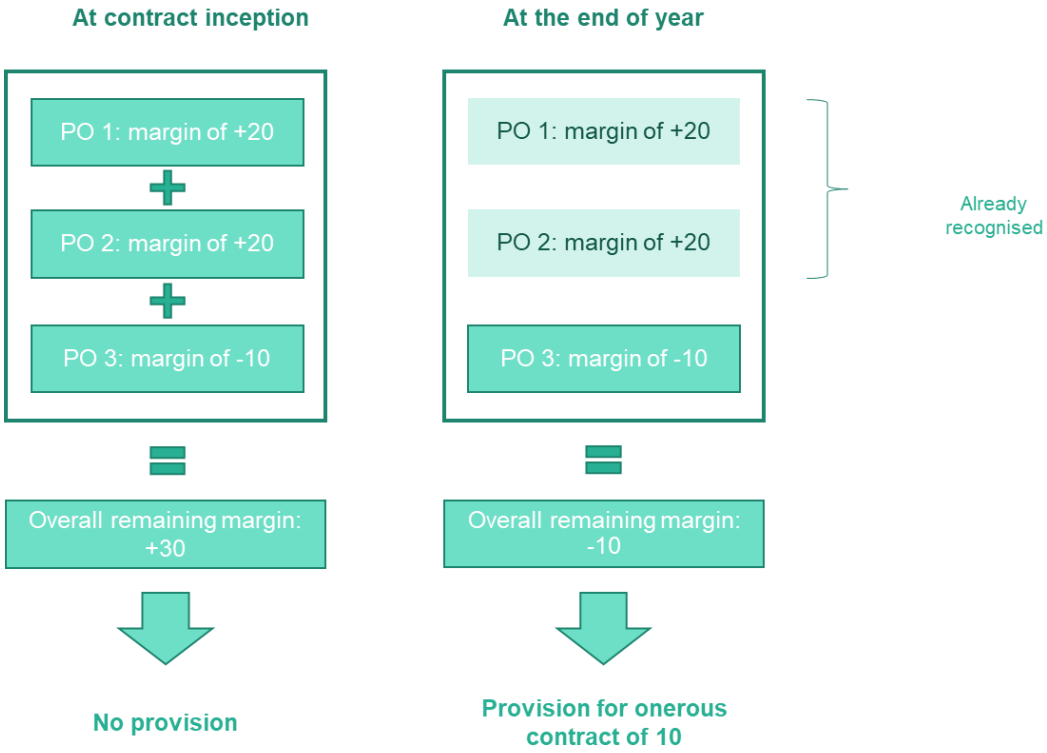
- PO 1: margin of +20

- PO 2: margin of +20

- PO 3: margin of -10

At inception, the margin that remains to be recognised under the contract is positive (+30). The contract is not onerous.

Then, assume that at the end of the year the entity has fulfilled the first two POs. Because the margin remaining to be recognised under the contract is negative (-10), the contract has become onerous. The entity recognises a provision for onerous contract of 10 at the end of the year.



Some practical questions may arise when determining whether a contract is onerous. Two such questions are:

- how does one estimate the economic benefits expected to be derived from a contract; and
- how the costs to fulfil the contract should be determined.

Estimating the economic benefits expected to be received under the contract

Our view is that the provisions of IFRS 15 constraining estimates of variable consideration when determining the contract transaction price (see question **29**) would not apply, consistently with the way IFRS 15 requires an entity to estimate the amount of consideration it expects to receive when testing contract assets for impairment (see question **66**). However, IAS 37 would still require an entity to consider economic benefits only if they are more likely than not to occur. This could lead an entity to consider only part of the variable consideration as economic benefits under the contracts, but in practice using a lower threshold ("more likely than not") than that required for measuring revenue ("highly probable").

Another issue related to the estimation of economic benefits may arise when the profitability of the customer relationship is based on the conclusion of successive contracts (which are not necessarily combined). For example, in certain industries it is customary to sell equipment at low prices, as the profitability of the customer relationship is based on maintenance contracts and the supply of mandatory spare parts. The provisions of IAS 37, however, are not explicit regarding whether economic benefit estimates should be limited to the contract identified by applying the criteria provided by IFRS 15 (see question **10**), or whether other elements could also be taken into account (options, conditional tranches, specific contracts that are anticipated but not yet signed, etc.), and if so, under what conditions. In the absence of any clarification from the IASB, there is diversity in practice (which predates IFRS 15). Where applicable, disclosures should be provided to explain how an entity has estimated the economic benefits when assessing whether a contract with a customer is onerous.

Determining the cost to fulfil

The IASB amended IAS 37 in May 2020 to clarify that the cost to fulfil a contract comprises the costs that relate directly to the contract, including both:

- the incremental costs of fulfilling the contracts (i.e. the costs that would not have been incurred if the contract had not been obtained); and
- an allocation of other costs that relate directly to fulfilling contracts (e.g. an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling that contract among others).

At the date of issue, the IASB plans to clarify that the same costs must be considered in both determining whether a contract is onerous and also in measuring the resulting onerous contract provision (as part of its project "*Provisions – Targeted Improvements*").

70. How is it determined whether an entity acts as a principal or as agent?

[IFRS 15.B34-B38]

In its application guidance, IFRS 15 includes detailed provisions for determining the nature of a performance obligation when a third party is involved in providing goods or services to a customer.

An entity might:

- act as principal: the nature of its promise is to provide the specified goods or services;
- act as agent: the nature of its promise is to arrange for a third party to provide the specified goods or services.

This distinction matters because it affects how the statement of profit or loss is presented. This is because:

- when an entity acts as a principal: the entity recognises revenue in the gross amount of consideration to which it expects to be entitled in exchange for the specified good or service transferred (as control of this good or service is transferred over time, or at the precise moment control is transferred). The amount paid to the third party is accounted for as an expense;

- when an entity acts as an agent: the entity only recognises as revenue that portion of the consideration that represents its remuneration, i.e. the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the third party. The revenue accounted for is therefore a net amount (the difference between the amount received by the entity and the sum paid to the third party).

The provisions for the agent/principal distinction must be applied to each performance obligation separately, taking account of the breakdown of the contract at step 2 of the Standard (see question **16**).

> Hence, an entity will act as an agent (or principal) for a "bundle" of goods and services that together form a single performance obligation. In other words, for a single performance obligation, an entity cannot be an agent for some of the activities undertaken and a principal for others.
>
> However, if a contract includes more than one performance obligation, an entity could act as principal for some performance obligations and as an agent for others.

To determine whether it is acting as a principal, an entity must determine whether it controls the specified good or service before that good or service is transferred to a customer. Therefore, the agent/principal distinction explicitly depends on the concept of control as defined in IFRS 15 (see question **51**).

An entity acting as a principal may obtain control of:

- a good or another asset from the other party that it then transfers to the customer (for example, the resale of computer equipment under some circumstances, alcohol distribution, etc.). An entity does not necessarily control a specified good if it obtains legal title to that good only momentarily before legal title is transferred to a customer;
- a right to a service to be performed by the other party, which gives the entity the ability to direct that party to provide the service to the customer on the entity's behalf (for example, when an entity directs a third party in the manner of performing a cleaning service). The Basis for Conclusions clarifies that the fact that the entity does not carry out the service itself is not determinative in the analysis (see IFRS 15.BC385O). However, it is often relevant to assess whether the right is created only when it is obtained by the customer, or whether the right to goods or services exists before the customer obtains the right. If the right does not exist before the customer obtains it, an entity would be unable to control that right before it is transferred to the customer (for example when a ticket for a show is sold by an intermediary (ticket agent), but only issued by the theatre when purchased from the intermediary by the end customer);
- a good or service from another party that it then combines with other goods or services in providing a specified good or service to the customer. Hence, an entity acting as a principal can itself fulfil a performance obligation consisting of providing the specified good or service, or by employing a third party (for example, a subcontractor) to fulfil part of the performance obligation. IFRS 15 clarifies that where an entity provides a significant service of integrating goods or services (see question **20**) provided by another party into the specified good or service for which the customer has contracted, the entity controls the good or service provided by that other party before that good or service is transferred to the customer. This is because the entity first obtains control of the inputs to the specified good or service (which includes goods or services from other parties) and directs their use to create the combined output that is the specified good or service sold to the end customer. For example, if a manufacturer subcontracts a significant part of an item of equipment (which does not constitute a distinct performance obligation) and obtains control of this part in order to integrate it into a larger product (representing a single performance obligation for IFRS 15 purposes) for transfer to the customer, it is acting as a principal in respect of the entirety of the larger product. This means that revenue is recognised on a gross basis for the performance obligation as a whole (the sums invoiced by the subcontractor being presented as expense).

Conversely, when an entity acts as an agent, it does not control the specified good or service supplied by a third party before this good or service is provided to the customer.

IFRS 15 provides the following indicators for determining whether the entity controls the specified good or service before it is supplied to the customer (non-exhaustive list):

- the entity is primarily responsible for fulfilling the promise to provide the specified good or service. This typically includes responsibility for the acceptability of the specified good or service (for example, primary responsibility for the good or service meeting customer specifications);
- the entity has inventory risk before the specified good or service has been transferred to a customer or after transfer of control to the customer (for example, if the customer has a right of return). We believe that the type of inventory risks that are considered here do not correspond to the risk of loss associated to physical storage (like the risk of theft or damage whilst stored). Indeed, whether or not an entity controls the inventory, it can generally transfer the risks associated with storage by subscribing to an adequate insurance policy. The inventory risks examined here correspond rather to the risk of inventory not being sold at an adequate price (or not being sold at all). This indicator applies to goods, but can also apply to services (for example, a travel agency buying air tickets from an airline company to secure places on certain flights before receiving orders from potential customers would be exposed to inventory risk if it ultimately does not sell the tickets and would not be entitled to a refund from the airline);
- the entity has discretion in establishing the price for the specified good or service. However, an agent can have discretion in establishing prices in some cases. This indicator must therefore be analysed with caution.

Note that credit risk is not included in the indicators for making the agent/principal distinction (in contrast to IAS 18, which included exposure to credit risk as an indicator in determining which party assumed the significant risks and rewards associated with the sale of the good or service).

In April 2016, IFRS 15 was amended to clarify the interaction between the general principle of transfer of control and the indicators above. These indicators are only included to support an entity's assessment of control. They may be more or less relevant depending on the nature of the specified good or service, and the terms of the contract. Other indicators (not listed in IFRS 15) may also be more relevant depending on the contracts.

> The Basis for Conclusions of IFRS 15 clarifies that these indicators are not intended to override the general principal based on the transfer of control or to be viewed in isolation. The essential question is whether the entity controls the specified good or service before it is supplied to the end customer. Hence, these indicators do not constitute the basis for a separate or additional evaluation. Nor must they be understood as a checklist of criteria to be met, or factors to be considered, in all scenarios (see IFRS 15.BC382 and IFRS 15.BC385H). As illustrated in the IFRS IC's May 2022 decision, the indicators in paragraph B37 are most useful when it is unclear, after applying the principles and requirements on control in IFRS 15, whether the entity is a principal or an agent.

The agent/principal distinction may require the exercise of significant judgement, taking account of all the facts and circumstances, particularly when the asset that is the object of the transaction relates to the provision of a service (or a right to the provision of a service).

71. How should options for additional goods or services be accounted for?

[IFRS 15.B39-B43]

Contracts with customers often include options for additional goods or services. These options come in many forms, such as sales incentives, customer loyalty points enabling customers to obtain complementary goods, contract renewal options (tacit or otherwise), discounts on future purchases, etc.

The existence of customer options, whether implicit or explicit, has an impact on several of the steps identified in the IFRS 15 five-step model:

- identifying the contract at step 1 means determining what the parties' enforceable rights and obligations are under the contract (see question **9**). This requires careful analysis of the contract terms. Goods or services which the customer is able not to acquire either by not taking up an option in the contract, or by exercising a right to terminate the contract without having to pay a substantive penalty, are excluded from the scope of the contract for IFRS 15 purposes. Consistently with this, any consideration to be received from the customer were it to purchase these optional goods and services is excluded from the transaction price at step 3 (see question **26**), whatever the likelihood that the option will be exercised;

> Estimating the transaction price also involves distinguishing between contracts including options (for example, a framework agreement for an undetermined number of manufactured parts from an auto parts maker) and contracts for which the quantities are likely to vary due to variable consideration (for example, a contract for outsourcing accounts payable processes for a fixed 5-year term with monthly invoicing depending on the quantity of invoices entered over the period). This distinction is not always easy to make and requires judgement based on facts and circumstances.

- if an entity has identified an option in its contract with a customer, IFRS 15 requires it to determine whether that option provides a 'material right' (see below) to the customer that it would not receive without entering into the contract (for example, a discount that is incremental to the range of discounts typically given for those goods or services to that class of customer in that geographical area or market). In such a case, the option would constitute a separate performance obligation at step 2, which in turn would result in a portion of the transaction price (determined at step 3) being allocated to the option at step 4.

Identifying an option that provides a 'material right' to the customer

It may be difficult to assess whether the option to acquire additional goods or services provides a material right to the customer. IFRS 15 provides little guidance on this subject.

> In our view, the option provides a material right to the customer that it would not receive without entering into the contract if:
>
> - the additional goods or services can be acquired for a much lower price than their stand-alone selling price (see question **43**); or
> - the discount is such that the margin expected on the goods and services in the option is significantly lower than for the goods and services in the firm part of the contract.
>
> By contrast, the option does not provide a material right to the customer if:
>
> - the additional goods or services can be acquired for a price that is consistent with their stand-alone selling price; or
> - the margin expected on the option is consistent with the initial firm part of the contract, even if there is a reduction in the price of the additional goods or services (this reduction may be explained by the fact that the benefits of the learning curve are shared with the customer as discussed in question **68**).

Nevertheless, the relevant facts and circumstances must be considered in each situation. Stable prices, including during the option periods, may provide a material right to the customer (for example, because the entity does not invoice again the upfront fee to be paid at inception, when the contract is renewed – see question **24**).

> In October 2014, the TRG (see question **98**) clarified that evaluating the existence (or absence) of a material right should include an assessment of both quantitative and qualitative factors (for example, assessing whether the customer could obtain substantially similar services from a competitor of the entity at the same price).

Accounting for options for additional goods or services

Whether the option provides a material right to the customer determines the accounting for such an option.

If the option provides a material right to the customer, a separate performance obligation is identified (see questions **16** and **22**) and some of the consideration from the non-optional part of the contract is allocated to it.

This is because IFRS 15 considers that the customer in effect pays the entity for the right to purchase the future goods or services in question, which is considered to be advance payment for those the future goods or services should the customer exercise its option to purchase them. An entity must, therefore, defer some revenue from the contract, recognising it when those optional goods or services are transferred or when the option expires (subject to the concept of breakage – see question **73**).

In practice, an entity must (see illustration in question **74**):

- determine the stand-alone selling price of the option, which reflects the value of the discount that the customer would obtain when exercising the option, adjusted for both of the following:
    - any discount that the customer could receive without exercising the option (i.e. the stand-alone selling price of the option only takes into account the incremental reduction to the customer concluding the initial contract);
    - the likelihood that the option will be exercised (i.e. the lower the likelihood that the customer will exercise the option, the lower the stand-alone selling price of the option will also be). An approach by portfolio of contracts may be applied where applicable (see question **7**) ;
- allocate the transaction price in proportion to the relative stand-alone selling prices of the goods and services promised in the contract, including the option (see question **42**);
- recognise the revenue allocated to the option as a contract liability (see questions **83**).

If, on the other hand, the option does not provide a material right to the customer, it is considered a marketing offer and is accounted for in accordance with IFRS 15 only when the customer exercises the option. In the absence of any clarification in the Standard, it seems possible to apply the provisions on contract modifications by analogy (see question **15**).

Practical expedient for renewal options which provide a material right to the customer

IFRS 15 offers a practical expedient for renewal options (or similar) to avoid having to estimate the stand-alone selling price of these options when they provide a material right to the customer.

Where the options relate to goods or services that are similar to the original ones in the contract and are provided in accordance with the terms of the original contract, IFRS 15 allows the transaction price to be allocated to the optional goods or services by reference to the goods or services expected to be provided and the corresponding expected consideration. This means having to estimate the likelihood that the option will be exercised. In practice, the total revenue expected in respect of the original contract and the option is allocated between all the goods or services to be provided (i.e. whether firm or optional, provided that it is probable that they will be provided).

The March 2015 meeting of the TRG (see question **98**) discussed the existence of a significant financing component (see question **32**) when an option provides a material right to the customer, given that the accounting treatment for such an option (i.e. allocating part of the transaction price to the option) reflects the view that payment for it has been received in advance.

IFRS 15 states that a contract with a customer would not contain a significant financing component if the customer has paid for the goods or services in advance and the timing of the transfer of those goods or services is at the customer's discretion, among other factors to be considered in determining whether a significant financing component exists (see question **34**).

The TRG concluded that this factor could apply to some customer options.

72. How should an entity account for a customer's exercise of an option with a material right?

IFRS 15 is not prescriptive as to how an entity should account for the exercise of such an option by its customer (see question **71**).

The TRG meeting in March 2015 (see question **98**) highlighted two possible accounting approaches:

- View A: the transaction price of the contract is updated to include any consideration to which the entity expects to be entitled as a result of the customer exercising the option. This additional consideration is then allocated to the performance obligation underlying the material right and recognised when or as the performance obligation underlying the material right is satisfied;
- View B: the additional consideration to which the entity expects to be entitled (if any) and the additional goods or services to be provided as a result of the customer exercising the option represent a change in the scope and/or price of a contract that should be accounted for by applying IFRS 15 requirements for contract modifications (see question **15**).

As the option in the contract typically relates to goods or services that are distinct from those transferred under the initial contract (see question **18**), either view would generally lead to the same result (i.e. prospective recognition). However, if the optional goods or services are determined to be not distinct (in particular in the event of application, by analogy, of IFRS 15 example 10 case B – see question **21**), the accounting consequences of these two approaches would differ, since IFRS 15 requires a retrospective restatement where the contract modification rules are applied.

In its deliberations, the TRG (see question **98**) indicated that this was not a matter of a choice of accounting principle, and that the application of one approach rather than another would depend on the facts and circumstances.

73. How should customers' unexercised rights be accounted for?

[IFRS 15.B44-B47]

The need to account for customers' unexercised rights can result from options to acquire additional goods or services at favourable prices (see question **71**), when these options are not ultimately exercised or from non-refundable prepayments made by customers (for example, a gift card that is to be exchanged for goods sold by a retailer and that has only been partly used before its expiry date). In both cases, IFRS 15 requires an entity to recognise a contract liability (see question **83**) for its performance obligation to transfer, or to stand ready to transfer, goods or services in the future. The liability is measured at the relative stand-alone selling price of those rights, which takes into account the likelihood of the right being exercised (also see question **71**). That liability will be derecognised (and revenue recognised) no later than when the entity transfers the goods or services to which those contractual rights relate.

However, because customers do not always exercise such contractual rights, it might be appropriate to derecognise the liability as revenue sooner, in which case it is necessary to determine when the liability should be derecognised (and revenue recognised). The recognition of revenue to reflect the possibility that customer's rights might ultimately lapse unexercised is referred to in IFRS 15 as "breakage".

The accounting depends on whether the entity expects to be entitled to a breakage amount:

- if the entity expects to be entitled to breakage, it recognises revenue in proportion to the pattern of rights exercised by the customer. To determine whether an entity expects to be entitled to a breakage amount, it needs to consider IFRS 15 requirements for constraining estimates of variable consideration (see question **29**), i.e. it needs to be able to conclude that if it accounts for a breakage amount, it is highly probable a significant reversal of revenue will not occur in the future as a result of a customer ultimately exercising their rights; or

- if the entity does not expect to be entitled to a breakage amount, it only recognises revenue (by derecognising the liability) when the likelihood of the customer exercising its remaining rights becomes remote.

An entity must revise its estimates at each reporting date and adjust as appropriate the amount for unexercised rights that is recognised as a contract liability (see illustration in question **74**).

74. Does IFRS 15 include specific guidance for customer loyalty programmes?

IFRS 15 contains no specific guidance for customer loyalty programmes. Nevertheless, the following provisions do apply directly to these programmes:

- the provisions for optional additional goods or services (see question **71**), a material right being provided to customers, given the nature of these programmes (i.e. the points awarded under a loyalty programme usually entitle the customer to purchase additional goods or services at a discount that the customer would not receive without participating in the programme); and
- the provisions for customers' unexercised rights (see question **73**).

Note that the allocation principles set out at step 4 (see question **42**) also apply to the allocation of the transaction price to the loyalty points which represent a material right. The residual approach would not be expected to be available to determine the allocation of the transaction to the loyalty points because it is difficult to see how either of the two conditions for applying that approach would be met (see question **46**). In contrast to the previous approach authorised under IFRIC 13 (withdrawn following the introduction of IFRS 15 – see question **99**), the amount allocated to loyalty points is not measured at fair value.

Illustration:

An entity has set up a customer loyalty programme whereby every euro spent is rewarded by one loyalty point. Each loyalty point entitles the customer to a subsequent discount of 10 cents when the customer buys other products from the entity.

The loyalty points awarded to customers are valid for three years.

The entity applies a portfolio approach (see question **7**) due to the customer contracts in question having similar characteristics.

Over the financial year, the entity's customers in the programme have spent €150k on goods (corresponding to the stand-alone selling price of the cumulative sales) and have thus obtained 150k loyalty points.

Taking into account the requirements of IFRS 15 for constraining estimates of variable consideration, the entity expects that 130k points will actually be redeemed by these customers. The entity therefore estimates that the stand-alone selling price of the points that financial year is €13k.

The transaction price of €150k is allocated as follows to the two performance obligations:

- products: [(150 000 / (150 000 + 13 000)) x 150 000] = €138 037
- loyalty points: [(13 000 / (150 000 + 13 000)) x 150 000] = €11 963

When the products are sold, the revenue recognised is therefore €138 037, and €11 963 is accounted for as a contract liability as prepaid income.

At the end of the first financial year, 40k points have been redeemed by customers and the entity still expects that 130k points will be redeemed before they expire. The entity accounts for the following additional revenue: (40 000 / 130 000) x €11 963 = €3 681. A contract liability of €11 963 - €3 681, or €8 282 remains on the balance sheet.

At the end of the second financial year, cumulatively, 100k points have been redeemed (meaning that 60k points have been redeemed during the second financial year). The entity revises its estimate of the number of loyalty points that will actually be redeemed before the expiry date to 145k.

> The additional revenue recognised for the second financial year is calculated as:
>
> [100 000 (points used to date) / 145 000 (points that are ultimately expected to be redeemed) x €11 963] – €3 681 (already accounted for in the first financial year) = €4 569.
>
> The remaining revenue to be accounted for during year 3 is €3 713 (or €11 963 - €3 681 - €4 569), whether or not the remaining 50k points are ultimately redeemed before they expire.

75. Licences: what is a “right to access” an entity’s intellectual property and how should this right be accounted for?

[IFRS 15.B56 & IFRS 15.B60]

IFRS 15 states that a “right to access” an entity’s intellectual property provides the customer with access to the entity’s intellectual property as it exists (and evolves) throughout the licence period. In such a case, the intellectual property to which the licence relates is sometimes referred to as "dynamic" to reflect its evolving nature. It is accounted for as a performance obligation satisfied over time.

In practice, this type of licence corresponds to a service that the customer simultaneously receives and consumes as the performance occurs. Therefore, the “right to access” the intellectual property directly references the first of the three criteria in paragraph 35 of IFRS 15 for transferring control over time (see question **53**).

An entity must select an appropriate method to measure its progress towards complete satisfaction of its obligation to provide access by applying the Standard’s provisions (see question **57**).

IFRS 15 also defines a right to use intellectual property (see question **76**). We consider how to distinguish the sale of a right to use intellectual property from the sale of a right to access its intellectual property in question **77**.

76. Licences: what is a “right to use” an entity’s intellectual property and how should this right be accounted for?

[IFRS 15.B57 & IFRS 15.B61]

According to IFRS 15, a “right to use” an entity’s intellectual property provides the customer with a right to use the entity’s intellectual property as it exists at the point in time the licence is granted. This right must be accounted for as a performance obligation satisfied at a point in time.

The entity applies the general provisions of the Standard (see question **61**) to determine the point in time at which control of the licence is transferred to the customer (i.e. the time from which the customer can use the intellectual property and obtain substantially all its remaining benefits). IFRS 15 observes that this date cannot be before the date on which the customer is able to use and benefit from the licence. For example, if a software licence period begins before an entity provides a key that enables the customer to use the software, the entity would not recognise revenue before that key has been made available.

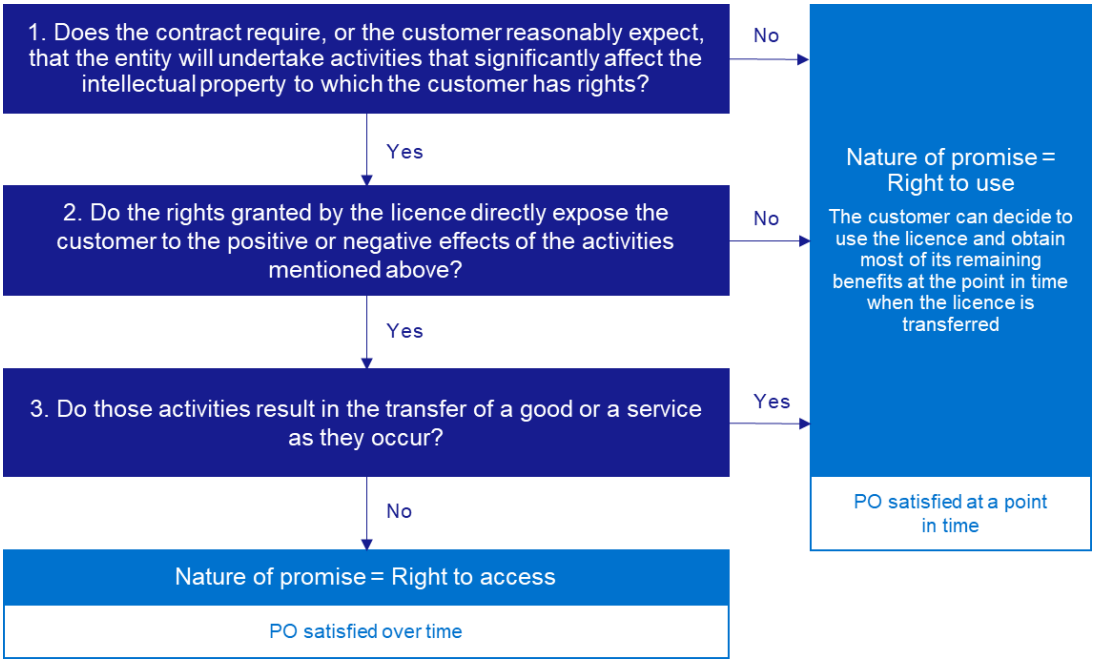
We consider how to distinguish the sale of a right to use intellectual property from the sale of a right to access its intellectual property in question **77**.

77. Licences: how is a right to access distinguished from a right to use intellectual property?

[IFRS 15.B58-B59A & IFRS 15.B62]

The Standard requires three conditions to be satisfied (see figure below) in order to conclude that a licence gives the customer a right to access the intellectual property (see question **75**). If one of these conditions is not fulfilled, the licence is treated as a right to use the intellectual property (see question **76**).

Considerable judgement might be needed to conclude whether each condition is satisfied.



The first condition

The first condition considers whether the intellectual property to which the customer has rights is significantly impacted by the activities likely to be carried out by the entity throughout the period for which the rights are granted.

IFRS 15 clarifies that the entity's activities have a significant impact on the intellectual property in the following situations:

- those activities are expected to significantly change the form (for example, the design or content) or the functionality (for example, the ability to perform a function or task) of the intellectual property; or
- the ability of the customer to obtain benefit from the intellectual property is substantially derived from, or dependent upon, those activities. For example, the benefit from a brand is often derived from, or dependent upon, the entity's ongoing activities that support or maintain the value of the intellectual property.

To assess the impact of the entity's activities on intellectual property, it is relevant to determine whether, at the time the licence is granted (and independently of the entity's future activities), it has an important functionality for the customer (the Standard uses the concept of a "significant stand-alone functionality" and cites the following examples of intellectual property which often has such functionality: software, biological compounds or drug formulas, and completed media content such as films, television shows and music recordings).

However, where a software license is sold with a right to receive patches and/or upgrades, judgement will be needed to determine if that results in the license being classified as:

- a right to access, rather than a right to use, intellectual property, in turn meaning revenue is recognised over the license term; or
- the obligation to provide patches and/or upgrades is a separate performance obligation (see third condition below).

If so, the customer derives a substantial portion of the benefit of that intellectual property from that functionality. Unless they substantially change its form or functionality, the entity's future activities will have no significant impact on the customer's capacity to benefit from the intellectual property. In that case, the right will generally be a right to use, rather than a right to access.

The entity's activities during the period for which rights are granted may be defined by the contract or result from the customer's reasonable expectations.

According to IFRS 15, factors that may indicate that a customer could reasonably expect that an entity will undertake activities that significantly affect the intellectual property include the entity's customary business practices, published policies or specific statements. The existence of a shared economic interest (for example, a sales-based royalty) related to the intellectual property to which the customer has rights is another (not determinative) factor mentioned by the Standard.

Note that IFRS 15 does not converge with Topic 606 on this point (see question **97**).

The second condition

The second condition considers whether the customer is directly exposed, through the rights granted by the licence, to any positive or negative effects of the entity's activities identified in the first condition.

As suggested in paragraph BC409 of the Basis for conclusions, this would typically be the case if the customer is either expected or required to use the most recent form of the intellectual property throughout the licence period (see illustration in question **78**).

The third condition

As the analysis assumes that the licence constitutes a distinct performance obligation (or the predominant item of a distinct performance obligation – see question **25**), it is necessary, consistently with the general principles of IFRS 15 relating to step 2 (see question **18**), to exclude from this analysis any activity of the entity that would result in the transfer to the customer of a distinct good or service. This would then be accounted for as a performance obligation separate from the license.

The relationship between the identification of distinct performance obligations in the contract and the analysis of the nature of a licence (right to access or right to use) may be rather complex (see the example below).

There may be interactions between these two steps.

Illustration:

An entity enters into a contract with a customer for:

- the grant of an intellectual property licence for the design and manufacturing process of a good for a period of five years;
- the supply of any updates developed by the entity over the same period.

The intellectual property that is the subject of the licence is used in an industry where technology changes rapidly, such that the benefit of the licence to the customer would be significantly limited over a five-year period without the expected updates because the underlying intellectual property would rapidly become obsolete. The updates are therefore an integral part of the licence over the five-year period.

Therefore, the promises to provide the licence and the updates might are not distinct in the context of the contract since they constitute inputs enabling the entity to satisfy the combined performance obligation of giving ongoing access to the entity's intellectual property over a five-year period.

This reasoning enables us to answer two questions simultaneously:

- the identification of distinct performance obligations: in this instance, the contract contains only one performance obligation;
- the nature of the performance obligation in accordance with the specific guidance on licences: the performance obligation represents a right to access the intellectual property, which includes no significant stand-alone functionality immediately available to the customer from which it could benefit throughout the duration of the contract, without the service associated with the right to receive updates.

This second conclusion is also supported by all three conditions for a right-to-access type of licence being met (see the figure above):

- the customer could reasonably expect that the entity will undertake activities that significantly affect the intellectual property;
- the customer is directly exposed to any positive or negative effects of the entity's activities through the intellectual property rights it benefits from (since without these activities, the intellectual property would rapidly become obsolete); and
- the activities undertaken by the entity do not result in the transfer of distinct services (as analysed above).

Restrictions and guarantees

IFRS 15 states that, when determining whether a licence is a right to use, or a right to access, intellectual property, an entity should disregard the following factors:

- restrictions of time, geographical region, or use: those restrictions define the attributes of the promised licence, rather than whether the entity satisfies its performance obligation at a point in time or over time;

In contrast, the Basis for Conclusions states that all contractual clauses, including restrictive clauses, are taken into account when identifying performance obligations (see IFRS 15. BC414P). The Basis for Conclusions cites the example of a licence to use a musical recording in advertising for two different periods in two different countries (see IFRS 15.BC414Q). These restrictions are taken into account to determine if the contract includes one licence for the two countries, or are two distinct licences, one for each country.

- guarantees provided by the entity that it has a valid patent to the intellectual property that is the subject of the contract, and that it will defend that patent from unauthorised use: a promise to defend a patent right is not a distinct performance obligation because the act of defending a patent protects the value of the entity's intellectual property assets and provides assurance to the customer that the licence transferred meets the specifications of the licence promised in the contract. This is consistent with the treatment of assurance-type warranties in IFRS 15 (see question **23**).

78. Licences: how are sales-based or usage-based royalties accounted for?

[IFRS 15.B63-B63B]

Specicific provisions apply to sales of licences of intellectual property when the consideration is variable in the form of a royalty linked to the customer's use, or sales making use, of the entity's intellectual property in the following situations:

- when the royalty relates only to a licence of intellectual property;

We believe this could occur either because the licence of intellectual property is the sole performance obligation in the contract or because the royalty is a variable consideration specifically allocated to it (see question **48**).

- when a licence of intellectual property is the predominant item to which the royalty relates. This would be the case, for example, when an entity reasonably expects that the customer would ascribe significantly more value to the licence than to the other goods or services to which the royalty relates.

> The amendments to IFRS 15 published in April 2016 clarified that when a licence of intellectual property is the predominant item to which the royalty is allocated, but the royalty is also partly allocated to other goods and services, the specific constraint on sales-based or usage-based royalties applies to the whole royalty. It is therefore not permitted to apply this rule solely to the part of the royalty allocated to the licence of intellectual property whilst applying the general constraint on variable consideration to the part of the royalty allocated to other performance obligations.

In these circumstances, revenue from a sales-based or usage-based royalty is recognised when (or as) the later of the following events occurs:

- the subsequent sale (or usage); and
- the complete or partial satisfaction of the performance obligation to which some or all of the sales-based or usage-based royalty has been allocated.

Because these provisions prohibit an entity from recognising revenue for a royalty until uncertainty about the occurrence of the sale or usage on which the calculation of the royalty depends is resolved, they represent a departure from the requirement in step 3 to constrain the amount of variable consideration (see question **29**).

Theoretically, a subsequent use of, or sale involving the use, of the entity's intellectual property by a customer is not in itself a sufficient condition for recognising revenue, since an entity must always determine when the performance obligation(s) to which the royalty is allocated is (are) satisfied, as required at step 5 (see questions **50** to **61** in the general case, and questions **75** to **77** for the special case of licences of intellectual property).

However, in practice, the stage of completion of the performance obligation to which a sales- or usage-based royalty is allocated, may often coincide with the occurrence of the sale or usage on which the royalty is based, such as if:

- the royalty as a whole is allocated to a licence representing a right to access the intellectual property (i.e. a performance obligation satisfied over time);
- the consideration to which the entity is entitled as a royalty corresponds directly to the value of the service transferred to the customer (see question **58**).

Illustration:

> An audiovisual producer holding the rights to a new television series sells a licence to a retail chain authorising it to use the characters from the series for its promotional activities for a three-year period. New episodes will be broadcast during this period. The series includes a significant number of characters who change a lot during the episodes. The contract contains reasonable constraints on the use of the characters, *inter alia* requiring their use to be consistent with the changes that they undergo during the series. In exchange for these rights, the producer receives a royalty based on the sales achieved by the retail chain.
>
> The contract contains only one performance obligation: the grant of the licence of intellectual property. The other activities carried out by the producer – the production of new episodes – do not transfer any distinct good or service to the customer (the customer only has a right to use the characters in the series for its promotional activities; it receives no right to the series episodes themselves). However, these activities do affect the intellectual property to which the customer has rights.
>
> In light of the characteristics presented above, this licence represents a right to access the intellectual property, since:
>
> - the customer could reasonably expect that the entity will undertake activities (producing new episodes and developing the characters) that significantly affect the intellectual property;
> - the customer is directly exposed to any positive or negative effects of the entity's activities through the intellectual property rights it enjoys (the broadcasting by the entity of new episodes in the series could have positive or negative effects on the promotional campaign based on the series characters);
> - the activities undertaken by the entity (producing new episodes and developing the characters) do not result in the transfer of distinct services to the customer.

> The royalty due to the audiovisual producer corresponds directly to the value of the service transferred to the retail chain. Therefore, it seems appropriate to recognise revenue as the retail chain generates sales, both in terms of the principles governing the choice of measure of progress and in terms of the specific constraint on sales or usage-based royalties.

In practice, the distinction between a right to access and a right to use intellectual property will not normally affect the pattern of revenue recognition where the entity's consideration is 100% variable and royalty-based, since revenue will be spread over the licence period, as the sale (or usage) on which the royalty is based occurs.

In November 2016, the TRG (see question **98**) examined the case of intellectual property licensed in exchange for a sales-based or usage-based royalty with a guaranteed minimum amount.

If the licence of intellectual property represents a right to use (i.e. a performance obligation satisfied at a point in time), members of the TRG generally agreed that it was appropriate to recognise the minimum guaranteed amount at the point in time when control of the licence is transferred. Consequently, the specific provisions relating to intellectual property licensed in exchange for a sales-based or usage-based royalty only apply to the additional amount (exceeding the minimum guaranteed amount) resulting from the customer's sales or usage.

Where the licence of intellectual property represents a right to access the intellectual property (i.e. a performance obligation satisfied over time), the analysis is more complex. This is because such a case creates a tension between two principles in IFRS 15:

- the requirement to use a single method of measuring progress towards satisfying a given performance obligation; and
- the specific provisions on intellectual property licensed in exchange for a sales-based or usage-based royalty (as these provisions are silent on situations where additional forms of consideration are included in the contract).

TRG members generally agreed that several approaches were possible, depending on the facts and circumstances, and that judgement was required to determine which method under the Standard best depicts its progress toward completion. It might therefore be appropriate, depending on the facts and circumstances, either to recognise the guaranteed minimum amount in full at the beginning of the licence period (in which case a significant financing component might have to be identified), or to recognise the guaranteed minimum amount over time as the subsequent usage or sales occurs.

79. What is a repurchase agreement, and how should it be accounted for?

[IFRS 15.B64-B76]

To determine whether a customer obtains control of an asset, IFRS 15 states that any agreement to repurchase the asset should be taken into account (see question **51**). This is because the economic consequences of a sale can be reversed, wholly or in part, by this type of agreement. Its effect on the transfer of control must therefore be understood.

IFRS 15 defines a repurchase agreement as a contract in which an entity sells an asset and also promises or has the option (either in the same contract or in another contract) to repurchase the asset. The repurchased asset may be the asset that was originally sold to the customer, an asset that is substantially the same, or another asset of which the asset that was originally sold is a component.

IFRS 15 distinguishes three forms of repurchase agreements, which are potentially accounted for differently:

- the entity having an obligation to repurchase the asset and the customer having an obligation to sell it (a forward);
- the entity having the right (but not the obligation) to repurchase the asset (a call option);
- the customer having the right (but not the obligation) to sell the asset back to the entity (a put option held by the customer).

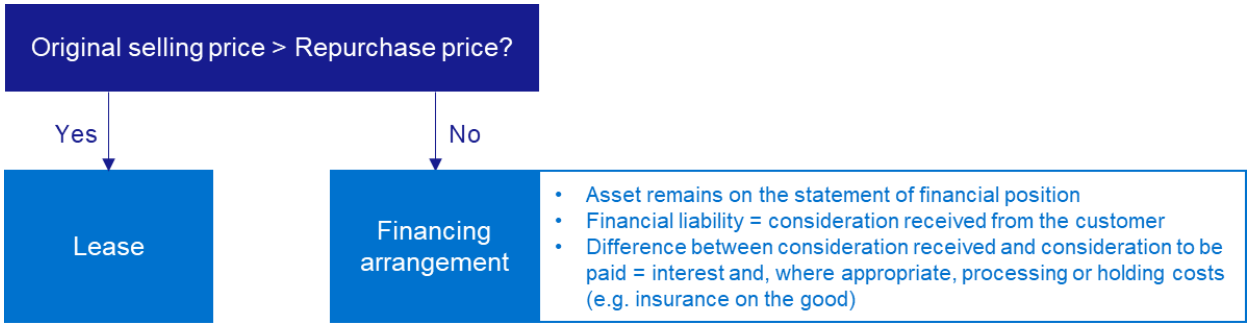
A forward or a call option

If the repurchase agreement is a forward or call option, the customer undertakes to sell the asset to the entity at a later date (either irrevocably, in the case of a forward contract, or at the entity's request in the case of a call option).

In both cases, IFRS 15 states that the customer does not obtain control of the asset because it is limited in its ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset (even if it has physical possession of the asset). In the case of a call option, it is not necessary to consider the probability of exercise to conclude that there is no transfer of control.

To determine the accounting treatment of these two situations, the original selling price and the repurchase price must be compared, taking account of the time value of money:

- if the original selling price is higher than the repurchase price, the contract is in substance a lease and so is accounted for in accordance with IFRS 16 unless the contract is part of a sale and leaseback transaction. If the contract is part of a sale and leaseback transaction, the entity continues to recognise the asset as well as a financial liability for any consideration received from the customer. The financial liability is then accounted for in accordance with IFRS 9;
- otherwise, the transaction is analysed as a financing arrangement:
    - the entity continues to recognise the asset and also recognises a financial liability for any consideration received from the customer. The difference between the amount of consideration received from the customer and the amount of consideration to be paid to the customer is recognised as interest and, if applicable, as processing or holding costs – for example, insurance;
    - if the option lapses unexercised, the liability is derecognised and revenue is recognised for the same amount.



Put option

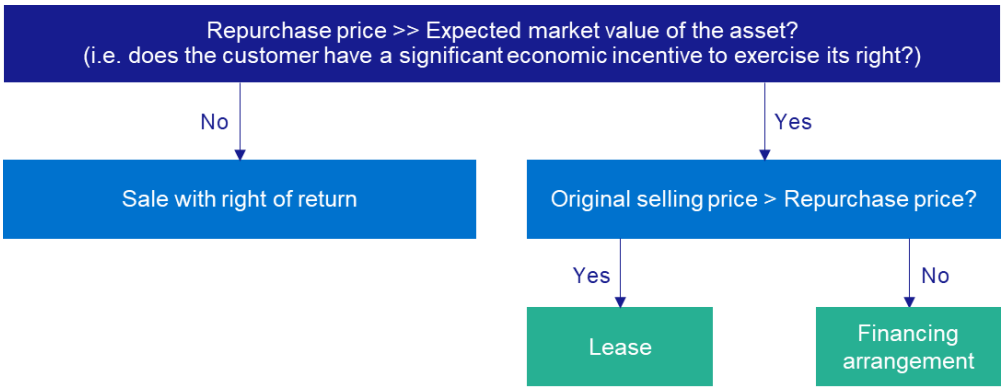
When the repurchase agreement is a put option, it is the entity that has an obligation to repurchase the asset at the customer's request. If the customer has no significant economic incentive to exercise the option, this transaction does not differ from a sale with right of return, and is therefore accounted for according to those requirements of IFRS 15 accordingly (see question **31**).

The Basis for Conclusions clarifies that this means the recognition of the following items when the asset is transferred (see IFRS 15.BC428):

- a liability for its obligation to repurchase the asset, measured at the amount of the consideration expected to be paid to the customer;
- an asset for the entity's right to receive that asset upon settling that liability, measured at an amount that may or may not equal the entity's previous carrying value of the asset; and
- revenue on transfer of the asset for the difference between the selling price of the asset and the liability recognised for the obligation to repurchase the asset.

However, if the customer has a significant economic incentive to exercise the option, the analysis is the same as described above for a forward contract or call option:

To determine whether a customer has a significant economic incentive to exercise its right, an entity should consider various factors, including the relationship of the repurchase price to the expected market value of the asset at the date of the repurchase and the amount of time remaining until the right expires. For example, if the repurchase price is expected to significantly exceed the market value of the asset, this may indicate that the customer has a significant economic incentive to exercise the put option.



80. How should a consignment arrangement be accounted for?

[IFRS 15.B77-B78]

IFRS 15 indicates that when an entity delivers a product to another party (such as a dealer or a distributor) for sale to end customers, it should evaluate whether that intermediary has obtained control of the product. If it has not obtained control, this constitutes a "consignment arrangement" in IFRS 15.

IFRS 15 provides a (non-exhaustive) list of indicators suggesting that an arrangement is a consignment arrangement:

- the product is controlled by the entity until a specified event occurs, such as the sale of the product to an end customer or upon expiry of a specified period;
- the entity can demand the product to be returned or transferred to another party (such as different dealer); and / or
- the dealer does not have an unconditional obligation to pay for the product (although it might be required to pay a deposit).

In a consignment arrangement, no revenue is recognised upon delivery of the product to the intermediary. Instead revenue recognition is deferred until it is subsequently delivered by the intermediary to the entity's end customer – consistently with the general principle of the Standard (see question **5**).

> Note that IFRS 15 does not explicitly link the provisions for consignment arrangements with the requirements on distinguishing when an intermediary is acting as agent or principal (see question **70**). However, in our view, where an agreement between an entity and an intermediary (such as a dealer or a distributor) is a consignment arrangement in which the entity retains control of the good until it is sold to the end customer, the intermediary will be an agent of the entity.

81. How should a bill-and-hold arrangement be accounted for?

[IFRS 15.B79-B82]

IFRS 15 defines a “bill-and-hold arrangement” as a contract under which an entity bills a customer for a product but the entity retains physical possession of the product until it is transferred to the customer at a later date. The customer might be considered to obtain control of the good even though the entity still has physical possession of the product, i.e. prior to delivery.

To determine when control is transferred, IFRS 15 sets out the following approach:

- examine the general criteria for analysing the transfer of control at a point in time (see question **61**);
- examine a series of indicators specific to the case of bill-and-hold arrangements, which unlike the set of indicators first analysed as mentioned above, must all be present to conclude that a customer has obtained control of a product before delivery:
    - the reason for the bill-and-hold arrangement must be substantive (for example, the customer has requested the arrangement);
    - the product must be identified separately as belonging to the customer;
    - the product must be ready for physical transfer to the customer; and
    - the entity does not have the ability to use the product or to direct it to another customer.

If it is judged that transfer of control takes place before delivery (i.e. all the above criteria are met), an entity must consider whether it has remaining performance obligations (for example, for custodial or delivery services) to which it should allocate a portion of the transaction price.

Presentation of the statement of financial position

82. What is a contract asset and how should it be measured subsequently?

[IFRS 15.105, IFRS 15.107 & IFRS 15.109]

If one or other party to a contract has fulfilled its obligations, the entity shall present the contract in the statement of financial position as a contract asset or a contract liability (see question **83**), depending on the relationship between the entity's performance and the payment made by the customer.

A contract asset is therefore presented in the statement of financial position when the entity has "performed" more of its respective obligations than the customer (i.e. it has cumulatively recognised more revenue than it has invoiced). If the contract contains several performance obligations, the analysis is carried out on an aggregated basis at contract level (see question **16**). Therefore, the entity presents a single contract asset, not separate contract assets (or liabilities) for each performance obligation.

IFRS 15 also defines a contract asset as an entity's right to consideration in exchange for goods or services that the entity has transferred to a customer, when that right depends on something other than the passage of time (for example, the future performance of the entity). This clarification serves to distinguish a contract asset from a receivable (see question **84**). An entity must present its receivables separately from contract assets.

The costs to obtain a contract (see question **62**) and the costs to fulfil a contract (see question **64**) that have been capitalised must also be presented separately from contract assets.

> When a performance obligation is satisfied, but all the amounts due from the customer have not yet been invoiced by the entity, the question arises of whether the asset accounted for (i.e. an unbilled receivable) is a contract asset or a receivable.
>
> According to the Basis for Conclusions of the Standard, if the invoicing is simply an administrative task, and there is no reason to consider that the entity does not have an unconditional right to that consideration (i.e. only the passage of time is required before payment of that consideration is due), an unbilled amount is a receivable (see IFRS 15.BC325).

By way of example, a contract asset is recognised under the following circumstances:

- in a contract for the sale of a smart phone and a network connection (analysed as two performance obligations) a customer pays a monthly fee for both over the term of the network connection. The allocation of the revenue in proportion to the relative stand-alone selling price of each deliverable (see question **42**) results in allocating a sum to the smart phone higher than the amount of consideration received on its sale. The difference between these two amounts constitutes a contract asset since the entity has no right to invoice for the balance unless and until it also provides the ongoing network connection. Therefore, the right to consideration is not only subject to the passage of time, but also the ongoing provision of a network connection service;
- in a long-term construction contract for which revenue is recognised over time, the revenue recognised less stage billings is also a contract asset since the entity does not have an unconditional right to consideration, rather it depends on its continued performance until the next milestone entitling the entity to raise an invoice is achieved;
- when the consideration in a contract is variable (see question **28**), the amount of revenue recognised before the uncertainty is resolved constitutes a contract asset as the entity's right to consideration depends on something other than the passage of time.

The term "contract asset" is not mandatory, and an entity can decide to use an alternative label (in which case it may be necessary to indicate the terminology used in the notes). Accrued income is, for example, a commonly used by entities as an alternative label to contract asset.

IFRS 15 does not require a separate presentation of this item on the statement of financial position. The general principles of IAS 1 apply, meaning that an entity must present this item separately when that presentation is relevant to an understanding of its financial situation.

Specific disclosures on the balances of contract assets are required (see question **86**).

Finally, a contract asset must be tested for impairment in accordance with IFRS 9. The impairment of a contract asset must be measured, presented and communicated in the same way as a financial asset under IFRS 9, but the information must be presented separately from the impairment arising from other contracts (i.e. contracts that are not with customers).

83. What is a contract liability?

[IFRS 15.105-106 & IFRS 15.109]

If one or other party to a contract has fulfilled its obligations, the entity presents the contract in the statement of financial position as a contract asset (see question **82**) or a contract liability, depending on the relationship between the entity's performance and the payment made by the customer.

A contract liability is therefore presented in the statement of financial position when the customer has "performed" more of its respective obligations than the entity (i.e. it has cumulatively recognised less revenue than it has invoiced). If the contract contains several performance obligations, the analysis is carried out on an aggregated basis at contract level (see question **16**). Therefore, the entity presents a single contract liability, not separate contract liabilities (or assets) for each performance obligation.

IFRS 15 defines a contract liability as an entity's obligation to transfer to a customer goods or services for which the entity has received consideration (or for which an amount of consideration is due) from the customer.

In practice, contract liabilities therefore include advance payments and deposits received from the customer.

An advance payment is recognised in the statement of financial position when the first of the following two events occurs:

- it is due and the contract cannot be terminated, or
- the cash has been received.

In the first case, the contract liability is recognised along with a corresponding receivable, since the entity has an unconditional right to be paid.

In contrast, provisions for an onerous contract (see question **69**) are presented separately.

The term "contract liability" is not mandatory and an entity can decide to use an alternative label (in which case it may be necessary to indicate the terminology used in the notes). Deferred income is, for example, a commonly used by entities as an alternative label to contract liability.

IFRS 15 does not require a separate presentation of this item on the statement of financial position. The general principles of IAS 1 apply, meaning that an entity must present this item separately when that presentation is relevant to an understanding of its financial situation.

Specific disclosures on the balances of contract liabilities are required (see question **86**).

84. What is a receivable and how should it subsequently be accounted for?

[IFRS 15.108]

A receivable is an entity's right to consideration that is unconditional. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.

For example, an entity would recognise a receivable if it has a present right to payment even though that amount may be subject to a refund in the future. An entity also recognises a receivable when it enters a contract that

cannot be terminated and a payment is due from the customer before the entity transfers the promised goods or services. In this instance, a receivable is recognised along with a contract liability (see question **83**).

In practice, it is not always easy to distinguish between a receivable and a contract asset, in particular in the case of unbilled revenue (see question **82**).

An entity must recognise a receivable in accordance with IFRS 9. At initial recognition of a receivable related to a contract with a customer, any difference between the value of the receivable under IFRS 9 and the amount corresponding to the revenue accounted for must be expensed (for example, as an impairment loss).

Specific disclosures on the balances of receivables are required (see question **86**).

Disclosures in the notes to the financial statements

85. What issues should be considered in drafting the notes to the financial statements?

[IFRS 15.110-112]

Consider the objective of the disclosure requirements

In IFRS 15, consistently with other Standards, the disclosure requirements rely on a primary objective, accompanied by a list of the minimum information to be presented (subject to materiality).

This primary objective is to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue from ordinary activities and the cash flows arising from contracts with customers.

The objective concerns not only the revenue recognised, but also its translation into cash flows. Explaining the timing differences between revenue recognition and the corresponding cash flows – in other words, the impacts on balances (for which the minimum disclosure requirements have been strengthened by comparison with previous revenue recognition Standards) – is also a significant issue.

To assess whether the disclosures are sufficient and relevant, an entity should consider this objective and provide additional information over and above the specific disclosure items in the Standard if necessary. That is, entities should avoid a “check-list” approach.

For example, additional disclosures may be needed in the event of significant non-cash consideration (see question **39**).

Significant judgements in the application of the Standard

Fully aware of the importance of judgement in applying IFRS 15 and Topic 606, IASB and FASB sought to guide preparers in the selection of information to be disclosed about significant judgements.

Beyond the general requirements for disclosures on the exercise of judgement (see IAS 1.122 and 125), other specific disclosure requirements on this matter are required, relating to:

- measurement (see questions **26** to **40**) and pattern of revenue recognition (see questions **50** to **61**);
- recognition and amortisation of assets recognised in respect of the costs to obtain or fulfil contracts with customers (see questions **62** to **68**).

Organise the information in a relevant way

As with other IFRS Accounting Standards, the entity is given a degree of discretion in the way it organises the contents of its notes to the financial statements.

IFRS 15 nevertheless states that disclosures should present a relevant level of aggregation or disaggregation. This enables an entity to avoid disclosing immaterial information, which would make useful information harder to locate. This would also prevent the entity from grouping together matters with substantially different characteristics.

> In our view, a degree of consistency should also be sought across the disclosures in the notes to the financial statements provided under IFRS 15. For example, if it is relevant to distinguish several categories when presenting an entity’s revenue sources (qualitative information on performance obligations – see question **86**), it seems relevant to disaggregate the revenue presented (quantitative information) into at least some of these categories.

IFRS 15 explicitly states that an entity need not disclose theoretically required information if it has provided the information elsewhere in accordance with another Standard. An entity may therefore take any opportunity to cross-refence the disclosures in respect of other Standards in order to reduce the volume of its notes.

86. What detailed disclosures should be provided in the notes?

[IFRS 15.113-129]

IFRS 15's disclosure requirements fall into three categories:

1. Contracts with customers	2. The significant judgements, and changes in the judgments	3. Assets recognised from the costs to obtain or fulfil a contract with a customer
• Disaggregation of revenue • Contract balances • Description of POs • Transaction price allocated to the remaining POs	• Time when POs are satisfied • Transaction price amounts allocated to the POs	• Qualitative and quantitative disclosures required

The requirements of the Standard for each of these categories are detailed in the following table:

	Information type	Main disclosures	Comments
1	Disaggregation of revenue	See question **87**	
	Contract balances, i.e. receivables, contract assets and contract liabilities (see questions **82-84**)	• The effects arising from the relationship between the timing of satisfaction of the entity's PO and the typical timing of payment on the contract asset and contract liability balances	This requirement aims to explain the link between revenue recognised by the entity and the related payments it receives, satisfying the requirements of the Standard's objective (see question **85**).
		• Opening and closing balances	
		• Revenue recognised in the reporting period: o Included in the contract liability balance at the beginning of the period o Relating to POs satisfied (or partially satisfied) in previous periods	Information about revenue relating to POs satisfied in previous periods (catch-up adjustments) can be difficult to capture through information systems and requires some adaptation of systems and processes.
		• Qualitative and quantitative disclosures explaining significant changes in the balances	The Standard provides a non-exhaustive list of changes that should be dislcosed (changes due to business combinations, cumulative catch-up adjustments, impairment of a contract assets, etc.). Depending on the circumstances, other causes of significant changes may also be relevant. The information does not necessarily have to be presented in the form of a reconciliation of the contract balances, but this would undoubtedly be the most understandable to users.
	Description of POs (see question **16**)	• Nature of the promised goods or services • Significant payment terms (when payment is typically due, whether the contract has a significant financing component, whether the consideration amount is variable, etc.) • Guarantees and associated obligations where applicable	This information can prove particularly useful in understanding an entity's activities since it effectively describes its sources of revenue.

	Transaction price allocated to the remaining Pos	See question **88**	
2	Timing of satisfaction of POs (see questions **52**, **57** and **61**)	• For POs satisfied at a point in time: significant judgments made to assess when a customer obtains control of the promised goods or services • For POs satisfied over time: the methods used for measuring progress and justification of their appropriateness	This information is particularly useful and important for understanding a key part of the application of IFRS 15
	Transaction price and amounts allocated to the POs (see question **42**)	• Elements making up the transaction price, estimates of variable consideration (methods, inputs, assumptions) and constraints where applicable • Allocation of the transaction price, including allocation of variable consideration / discounts where applicable to a specific part of the contract	An entity should explain in the notes whether it is applying the practical expedient relating to the existence of a significant financing component (see question **33**).
3	Assets recognised for the costs to obtain or fulfil a contract (see question **62-66**)	• Qualitative disclosures: o Judgements exercised in determining the amount of the costs incurred to obtain or fulfil a contract o Method used for the amortisation of the underlying assets • Quantitative disclosures: o Closing balances of assets by main category o Amount of amortisation and any impairment losses recognised in the reporting period	An entity should explain in the notes whether it is applying the practical expedient for the incremental costs to obtain a contract (see question **64**). Although contract assets are not financial assets, the impairment losses on contract assets are recognised in accordance with IFRS 9 (see questions **82** and **84**) and also in scope of certain IFRS 7 disclosures. Impairment losses on assets recognised for costs to obtain or fulfil a contract, by contrast, fall within the scope of IFRS 15 (see question **66**).

In accordance with IAS 1, relevant information about the entity's presentation choices made when applying IFRS 15 should also be disclosed, such as:

- the decision to use alternative terms to those used in the Standard (for example, "contract asset" and "contract liability");
- the decision to present or not certain items (contract assets, contract liabilities, costs to obtain a contract, costs to fulfil a contract, liabilities for future repayments, right to recover a returned product) on a separate line, subject to their materiality (as required by IAS 1);
- the classification adopted for some items not presented on a separate line either on the statement of financial position or in profit or loss.

87. How should revenue be disaggregated?

[IFRS 15.114-115 & IFRS 15.B87-89]

An entity must disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

Beyond this objective, IFRS 15 provides the following indications in its application guidance:

- the extent of disaggregation depends on the facts and circumstances of the contracts the entity has concluded with its customers. As a result, entities may have to present a breakdown of revenue according to one or more categories;
- in choosing appropriate categories, an entity must take into account the way in which disclosures on revenue have been presented for other purposes. For example, an entity may consider the information regularly examined by the chief operating decision maker in order to assess the financial performance of operating

segments (under IFRS 8) or the information presented outside the financial statements, such as in earnings releases, annual reports or investor presentations.

IFRS 15 gives the following examples of categories that might be appropriate:

- type of good or service (for example, major product lines);
- geographical region (for example, country or region);
- market or type of customer (for example, government and non-government customers, professional customers and private individuals);
- type of contract (for example, fixed-price and time-and-materials contracts);
- contract duration (for example, short-term and long-term contracts);
- date or timing of transfer of goods or services (for example, revenue from goods or services transferred to customers at a point in time and revenue from goods or services transferred over time); and
- sales channels (for example, goods sold directly to consumers and goods sold through intermediaries).

In addition, an entity must provide sufficient information to enable users of financial statements to understand the relationship between the disclosure of disaggregated revenue and revenue information that is disclosed for each reportable segment (in accordance with IFRS 8). The Illustrative Example to IFRS 15 (Example 41) suggests disclosing this information in the form of a matrix, where the rows are the disaggregation of revenue and the columns are the reportable segments.

IFRS 15 does not preclude the possibility that disaggregation of revenue in application of IFRS 8 (i.e. by operating segment, by product or service and by geographical area) might be insufficient to meet the requirements of IFRS 15. This would be particularly true when the segment information disclosed for the purposes of IFRS 8 is not based on "non-GAAP" information, as the disclosures required by IFRS 15 are required to be measured consistently with the amount of revenue recognised under IFRS 15.

In addition, even if the amounts for revenue disclosed by segment for IFRS 8 purposes is consistent with the measurement of revenue for IFRS 15 purposes, the Basis for Conclusions highlights the fact that the objective of revenue disaggregation in IFRS 8 (i.e. to provide information on the nature and financial effects of the entity's activities) is different from the objective of revenue disaggregation in IFRS 15 (see question **85**). For example, difficulty in measuring the revenue from a particular category of contracts with customers may mean that disaggregation at a more granular level is necessary for the purposes of IFRS 15 (see IFRS 15.BC340).

88. What disclosures should be provided for performance obligations that are not fully satisfied?

[IFRS 15.120-122]

IFRS 15 requires an entity to disclose the following information about its remaining performance obligations (a concept equivalent to the "backlog" or "order book"):

- the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period;
- an explanation of when the entity expects to recognise this amount as revenue, either on a quantitative basis (using the time bands that would be most appropriate for the duration of the remaining performance obligations) or by using qualitative information.

As a practical expedient, an entity need not disclose that information if:

- the performance obligation is part of a contract that has an original expected duration of one year or less; or
- the entity applies the practical expedient consisting of measuring its revenue in the amount to which the entity has a right to invoice (see question **58**).

If the practical expedient has been used, this fact must be disclosed in the notes to its financial statements.

The exercise of judgement when applying IFRS 15 can have an immediate and significant impact on the "backlog". If this is the case, these significant judgements must be mentioned in the notes, including: the time at which a contract satisfies the identification criteria in step 1 (see question **10**), the distinction between variable consideration (see question **28**) and an option (see question **71**), the application of the constraint on variable consideration (see question **29**), the agent/principal analysis (see question **70**), etc.

In some industries, the amount of "backlog" disclosed to meet the disclosure requirement of IFRS 15 might be inconsistent with the disclosure of the amount of backlog or order book disclosed elsewhere in the annual report (e.g. in management commentary). In our view, the continued reporting of a "non-GAAP" aggregate outside the financial statements requires clear definition and different terminology from that used in the notes. A reconciliation with the disclosures required between the amounts disclosed for IFRS 15 purposes and similar metrics disclosed elsewhere would seem appropriate.

How should the amount of the transaction price allocated to remaining performance obligations be determined?

Firstly, preparers should ensure that the contracts in the "backlog" satisfy the identification criteria set out at step 1 of the Standard (see question **10**). Contracts that are wholly unperformed (i.e. executory contracts) should only be included if they have given rise to enforceable rights and obligations for both parties (see question **9**).

When determining the amounts to include, preparers should then:

- apply the constraint on variable considerations (see questions **28** and **29**);
- exclude unexercised options (see question **71**).

An entity should explain qualitatively in the notes whether any consideration from contracts with customers is excluded from the transaction price and therefore is not included in the "backlog" provided under IFRS 15 (for example, in application of the rule of constraining variable consideration).

When an entity discloses the timing of when it expects to recognise the "backlog" as revenue, how are the appropriate "time bands" identified?

In the absence of any prescriptive requirement on this matter, our view is that it is essential to ensure that the "time bands" selected are relevant with regard to the particular features of the entity's contracts with its customers.

89. What disclosures should be provided in the notes to condensed interim financial statements?

The overall principle of IAS 34 – *Interim Financial Reporting* is that an entity must explain in its interim report the events and transactions that are significant to an understanding of any changes in its financial position and performance since the end of the last annual reporting period. This principle applies, among others, to contracts with customers.

In addition, IAS 34 requires at least the following disclosures:

- a disaggregation of the entity's revenue in application of IFRS 15 (see question **87**);
- information on impairment losses on assets arising from contracts with customers.

Disclosures about the "backlog" (see question **88**) are not required in condensed interim financial statements (unlike US GAAP). However, an entity could provide this information on a voluntary basis.

Transition to IFRS 15

90. When is IFRS 15 effective?

[IFRS 15.C1-C1C]

IFRS 15 is applicable to financial periods beginning on or after 1 January 2018. Early application is permitted.

The European Union endorsed the original version of IFRS 15 at the end of 2016, and the IASB's clarifications in November 2017.

In practice, IFRS 15 must be applied to the first IFRS accounts published in the year of first application (i.e. the quarterly or half-yearly accounts, whether or not they are condensed under IAS 34).

91. What are the transitional arrangements for IFRS 15?

[IFRS 15.C3 & IFRS 15.C7-C8A]

IFRS 15 offers entities a choice of two approaches to the transition:

- the full retrospective method, which consists of applying IFRS 15 retrospectively, in accordance with IAS 8 on changes of accounting policies. The impacts of the change of standard are therefore accounted for in opening equity as at the beginning of the earliest period presented (1 January 2017 for an entity with a 31 December 2018 annual reporting date). The comparative periods presented (2017 or even 2016) must be restated; or
- the modified retrospective method, which consists of recognising the retrospective impacts of the change of accounting policy in opening equity at the beginning of the first period of application (1 January 2018 for an entity with a 31 December 2018 annual reporting date). In practice, the comparative periods presented are not restated, and are therefore presented in accordance with IAS 11, IAS 18 and the associated Interpretations in force before the change. Under this approach, an entity may elect to apply IFRS 15 retrospectively only to contracts that are not completed at the date of first application (see question **93**).

In both cases, practical expedients are offered to preparers in order to facilitate the transition (see question **92**). There are more practical expedients available to entities choosing the full retrospective method.

Each method has its own advantages and drawbacks. These should be assessed in the light of an entity's particular circumstances in order to choose the most relevant method:

Transition method	Advantages	Drawbacks
Full retrospective method	• Financial statements are more consistent and comparable, since IFRS 15 is applied to all contracts with customers for all the periods presented • Useful and strengthened information on trends provided to users of financial statements • Several practical expedients	• Greater complexity, since IFRS 15 is applied to a large number of contracts • Need to have conducted IFRS 15 diagnostic work as early as possible so as to restate the comparative periods presented
Modified retrospective method	• Reducted complexity for the calculation of the initial application of IFRS 15 • Additional period of time in which to carry out IFRS 15 diagnostics	• Additional disclosures obliging entities to account for revenue during the first year of application using two different sets of accounts (i.e. according to IFRS 15 and under the previous Standards) • Limited disclosures on trends since comparative periods are not restated • Only two practical expedients

Illustrations: restatements to be recognised at the transition date for a long-term contract on which revenue is accounted for over time

Case 1: the percentage of completion under IFRS 15 is higher than under IAS 11

Contract price: 1,000
Margin: 200

% cumulative progress	*IAS 11 (*): 50%* *IFRS 15 (**): 52,5%*	*IAS 11 (*):60%* *IFRS 15 (**): 61,5%*	*IAS 11 (*): 71%* *IFRS 15 (**): 71,5%*
IAS 11 / IAS 18	**Previous periods** (cumulative)	**2017**	**2018**
Backlog	500	400	290
Revenue	500	100	110
Full retrospective method (IFRS 15)	**Previous periods** (cumulative at 01/01/17 – not republished)	**2017** (restated)	**2018** (1st period of application)
Backlog adjustment at 01/01/17	-25	'Lost' revenue (margin: 5)	
Backlog	475	385	285
Equity adjustment at 01/01/17	5		
Revenue	525	90	100
Modified retrospective method (IFRS 15)	**Previous periods** (cumulative – not republished)	**2017** (not restated)	**2018** (1st period of application)
Backlog adjustment at 01/01/18		-15	
Backlog	500	400	285
Equity adjustment at 01/01/18		3	'Lost' revenue (margin: 3)
Revenue	500	100	100

(*) Percentage of completion determined using technical milestones method
(**) Percentage of completion determined using the cost-to-cost method

Case 2: the percentage of completion under IFRS 15 is lower than under IAS 11

Contract price: 1,000
Margin: 200

% cumulative progress	*IAS 11 (*): 50%* *IFRS 15 (**): 47,5%*	*IAS 11 (*):60%* *IFRS 15 (**): 56,5%*	*IAS 11 (*): 71%* *IFRS 15 (**): 66,5%*
IAS 11 / IAS 18	**Previous periods** (cumulative)	**2017**	**2018**
Backlog	500	400	290
Revenue	500	100	110
Full retrospective method (IFRS 15)	**Previous periods** (cumulative at 01/01/17 – not republished)	**2017** (restated)	**2018** (1st period of application)
Backlog adjustment at 01/01/17	25	Revenue 'double-counted' (margin: 5)	
Backlog	525	435	335
Equity adjustment at 01/01/17	-5		
Revenue	475	90	100
Modified retrospective method (IFRS 15)	**Previous periods** (cumulative – not republished)	**2017** (not restated)	**2018** (1st period of application)
Backlog adjustment at 01/01/18	Revenue 'double-counted' (margin: 7)	35	
Backlog	500	400	335
Equity adjustment at 01/01/18		-7	
Revenue	500	100	100

(*) Percentage of completion determined using technical milestones method
(**) Percentage of completion determined using the cost-to-cost method

92. What are the practical expedients offered for each transition method?

[IFRS 15.C5 & IFRS 15.C7A]

IFRS 15 allows first-time adopters of IFRS 15 to use practical expedients to facilitate the transition.

Whichever transition method is chosen, an entity can use these practical expedients under the following conditions:

- each expedient used must be applied consistently to all contracts within the scope of IFRS 15, for all the reporting periods presented;
- the following information must be disclosed:
  - the expedients that have been used; and
  - to the extent reasonably possible, a qualitative assessment of the estimated effect of applying each of those expedients.

Full retrospective method

The practical expedients provided by IFRS 15 to simplify the retrospective restatement of comparatives in accordance with IAS 8 are:

- for completed contracts (see question **93**), an entity need not restate:
  - contracts that began and ended within the same annual reporting period (generally, 2017). If the entity does not use this expedient, the interim periods presented must also be restated for these contracts;
  - completed contracts at the beginning of the earliest period presented (generally, 1 January 2017).
- for completed contracts that have variable consideration, an entity may use the transaction price at the date the contract was completed rather than estimating variable consideration amounts in the comparative reporting periods presented;
- an entity need not retrospectively restate contracts that were modified before the beginning of the earliest period presented. If this expedient is not used, an entity must restate these contracts from inception, accounting for each successive modification. In practice, the practical expedient means that an entity will be able to present the aggregate effect of these modifications at the start of the first comparative period presented for the purposes of:
  - identifying the satisfied and unsatisfied performance obligations;
  - determining the transaction price; and
  - allocating the transaction price to the satisfied and unsatisfied performance obligations.
- for all the reporting periods presented before the date of initial application (i.e. generally 1 January 2018), an entity need not disclose the amount of the transaction price allocated to the remaining performance obligations (a concept equivalent to the “backlog” or “order book”, see question **88**), nor provide an explanation of when the entity expects to recognise that amount as revenue.

Modified retrospective method

The practical expedients provided by IFRS 15 if this alternative transition method is chosen are:

- to apply IFRS 15 retrospectively only to contracts that are not completed contracts (see question **93**) at the date of initial application (generally 1 January 2018);
- to apply the practical expedient provided for use under the full retrospective method in the event of contract modifications to all contract modifications that occurred before either the beginning of the earliest period presented (generally 1 January 2017) or the date of initial application (generally 1 January 2018).

93. What is a "completed" contract?

[IFRS 15.C2]

IFRS 15 defines a completed contract as a contract for which the entity has transferred all of the goods or services identified in accordance with IAS 11 – *Construction Contracts*, IAS 18 – *Revenue* and the related Interpretations.

In July 2015 the TRG (see question **98**) was asked a question aiming to clarify this concept. At its September 2015 meeting, the IASB decided not to amend the definition of a completed contract in the Standard. However, the FASB decided to amend the definition of a completed contract to indicate that this is a contract for which all or almost all the revenue has been accounted for in accordance with the previous Standards on revenue recognition. Therefore, IFRS 15 and Topic 606 are not converged in this regard.

Under IFRS 15, and according to the staff analysis, the concept of "transfer" relates to the delivery of goods (or the rendering of services) under IAS 18 (or IAS 11). Therefore, a contract is completed if, under IAS 18 (or IAS 11), an entity has delivered all the goods (or rendered all the services) identified under those Standards, even if part of the revenue has not yet been recognised for reasons such as uncertainties as to collectability, or the existence of variable consideration. On application of IFRS 15, any unrecognised revenue for completed contracts must be accounted for in accordance with those previous Standards to the extent the contracts are not restated under IFRS 15 (see question **92**).

94. What note disclosures should be provided in the period IFRS 15 is first applied?

[IFRS 15.C4, IFRS 15.C6 & IFRS 15.C8]

The disclosures to be provided in the first annual accounts drawn up under IFRS 15 depend on the transitional arrangements used (see question **91**).

If the full retrospective method is chosen, an entity must disclose:

- the information required by paragraph 8 of IAS 8, which sets out disclosures on first application of a new IFRS, specifically:
  - the title of the new Standard (in this case, IFRS 15);
  - the fact that the change in accounting policy is made in accordance with its transitional provisions, the nature of the change in accounting policy (i.e. the fact that it is a mandatory change arising from the first application of an IFRS); and
  - a description of the transitional arrangements, and the impact of the change of policy on each financial statement line item affected, and on basic and diluted earnings per share (i.e. the quantitative disclosures listed in IAS 8.28(f)). However, the quantitative disclosures listed in IAS 8.28(f) on the impact of the change are only required for the reporting period immediately preceding the first period of application of IFRS 15 (in practice, the 2017 financial period). Therefore, unlike a "traditional" retrospective change of method, the impact is not required in the year of first application (in practice, 2018), nor for any additional comparative periods presented (in practice, 2016). Nevertheless, an entity may choose to present these disclosures if it so wishes; and
- the practical expedients chosen, where applicable (see question **92**).

If the modified retrospective method is chosen, an entity must provide disclosures concerning the financial reporting periods in which the date of first application falls (in our view, this will mean the 2018 interim and annual reporting periods in practice), specifically:

- the impact, on each financial statement line item in the reporting period, of applying IFRS 15 instead of IAS 11, IAS 18 and the associated Interpretations in effect before the change. In practice these disclosures will entail maintain double reporting during the first application year in order to provide the figures that would have been presented under the previous Standards (see question 95); and

- the reasons explaining the main impacts described above.

In the interim financial statements for the year of first application, IAS 34 requires a “description” of the nature and impact of a change in accounting policy, where necessary. In the absence of any more specific guidance our view is that there should be a reference to the disclosures required under IAS 8 in the event of a change of accounting policy (see above) and to the transitional information required by IFRS 15 (some of which amend the requirements of IAS 8). If the modified retrospective method is chosen, some regulators (ESMA in Europe, for example) recommend that the impact of the change of policy on the reporting period in which it first applies (generally 2018) should be reported as from the interim accounts.

95. What are the first-time application requirements under IFRS 1?

[IFRS 1.2-3; IFRS 1.7; IFRS 1.Appendix D34]

IFRS 1 – *First-time Adoption of International Financial Reporting Standards* is applied in an entity's IFRS financial statements that are the first annual financial statements for which the entity adopts IFRSs through an explicit and unreserved statement of compliance with IFRSs included in those financial statements.

Under IFRS 1, an entity is required to prepare and present an opening IFRS balance sheet at the “date of transition to IFRSs”, which is the beginning of the earliest comparative period presented in its first set of IFRS accounts. This is the starting point for its IFRS accounting.

An entity adopting IFRSs for the first time must apply the same accounting policies in its opening IFRS balance sheet and for all periods presented in its first IFRS financial statements. Those accounting policies must comply with each IFRS effective at the end of the latest reporting period covered by its first IFRS financial statements.

IFRS 1 provides practical expedients that are similar to those provided in IFRS 15 when applying the full retrospective method (see question **92**). Similarly, a first-time adopter, if it chooses to apply these practical expedients, should also comply with the following requirements:

- each expedient used must be applied consistently to all contracts within the scope of IFRS 15, for all the reporting periods presented;
- the following information must be disclosed:
  - the expedients that have been used; and
  - to the extent reasonably possible, a qualitative assessment of the estimated effect of applying each of those expedients.

Background

96. Why was IFRS 15 issued?

IFRS 15 was issued to meet two main objectives:

- eliminate the inconsistencies and weaknesses of the previous Standards, providing entities using IFRS Accounting Standards with a more robust and detailed Standard covering the most complex transactions, without any need to consult another set of standards or to develop Interpretations; and
- improve the disclosure requirements (see question **85**). The application of the previous Standards often resulted in disclosures that did not enable investors to understand an entity's revenue, nor the judgements and estimates used by the entity in accounting for this revenue.

IFRS 15 (and Topic 606 in US GAAP) also reflect the wish of the IASB (and the FASB, the US standard setter) to achieve convergence on the major subject of, revenue recognition (see question **97**).

97. How closely converged are IFRS and US GAAP principles on revenue recognition?

When IFRS 15 and Topic 606 were first published in May 2014, the two Standards converged, except with respect to:

- the collectability threshold (one of the criteria to be taken into account in step 1 to determine whether a contract with a customer exists under IFRS 15, see question **10**) The requirement that it is "probable" an entity will collect the consideration to which it will be entitled does not have the same meaning, Under IFRS "probable" means "more likely than not", in practice implying a probability greater than 50%, whereas under US GAAP "probable" means "likely to occur", implying a higher threshold, equivalent to a concept of "highly probable" under IFRS;
- disclosures to be provided in interim periods (see question **89**) In practice, more disclosures are required under US GAAP than those required by IAS 34;
- the effective date of the Standard and early application. Listed US entities must apply Topic 606 to financial periods beginning on or after 15 December 2017 (1 January 2018 for IFRS 15). Early application was only possible under US GAAP as of December 15, 2016 (the effective date of Topic 606 before the FASB decided to introduce a year's delay). IFRS 15 can be applied early from its publication date (subject to any endorsement process required under local law);
- impairment allowance recovery. Consistently with IAS 36, under some circumstances, IFRS 15 requires the reversal of impairments previously recognised on assets corresponding to the costs to obtain or fulfil contracts. These reversals are prohibited under Topic 606, consistent with previous requirements in US GAAP; and
- unlisted entities. Topic 606 applies to unlisted entities, with certain simplifications and a later effective date. The requirements in IFRS 15 apply equally to listed and unlisted entities, except that unlisted entities generally would not be subject to IFRS 8 and so therefore would not have to disclose the disaggregation of revenue by segment (see question **87**).

Following amendments by both the IASB and the FASB in April 2016, the two Standards also diverge with regards to:

- identification of performance obligations: an entity applying Topic 606 does not have to analyse whether goods or services constitute a performance obligation if they are immaterial in the context of the contract with the customer. This is not explicitly stated in IFRS 15, although the materiality principle present in IFRS should generally lead to the same conclusion; and
- licences: Topic 606 includes a presumption that a licence of intellectual property which is symbolic (i.e. has no material stand-alone functionality) provides the customer with a right to access the entity's intellectual property, for which revenue is recognised over time. In IFRS 15, symbolic licences of intellectual property can be classified as a right to use (for example, a "mothballed" brand) for which revenue must be accounted for at a point in time (see question **77**).

98. What is the Joint Transition Resource Group (TRG) and where can its work be found?

The Joint Transition Resource Group was created by the IASB and the FASB right after the publication of IFRS 15 and Topic 606 in May 2014. This group was charged with notifying the IASB and the FASB of problems raised by the implementation of the new revenue recognition Standard.

TRG members were preparers of financial statements, auditors and users representing a wide range of industries, geographical regions, and public and private companies and organisations.

The TRG met twice in 2014, four times in 2015 and twice in 2016 (on the American side only during this final year). In total around a hundred questions were put to the TRG, mainly from the US. Not all were publicly discussed, as some were handled directly by the staff.

The list of subjects addressed by the TRG can be consulted at:
http://www.ifrs.org/-/media/feature/groups/trg-revenue-recognition/log-of-submissions.pdf

While the TRG had no authority to publish official positions (like the IFRS Interpretations Committee), its discussions led the IASB (and the FASB) to publish amendments to IFRS 15 (and to Topic 606) in April 2016, in order to clarify the Standard.

TRG meetings were also routinely followed by the publication of meeting summaries drawn up by the staff and published on the IASB website. These summaries (and the staff papers, where these are expressly mentioned by the TRG as a reference source, especially for the examples presented) may be helpful in the interpretation of sometimes complex subjects.

These summaries can be downloaded free of charge from:
https://www.ifrs.org/groups/transition-resource-group-for-revenue-recognition/#meetings

99. What Standards and Interpretations are replaced by IFRS 15?

[IFRS 15.C10]

IFRS 15 replaces IAS 11 on construction contracts, IAS 18 on the sale of goods and services and all the associated Interpretations: IFRIC 13 on customer loyalty programmes, IFRIC 15 on agreements for the construction of real estate, IFRIC 18 on the transfers of assets from customers, and SIC-31 on barter transactions involving advertising services.

IFRS 15 consists of a Standard, application guidance with clarifications on certain topics (such as the sale of licences, sales with the right of return, customer options for additional goods or services at a discount, etc.), illustrative examples and the Basis for Conclusions. In total, this represents more than 400 pages on the topic of revenue recognition.

100. Are transactions for the sale of assets outside the entity's ordinary activities affected by IFRS 15?

Yes, with respect to:

- the date of disposal of property, plant and equipment in scope of IAS 16 and intangible assets in scope of IAS 38; and
- the amount of consideration for inclusion in profit or loss arising from the derecognition of such assets.

Therefore:

- the disposal date corresponds to the date on which the purchaser obtains control of the asset sold. This is determined by reference to the provisions of IFRS 15 that determine when a performance obligation is satisfied (see question **50**); and
- the amount of consideration for inclusion in profit or loss following derecognition is determined in accordance with IFRS 15 provisions on the determination of the transaction price, and any subsequent re-estimate, e.g. as a result of the sale price including variable consideration (see question **27**).

.

Forvis Mazars would like to give special thanks to
Frédérique Bourdois, Claire Dusser, Colette Fiard, Edouard Fossat, Vincent Gilles, Isabelle Grauer-Gaynor, Dingeman Manschot, Carole Masson, Mohamed Taghia and James Nayler for their contribution to the production of this Forvis Mazars Insight.

The writing of this publication was completed in August 2025.

Contacts

Renick van Oosterbosch

Director Audit & Accounting Advice

renick.vanoosterbosch@forvismazars.com

Kees Roozen

Director Professional Practice

kees.roozen@forvismazars.com

Inge van Sloun

Director Professional Practice

inge.vansloun@forvismazars.com

Forvis Mazars Group SC is an independent member of Forvis Mazars Global, a leading global network of professional services.
An internationally integrated partnership operating in over 100 countries and territories. Forvis Mazars Group specialises in audit, tax and advisory services.
The integrated partnership draws on the expertise and cultural diversity of its teams - more than 35,000 professionals worldwide - to assist clients of all sizes at every stage in their development.
Go to forvismazars.com to find out more.

© Forvis Mazars 2025