

Accounting Alert

Financial Reporting Standards

April 13, 2016

Clarifications to IFRS 15, *Revenue from Contracts with Customers*

Executive summary

The IASB has made clarifying amendments to IFRS 15, *Revenue from Contracts with Customers*, and introduced additional transition relief for entities applying the standard for the first time.

The focus of these amendments is on clarifying the application of IFRS 15 when identifying performance obligations, determining whether an entity is acting as principal or agent in a transaction, and assessing whether a license transfers to a customer over time or at a point in time.

Introduction

The IASB has published ‘Clarifications to IFRS 15 Revenue from Contracts with Customers.’ These amendments address a number of issues identified by the joint IASB-FASB Transition Resource Group (TRG) on revenue recognition. The TRG was formed by the Boards after issuing the new standard in 2014 and is tasked with supporting the implementation of IFRS 15. While a total of five topics discussed by the TRG indicated the possible need for clarification, the IASB has elected to address just three of these, striking a balance between being responsive to issues raised while minimizing disruption to the implementation process. The Amendments also introduce two practical expedients available for use by entities implementing the new standard.

The Amendments

The amendments clarify the application of IFRS 15 in three specific areas to reduce the amount of diversity in practice that might otherwise result from differing views on how to implement the requirements of the new standard. They will help companies:

- identify performance obligations (by clarifying how to apply the concept of ‘distinct’);
- determine whether a company is a principal or an agent in a transaction (by clarifying how to apply the control principle); and,
- determine whether a license transfers to a customer at a point in time or over time (by clarifying when a company's activities significantly affect the intellectual property to which the customer has rights).

The amendments also create two additional practical expedients available for use when implementing IFRS 15:

- for contracts that have been modified before the beginning of the earliest period presented, the amendments allow companies to use hindsight when identifying the performance obligations, determining the transaction price, and allocating the transaction price to the satisfied and unsatisfied performance obligations; and,
- companies applying the full retrospective method are permitted to ignore contracts already complete at the beginning of the earliest period presented.

Effective date

The Amendments are effective for annual periods beginning on or after 1 January 2018 (the effective date of the new standard). Earlier application is permitted.

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