IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

FACT SHEET

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This fact sheet is based on existing requirements as at 31 December 2015 and does not take into account recent standards and interpretations that have been issued but are not yet effective.

IMPORTANT NOTE

This fact sheet is based on the requirements of the International Financial Reporting Standards (IFRSs). In some jurisdictions, the IFRSs are adopted in their entirety; in other jurisdictions the individual IFRSs are amended. In some jurisdictions the requirements of a particular IFRS may not have been adopted. Consequently, users of the fact sheet in various jurisdictions should ascertain for themselves the relevance of the fact sheet to their particular jurisdiction. The application date included below is the effective date of the initial version of the standard.

IASB APPLICATION DATE (NON-JURISDICTION SPECIFIC)

IFRS 15 is applicable for annual reporting periods commencing on or after 1 January 2018. Earlier application is permitted.

OBJECTIVE

The objective of IFRS 15 is to establish the principles that an entity should apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.

SCOPE

IFRS 15 applies to all contracts with customers, except the following:

a. lease contracts within the scope of IAS 17 *Leases*;

b. insurance contracts within the scope of IFRS 4 *Insurance Contracts*;

c. 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*; and

d. non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers. For example, this Standard 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.

CORE PRINCIPLE

IFRS 15 is based on a core principle that requires an entity to recognise revenue in a manner that depicts the transfer of goods and services to customers at an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services. Nevertheless, there are some exceptions to this core principle (for example, with respect to sales- and usage-based royalties).

RECOGNITION & MEASUREMENT

Revenue recognition under IFRS 15 involves the following five steps:

1. Identify the contract with a customer

2. Identify the separate performance obligations in the contract

3. Determine the transcation price

4. Allocate the transaction price to the separate performance obligations

5. Recognise revenue when or as each performance obligation is satified

Step 1: Identify the contract with a customer

An entity should account for a contract with a customer that is within the scope of IFRS 15 only when all of the following criteria are met:

a. 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;

b. the entity can identify each party's rights regarding the goods or services to be transferred;

c. the entity can identify the payment terms for the goods or services to be transferred;

d. 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

e. 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. In evaluating whether collectability of an amount of consideration is probable, an entity should consider only the customer's ability and intention to pay that amount of consideration when it is due. The amount of consideration to which the entity will be entitled may be less than the price stated in the contract if the consideration is variable because the entity may offer the customer a price concession.

Step 2: Identify the separate performance obligations in the contract
At contract inception, an entity should assess the goods or services promised in a contract with a customer and should identify as a performance obligation each promise to transfer to the customer either:

a. a good or service (or a bundle of goods or services) that is distinct; or

b. a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

Meaning of 'distinct'

Customer can benefit from goods/services + Separately identifiable from other contract promises = Distinct

Step 3: Determine the transaction price
An entity considers the terms of the contract and its customary business practices to determine the transaction price.

The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (for example, some sales taxes). The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both.

When determining the transaction price, an entity will consider the effects of all the following factors:

- **Variable Consideration**
  - Only included in the transaction price if it is 'highly probable' that there will not be a significant revenue reversal
  - Estimated using either expected value (the sum of probability-weighted amounts) or the most likely amount, whichever better predicts the amount
  - Sales- and-usage-based royalties from transfers of intellectual property are excluded from this estimate and recognised as they are earned.
- **Time Value of Money**
  - Reflected if the contract includes a significant financing component
  - Not reflected if payment is expecxted to be received within 12 months from transferring the goods or services
- **Non-cash Consideration**
  - Measured at fair value if it can be reliably estimated
  - Measured indirectly using the stand alone selling price of the good or service if fair value cannot be measured reliably
- **Consideration payable to the customer**
  - Need to determine whether consideration payable represents a reduction of the transaction price, a payment for a distinct goods or service, or a combination of both

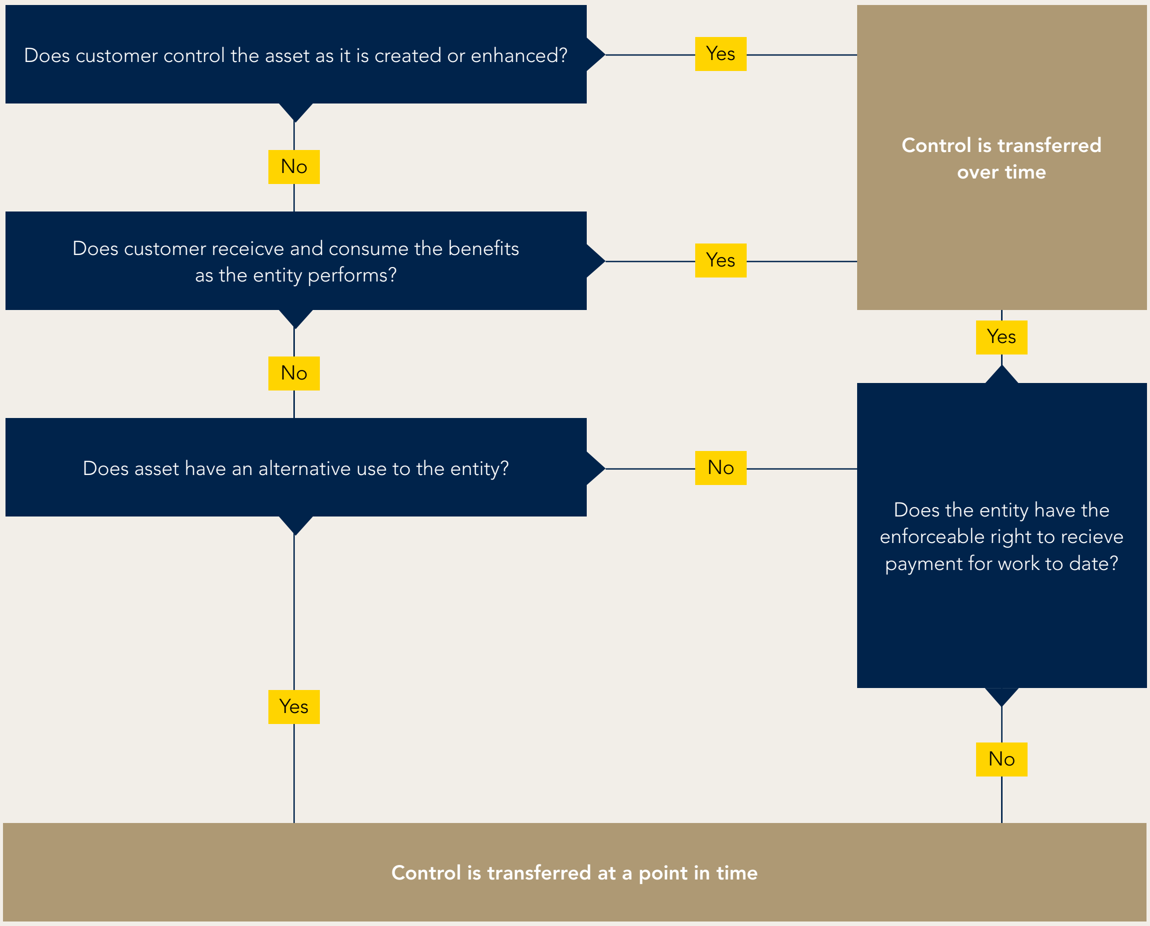
Step 4: Allocate the transaction price to the separate performance obligations
An entity allocates a contract's transaction price to each separate performance obligation within that contract on a relative stand-alone selling price basis at contract inception.

In the event that a relative stand-alone selling price is not directly observable, an entity needs to estimate it using techniques such as the adjusted market assessment approach, expected costs plus margin approach or the residual approach.

Step 5: Recognise revenue when or as each performance obligation is satisfied
The final step is to recognise revenue when or as the entity transfers promised goods or services to a customer. A 'transfer' occurs when the customer obtains control of the good or service. A customer would obtain control of an asset when it can direct the use of, and obtain substantially all the remaining benefits from, an asset.

An entity determines, at contract inception, whether each separate performance obligation will be satisfied (and therefore control will be transferred to the customer) over time or at a specific point in time.

Determining the timing of transfer



CONTRACT COSTS

Incremental costs of obtaining a contract

An entity should recognise as an asset the incremental costs of obtaining a contract with a customer if the entity expects to recover those costs.

Costs to fulfil a contract

If the costs incurred in fulfilling a contract with a customer are not within the scope of another standard (for example, IAS 2 *Inventories*, IAS 16 *Property, Plant and Equipment* or IAS 38 *Intangible Assets*), an entity should recognise an asset from the costs incurred to fulfil a contract only if those costs meet all of the following criteria:

a. the costs relate directly to a contract 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);

b. costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and

c. the costs are expected to be recovered.

PRESENTATION

An entity presents a contract in its statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's performance at the reporting date.

A contract liability will be recognised when consideration has been received but the promised good or service has not yet been transferred. In circumstances where the promised good or service has been transferred but the customer is yet pay and the entity's right to payment is conditioned on something other than passage of time, a contract asset will be recognised. An entity presents any unconditional rights to consideration separately as a receivable.

DISCLOSURES

The objective of the disclosure requirements is for an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

Refer to Appendix 1 for a checklist to assist with IFRS 15 disclosure requirements.

DEFINITIONS

Contract	An agreement between two or more parties that creates enforceable rights and obligations.
Contract asset	An entity's right to consideration in exchange for goods or services that the entity has transferred to a customer when that right is conditioned on something other than the passage of time (for example, the entity's future performance).
Contract liability	An entity's obligation to transfer goods or services to a customer for which the entity has received consideration (or the amount is due) from the customer.
Customer	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.
Income	Increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in an increase in equity, other than those relating to contributions from equity participants.
Performance obligation	A promise in a contract with a customer to transfer to the customer either: • a good or service (or a bundle of goods or services) that is distinct • a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer
Revenue	Income arising in the course of an entity's ordinary activities.
Stand-alone selling price (of a good or service)	The price at which an entity would sell a promised good or service separately to a customer.
Transaction price (for a contract with a customer)	The amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

AUSTRALIAN SPECIFIC REQUIREMENTS

The Australian equivalent standard is AASB 15 *Revenue from Contracts with Customers* and is applicable for annual reporting periods commencing on or after 1 January 2017. Early application is permitted. AASB 15 may be applied to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2017.

REDUCED DISCLOSURE REQUIREMENTS (RDR)

On 30 June 2010, the Australian Accounting Standards Board published AASB 1053 *Application of Tiers of Australian Accounting Standards* (and AASB 2010-2 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements*) which established a differential reporting framework, consisting of two Tiers of reporting requirements for preparing general purpose financial statements:

a. Tier 1: Australian Accounting Standards; and

b. Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements.

A Tier 2 entity is a 'reporting entity' as defined in SAC 1 *Definition of the Reporting Entity* that does not have 'public accountability' as defined in AASB 1053 and is not otherwise deemed to be a Tier 1 entity by AASB 1053.

RDR is applicable to annual periods beginning on or after 1 July 2013.

When developing AASB 1053, the AASB concluded that the Australian Government and state, territory and local governments should be subject to Tier 1 requirements. The AASB also decided that General Government Sectors of the Australian Government and state and territory governments should continue to apply AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, without the reduction in disclosures provided by Tier 2. Other public sector entities are able to apply Tier 2 reporting requirements. The requirements that do not apply to RDR entities are identified in Appendix 1 by shading of the relevant text.

APPENDIX 1 – DISCLOSURE CHECKLIST

This checklist can be used to review your financial statements. You should complete the "Yes / No / N/A" column about whether the requirement is included. To ensure the completeness of disclosures, provide an explanation for "No" answers.

CODE		YES / NO / N/A	EXPLANATION (*If required*)
IFRS 15.110	The objective of the disclosure requirements is for an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. To achieve that objective, has the entity disclosed the qualitative and quantitative information about all of the following: • its contracts with customers; • the significant judgements, and changes in the judgements, made in applying this Standard to those contracts; and • any assets recognised from the costs to obtain or fulfil a contract with a customer in accordance with paragraph 91 or 95?		
IFRS 15.111	An entity should consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. Has the entity aggregated or disaggregated disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have substantially different characteristics?		
IFRS 15.112	An entity need not disclose information in accordance with IFRS 15 if it has provided the information in accordance with another standard.		
IFRS 15.113	Has the entity disclosed all of the following amounts for the reporting period (unless those amounts are presented separately in the statement of comprehensive income in accordance with other standards): • revenue recognised from contracts with customers, which the entity shall disclose separately from its other sources of revenue; and • any impairment losses recognised (in accordance with IFRS 9) on any receivables or contract assets arising from an entity's contracts with customers, which the entity shall disclose separately from impairment losses from other contracts?		

CODE		YES / NO / N/A	EXPLANATION (*If required*)
IFRS 15.114	Has the entity disaggregated 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? When selecting the categories to use to disaggregate revenue, has the entity applied the guidance in paragraphs B87–B89?		
IFRS 15.115	Has the entity disclosed sufficient information to enable users of financial statements to understand the relationship between the disclosure of disaggregated revenue (in accordance with paragraph 114) and revenue information that is disclosed for each reportable segment (if the entity applies IFRS 8 *Operating Segments*)?		
IFRS 15.116	Has the entity disclosed all of the following: a. the opening and closing balances of receivables, contract assets and contract liabilities from contracts with customers, if not otherwise separately presented or disclosed; b. revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period; and c. revenue recognised in the reporting period from performance obligations satisfied (or partially satisfied) in previous periods (for example, changes in transaction price)?		
IFRS 15.117	Has the entity explained how the timing of satisfaction of its performance obligations (see paragraph 119(a)) relates to the typical timing of payment (see paragraph 119(b)) and the effect that those factors have on the contract asset and the contract liability balances? The explanation provided may use qualitative information.		

CODE		YES / NO / N/A	EXPLANATION (*If required*)
IFRS 15.118	Has the entity provided an explanation of the significant changes in the contract asset and the contract liability balances (see examples below) during the reporting period? Has the entity ensured that such explanation includes qualitative and quantitative information? Examples of changes in the entity's balances of contract assets and contract liabilities include any of the following: a. changes due to business combinations; b. cumulative catch-up adjustments to revenue that affect the corresponding contract asset or contract liabil ity, including adjustments arising from a change in the measure of progress, a change in an estimate of the transaction price (including any changes in the assessment of whether an estimate of variable consideration is constrained) or a contract modification; c. impairment of a contract asset; d. a change in the time frame for a right to consideration to become unconditional (i.e. for a contract asset to be reclassified to a receivable); or e. a change in the time frame for a performance obligation to be satisfied (i.e. for the recognition of revenue arising from a contract liability).		
IFRS 15.119	Has the entity disclosed information about its performance obligations in contracts with customers, including a description of all of the following: a. when the entity typically satisfies its performance obligations (e.g., upon shipment, upon delivery, as services are rendered or upon completion of service), including when performance obligations are satisfied in a bill-and-hold arrangement; b. the significant payment terms (e.g., when payment is typically due, whether the contract has a significant financing component, whether the consideration amount is variable and whether the estimate of variable consideration is typically constrained in accordance with paragraphs 56–58); c. the nature of the goods or services that the entity has promised to transfer, highlighting any performance obligations to arrange for another party to transfer goods or services (i.e. if the entity is acting as an agent); d. obligations for returns, refunds and other similar obligations; and e. types of warranties and related obligations?		

CODE		YES / NO / N/A	EXPLANATION (*If required*)
IFRS 15.120 IFRS 15.121	Has the entity disclosed the following information about its remaining performance obligations: a. 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; and b. an explanation of when the entity expects to recognise as revenue the amount disclosed in accordance with paragraph 120(a), which the entity shall disclose in either of the following ways: i. on a quantitative basis using the time bands that would be most appropriate for the duration of the remaining performance obligations; or ii. by using qualitative information? However, as a practical expedient, an entity need not disclose the information in paragraph 120 for a performance obligation if either of the following conditions is met: a. the performance obligation is part of a contract that has an original expected duration of one year or less; or b. the entity recognises revenue from the satisfaction of the performance obligation in accordance with paragraph B16.		
IFRS 15.122	Has the explained qualitatively whether it is applying the practical expedient in paragraph 121 and whether any consideration from contracts with customers is not included in the transaction price and, therefore, not included in the information disclosed in accordance with paragraph 120? For example, an estimate of the transaction price would not include any estimated amounts of variable consideration that are constrained (see paragraphs 56–58).		
IFRS 15.123	Has the entity disclosed the judgements, and changes in the judgements, made in applying IFRS 15 that significantly affect the determination of the amount and timing of revenue from contracts with customers? Has the entity explained the judgements, and changes in the judgements, used in determining both of the following: a. the timing of satisfaction of performance obligations (see paragraphs 124–125); and b. the transaction price and the amounts allocated to performance obligations (see paragraph 126)?		

CODE		YES / NO / N/A	EXPLANATION (*If required*)
IFRS 15.124	For performance obligations that an entity satisfies over time, has the entity disclosed both of the following: a. the methods used to recognise revenue (for example, a description of the output methods or input methods used and how those methods are applied); and b. an explanation of why the methods used provide a faithful depiction of the transfer of goods or services?		
IFRS 15.125	For performance obligations satisfied at a point in time, has the entity disclosed the significant judgements made in evaluating when a customer obtains control of promised goods or services?		
IFRS 15.126	Has the entity disclosed information about the methods, inputs and assumptions used for all of the following: a. determining the transaction price, which includes, but is not limited to, estimating variable consideration, adjusting the consideration for the effects of the time value of money and measuring non-cash consideration; b. assessing whether an estimate of variable consideration is constrained; c. allocating the transaction price, including estimating stand-alone selling prices of promised goods or services and allocating discounts and variable consideration to a specific part of the contract (if applicable); and d. measuring obligations for returns, refunds and other similar obligations?		
IFRS 15.127	Has the entity described both of the following: a. the judgements made in determining the amount of the costs incurred to obtain or fulfil a contract with a customer (in accordance with paragraph 91 or 95); and b. the method it uses to determine the amortisation for each reporting period?		
IFRS 15.128	Has the entity disclosed all of the following: a. the closing balances of assets recognised from the costs incurred to obtain or fulfil a contract with a customer (in accordance with paragraph 91 or 95), by main category of asset (e.g., costs to obtain contracts with customers, pre-contract costs and setup costs); and b. the amount of amortisation and any impairment losses recognised in the reporting period?		

CODE		YES / NO / N/A	EXPLANATION (*If required*)
IFRS 15.129	If the entity elects to use the practical expedient in either paragraph 63 (about the existence of a significant financing component) or paragraph 94 (about the incremental costs of obtaining a contract), has the entity disclosed that fact?		

OTHER MATTERS

LEGAL NOTICE

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