



Heads Up

IFRS 15 *Revenue from Contracts with Customers*

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“In summary”

On 28 May 2014, the IASB has issued IFRS 15 *Revenue from Contracts with Customers*. This Standard outlines a single comprehensive model for entities to use in accounting for revenue from contracts with customers. It supersedes current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related Interpretations.

The key principle of this Standard is that an entity will recognise revenue when it transfers promised goods or services to customers for an amount that reflects its expected consideration. The Standard introduces far more prescriptive and detailed implementation guidance than was included in IAS 18, IAS 11 and the related Interpretations; these matters will require consideration by the majority of entities.

More specifically, the Standard introduces a five-step model;

1. Identify the contract with a customer
2. Identify the performance obligations
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations
5. Recognise revenue when performance obligations are satisfied

Furthermore, the Standard also significantly expands the current disclosure requirements about revenue recognition.

The effective date for this Standard is for reporting periods beginning on or after 1 January 2017 with earlier application permitted. Entities can choose to apply the Standard retrospectively or to use a modified transition approach.

In Australia, the AASB has yet to issue the Australian equivalent of this Standard. It is expected that the AASB will issue the Australian Accounting Standard that incorporates IFRS 15 without modification, as soon as practicable. Once issued in Australia, the effective date for entities with June year-end, will be reporting period commencing 1 July 2017.

For further information on IFRS 15, refer to the additional IFRS in Focus newsletter (which provides more details on this Standard) and the IFRS industry insights (which provides specific considerations arising from this Standard for various industries) via the links below.

New or changed guidance

The application of the prescriptive and detailed implementation guidance contained within the new standard may result in a change in the timing and / or the amount of revenue recognition, primarily arising from:

- the number of deliverables (goods or services) in a contractual arrangement over which revenue needs to be allocated;
- the manner in which revenue is allocated to these deliverables;
- the timing when an entity provides the goods or services to the customer (i.e. at a point in time or over a period of time); and
- the additional guidance included within IFRS 15 (for eg. eligibility to capitalise contract costs).

Some of the areas that are likely to require more judgment in the application of the guidance and possibly result in accounting changes are:

- contract costs (expense vs. capitalisation)
- time value of money
- contract modifications
- variable consideration (the concept of capping revenue recognised subject to a “reversal test”)
- warranties
- breakage revenue
- licensing
- option for additional goods or services at a discount.

The extensive disclosure requirements under IFRS 15 are also likely to result in entities capturing additional information, which in turn will drive the system and process changes that may be needed.

Effective date

The effective date for this Standard is for reporting periods beginning on or after 1 January 2017 with earlier application permitted. Entities can choose to apply the Standard retrospectively or use a modified transition approach.

Although the effective date of the Standard is almost three years away, it is strongly recommended for entities to use this intervening period to analyse the new requirements, consider the wider implications of the changes and consequently make any required changes to their systems and processes in order to meet the new requirements.

Australian-specific considerations

In Australia, the AASB is expected to issue the Australian Accounting Standard incorporating IFRS 15 without modification, as soon as practicable. Once the Standard is issued in Australia, it will be mandatorily effective for most Australian entities for years ending 30 June 2018.

Specifically, for Australian not-for-profit entities in the public and private sectors, this Standard will also have implications on AASB’s Income from Transactions of Not-For-Profit Entities Project where the AASB has expressed its intentions to base the ED on the principles of IFRS 15. This ED will contain requirements for the recognition, measurement, presentation and disclosure of income from transactions of Australian not-for-profit entities (NFPs) in the public and private sectors that would replace AASB 118 *Revenue*, AASB 111 *Construction Contracts* and the income recognition requirements of AASB 1004 *Contributions*.

IFRS in Focus

- [IFRS in Focus — IASB issues new standard on revenue recognition](#)

IFRS industry insights

- [IFRS industry insights — Aerospace and defence sector](#)
- [IFRS industry insights — Automotive sector](#)
- [IFRS industry insights — Healthcare sector](#)
- [IFRS industry insights — Investment management sector](#)
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External Links

- [IASB press release](#)
- [IFRS 15 Revenue](#)

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