UNCTAD-Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting

Workshop on Accounting and Financial Reporting Standards

Monday, 3 October 2016
Room XXVI, Palais des Nations, Geneva
Morning Session

IFRS 15 – Revenue from Contracts with Customers

Presented by

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Revenue from Contracts with Customers

Susan Cosper – FASB Technical Director

October 3, 2016
Converged Standard on Revenue

IAS 18 Revenue

IAS 11 Construction Contracts

Topic 605, Revenue Recognition

Industry guidance

Entertainment–Broadcasters

Entertainment–Cable Television

Entertainment–Casinos

Entertainment–Films

Software

Airlines

Real Estate

...
Significant Improvements

- Robust framework for addressing revenue issues
- Increases comparability
- Eliminates complex and prescriptive rules
- Provides guidance in areas that previous GAAP and IFRS had none
- Enhances disclosures
Five Steps to Apply the Standard

Core principle

Recognize revenue to 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

Steps to apply the core principle

1. Identify the contract with the customer
   • Criteria for identifying a contract
   • Combinations
   • Modifications

2. Identify the performance obligations
   • Unit of Account
   • Distinct Criteria

3. Determine the transaction price
   • Variable consideration
   • Significant financing
   • Noncash consideration
   • Consideration payable to customer

4. Allocate the transaction price
   • Relative standalone selling price
   • Discounts and contingent amounts

5. Recognize revenue when (or as) a performance obligation is satisfied
   • Over time criteria
   • Point in time indicators
Transition Resource Group

- Group to *support transition*—does *not* issue authoritative guidance
- Members include financial statement preparers, auditors and users, global representation
- Provides a forum for stakeholders to learn about the new guidance from others involved with implementation
- Public meetings to discuss implementation questions
- Clear communication about next steps for each issue
- Staff papers, meeting summaries and summary of stakeholder questions available on
  
  [www.fasb.org](http://www.fasb.org) OR [go.ifrs.org/RTRG](http://go.ifrs.org/RTRG)
How to Submit an Issue to the TRG

- Any stakeholder can submit a potential implementation issue
  - We encourage submissions as soon as possible

- Issue submitted about new revenue guidance should:
  - Involve guidance that can be applied in different ways resulting in diversity in practice
  - Be pervasive (relevant to wide group of stakeholders)

- Staff will read all submissions and prioritize issues for discussion

- Visit FASB website to submit an issue
A majority of the TRG issues were educational
Input from TRG led to amendments to clarify the Boards’ intent for a handful of issues
Next meeting scheduled on November 7, 2016 (FASB-only with IASB observer)

*Data as of September 2016
**55 issues discussed at Joint TRG meetings; 5 issues discussed during FASB TRG meeting (with IASB as an observer)
Where are the issues?

- Identify the performance obligations (Step 2) 16
- Determine the transaction price (Step 3) 14
- Recognize revenue when (or as) the… 12
- Scope 11
- Presentation and disclosure 10
- Identify the contract(s) with a customer (Step 1) 10
- Contract costs 7
- Principal vs. Agent 5
- Licensing 5
- Allocate the transaction price (Step 4) 4
- Transition 3
Standard Setting

- Targeted amendments to clarify how the principles of the new revenue standard should be applied

<table>
<thead>
<tr>
<th>Performance obligations</th>
<th>Clarify the application of ‘separately identifiable’ notion</th>
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<tbody>
<tr>
<td>Licensing</td>
<td>Clarify the criteria for determining the nature of licence of IP and application of royalty exception</td>
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<tr>
<td>Principal versus agent</td>
<td>Clarify that the determination is based on the ‘control’ principle and how that principle is applied</td>
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- New practical expedients and transition relief to reduce cost and complexity
## Transition

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<tr>
<td>Full Retrospective*</td>
<td><strong>Cumulative catch-up</strong></td>
<td>Contracts under <strong>new</strong> standard</td>
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<tr>
<td>Modified Retrospective*</td>
<td>Contracts under <strong>legacy</strong> standard</td>
<td><strong>Cumulative catch-up</strong></td>
<td>Existing and new contracts under <strong>new</strong> standard</td>
<td>Existing and new contracts under <strong>legacy</strong> standard for CY (2018)</td>
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</tbody>
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* Optional practical expedients available
Effective Date

- Public entities – 2018 (annual and interim periods)
- Nonpublic entities – 2019 (annual periods); 2020 (interim periods)
- Earlier adoption as of original effective date (2017) permitted

**Effective date is deferred for all entities by one year.**

The effective dates for Topic 606 and IFRS 15 for public entities are aligned.
Key Takeaways

- 2018 is closer than you think…get started on implementation
- Take a fresh look at your accounting, revenue disclosure, and internal controls
- Leverage FASB, IASB, and other implementation resources
- Implementation of new disclosures should not be an afterthought
Q&A