

This newsletter is to give an insight to the new published guidance adding clarification to certain areas of the Standard as well as guidance on practical expedients.

New Guidance

In April 2016, the International Accounting Standards Board (the Board) issued amendments to IFRS 15 Revenue from Contracts with Customers, clarifying some requirements and providing additional transitional relief for companies that are implementing the new Standard. The amendments give clarification on how to:

- identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract;
- determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and
- determine whether the revenue from granting a licence should be recognised at a point in time or over time.

Identifying performance obligations

The amendment has given some additional illustrative factors to consider when determining when performance obligations are distinct.

These factors include: whether the goods or services are inputs to produce or deliver a combined output; whether the goods or services promised in the contract modify or customise or are significantly modified or customised by one or more of the other; and whether the goods or services are highly interdependent or interrelated.

Principal versus agent considerations

The amendment clarifies that entities are to assess whether they are a principal or agent on each specified good or service promised to the customer. As such, entities are required to identify each good or service to be provided to the customer and assess whether they control each good or service before that good or service is transferred to the customer. For example an entity is a principal if it is primarily responsible for fulfilling the promise to provide the specified good or service, the entity has inventory risk and the entity has discretion in establishing the prices for the specified good or service.

Indicators to assess whether entities are a principal or agent are amended as follows:

- There is additional guidance to explain how each indicator supports the assessment of control.
- The indicators are reframed to indicate when an entity is a principal rather than when an entity is an agent.

- The indicator relating to the form of the consideration is removed as this indicator would not be helpful in assessing whether an entity is a principal.
- The indicator relating to exposure to credit risk is also removed as credit risk is generally not a helpful indicator when assessing whether an entity controls the specified goods or services.

Licensing application guidance

IFRS 15 contains application guidance on an entity's promise to grant a licence of its intellectual property ("IP") and requires entities to determine whether the licence grants customers a right to use the underlying IP (which would result in point in time revenue recognition) or a right to access the IP (which would result in revenue recognition over time). This determination is based on whether the licensor's ongoing activities are expected to significantly affect the underlying IP.

The amendments clarify that in making this assessment, an entity is required to determine whether (i) those activities are expected to significantly change the form or the functionality of the IP or (ii) the ability of the customer to obtain benefit from the IP is substantially derived from or dependent upon those activities.

If the IP has significant stand-alone functionality (i.e. the entity's activities do not significantly affect the functionality of the IP), the licence would be a right to use IP, and revenue would be recognised at a point in time.

Practical expedients upon transition

• Completed contracts

The amendment give entities the option to apply another practical expedient when using the full retrospective transition approach. Under this expedient, entities are permitted to exclude the evaluation of any contract that was completed at the beginning of the earliest period presented. The purpose of this practical expedient is to reduce the population of contracts to which an entity will need to apply IFRS 15, in order to reduce the effort and cost of initial application.

• Contracts modifications

Additionally, entities are not required to apply the requirements for contracts modifications retrospectively for those contracts that were modified before the beginning of the earliest period presented. Instead, an entity is required to reflect the aggregate effect of those modifications when: identifying the satisfied and unsatisfied performance obligations; determining the transaction price; and allocating the transaction price to the satisfied and unsatisfied performance obligations.

Effective date

Entities are required to apply the amendments for annual periods beginning on or after 1 January 2018. Earlier application is permitted.