



IFRS IN PRACTICE 2019

IFRS 15 Revenue from Contracts with Customers: Transition

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INTRODUCTION

For all entities applying IFRS, IFRS 15 *Revenue from Contracts with Customers* came into effect for annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted. This means for those entities applying the full retrospective transition method with a 31 December year end, the transition date is 1 January 2017.

IFRS 15 sets out a single and comprehensive framework for revenue recognition. The guidance in IFRS 15 is considerably more detailed than existing IFRSs for revenue recognition (IAS 11 *Construction Contracts* and IAS 18 *Revenue* and associated Interpretations), including extensive application guidance and illustrative examples.

For many entities applying IFRS, IFRS 15 will bring about significant changes as to when revenue will be recognised and introduce a significant degree of complexity in identifying what goods or services have been provided to a customer, measuring the value of the goods and services to the customer and determining when each performance obligation has been satisfied.

Entities need to determine the impact of this new standard. They will need to identify which contracts and transaction types will be impacted, determine which process and systems will require modifying and communicate impacts to stakeholders.

Many entities enter into long-term contracts with customers that straddle the transition dates (i.e. 1 January 2017 and 1 January 2018). IFRS 15 permits a number of different approaches to transitioning to IFRS 15; these various approaches will result both in different reported profit and loss and in different levels of complexity.

Although when issued in 2014, IFRS 15 was fully converged with US GAAP (ASC 606) following amendments made by the FASB and IASB, the standards are no longer fully converged.

2. TRANSITIONAL PROVISIONS

The transitional requirements, set out in Appendix C of the standard, define the term 'date of initial application', which is the start of the reporting period in which an entity first applies IFRS 15. This date is relevant for a number of transitional options that are available.

The other key defined term in Appendix C is 'completed contract' being a contract for which the entity has transferred all of the goods or services identified in accordance with IAS 11, IAS 18 and related interpretations.

There are two methods under which IFRS 15 can be adopted – the Retrospective Method (with or without one or more of four practical expedients) and the Cumulative Effect Method. The requirements of each of these methods are summarised in the following diagram:

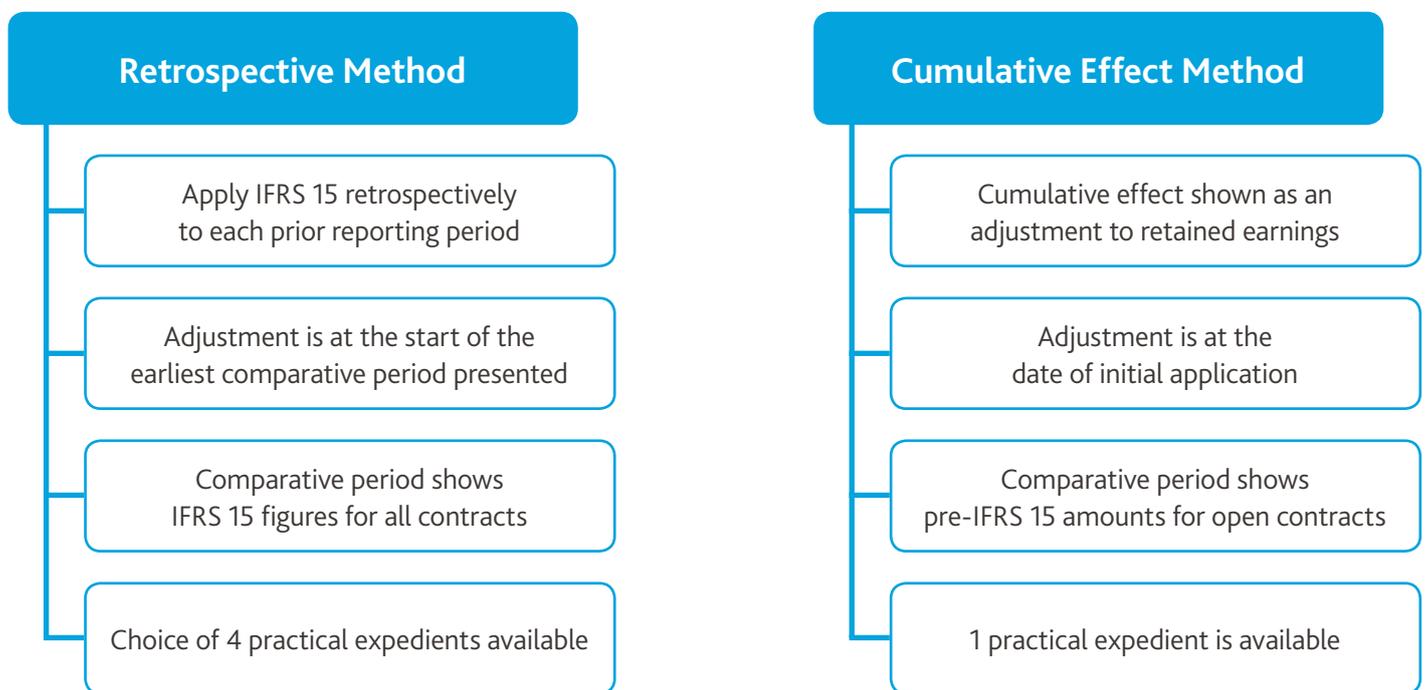


Figure 1: Transitional options

The four practical expedients, which are available when the Retrospective Method is adopted, are:

- For completed contracts that begin and end within the same annual reporting period or are completed contracts at the beginning of the earliest period presented an entity need not restate these contracts. Although this simplifies transition, for entities that publish half yearly or quarterly financial reports, comparative information might not be comparable;
- For completed contracts that have variable consideration, an entity can use the transaction price at the date the contract was completed rather than having to estimate the variable consideration amounts that existed in the comparative reporting periods;
- For contracts that were modified on two or more occasions before the beginning of the earliest period presented, an entity may elect not to retrospectively restate the contact for those modifications and instead will reflect the aggregate effect of all modifications that occur before the beginning of the earliest period presented when identifying satisfied and unsatisfied performance obligations, determining the transaction price and allocating the transaction price to performance obligations;
- For all reporting periods presented before the date of initial application, it is not necessary to disclose the amount of the transaction price allocated to the remaining performance obligations or disclose an explanation of when that amount is expected to be recognised as revenue.

If the Cumulative Effect Method is used, the practical expedient related to contract modifications may be applied for all contract modifications occurring before the beginning of the earliest period presented or modifications that occur before the date of initial application.

The examples in Section 4. illustrate the effect of choosing each of the options on the current and prior year financial statements. The disclosure section of this publication highlights the different disclosure requirements of each option.

While the transitional provisions give some relief to entities when adopting IFRS 15, the options mean that it can be challenging to determine which approach is the most appropriate. Entities should begin their analysis now to identify which options are best suited to their needs and those of users of their financial statements, and are relevant to their transactions that give rise to revenue.

– **Retrospective Method**

While the Retrospective Method requires more effort, it provides a clearer financial picture for users since the current year and comparative figures are both under IFRS 15. This is relevant information to perform trend and variance analysis.

– **Cumulative Effect Method**

At a first glance, the Cumulative Effect Method may be more appealing since it is an easier method to apply and the comparative figures remain unchanged. However, using the Cumulative Effect Method also impairs the comparability of current year financials to prior years because of the application of different standards. This can be problematic for users of financial statements who want to see trend and variance analysis.

BDO comment

Entities must assess the needs of the users of their financial statements, the impact of the method chosen, and the cost of compliance when deciding which approach to follow. The choice may also be influenced by the elections made by competitors and industry peers.

Below are four common examples of contracts that may result in a change in revenue recognition from current practice. It is assumed that in these scenarios, the vendor has a calendar year end and will adopt IFRS 15 on 1 January 2018. The impact of the new standard in the year of adoption along with comparative information for the 2017 year has been shown. Each example has a brief discussion on any changes in accounting from IAS 11 and IAS 18 to IFRS 15, and it also compares the Retrospective Method to the Cumulative Effect Method.

3. COMMON EXAMPLES ON TRANSITION

3.1. Example 1 – Change in timing of revenue recognition

Example 1

A vendor (a music record label) licenses a specified recording of a Beethoven symphony to a customer from 1 March 2017 to 28 February 2018. The customer has the right to use the recording in all types of advertising campaigns (including television, radio and online media) in a specified country. The contract is non-cancellable and the customer is required to pay CU 1,000 per month. The nature of the vendor's promise to its customer is to provide access to the recording in its condition as at the start of the license period.

Accounting under IAS 18	Accounting under IFRS 15
The accounting for the license was recognised straight-line over 12 months.	The customer's rights to the intellectual property are static and the vendor's performance obligation is satisfied at a point in time. The vendor recognises all of the revenue at the point at which the customer is able to use, and obtain substantially all the benefits, of the licensed intellectual property.

Analysis of Transition under IFRS 15

Retrospective Method	Cumulative Effect Method
The 2017 comparative figures are adjusted for IFRS 15 accounting.	Revenue for 2017 as reported under IAS 18 is not adjusted, because the new standard is only applied from the date of initial application. At the date of initial application (1 January 2018), an adjustment is made to opening retained earnings for the difference in revenue that would have been recorded in previous periods under the new standard.

	2017	2018
Revenue reported in profit or loss		
IAS 18 – Revenue	CU 10,000	CU 2,000
Retrospective Method – Revenue	CU 12,000	-
Cumulative Effect Method – Revenue	CU 10,000	-
Effect on opening retained earnings		
Cumulative Effect Method – Adjustment to opening retained earnings	-	CU 2,000

BDO comment

In this example, CU 2,000 more revenue is recognised through the income statement under the Retrospective Method than under the Cumulative Effect Method. Under the Cumulative Effect Method this CU 2,000 difference will not be recognised as revenue through the income statement, as it is an adjustment to opening retained earnings in 2018.

3.2. Example 2 – Treatment of a contract that has variable consideration

Example 2

A vendor enters into an 18 month contract with a customer to provide call centre services for a retail customer on 1 November 2016. The consideration includes a fixed amount of CU 180,000 plus an additional amount of up to an additional CU 100,000 if certain service levels are attained regarding customer wait times. The additional amount is earned as follows:

- CU 100,000 if service levels achieved by 30 April 2017
- CU 50,000 if service levels achieved by 31 December 2017.

The vendor attained the service level on 1 December 2017 and became entitled to CU 50,000.

Analysis of Transition under IFRS 15

Accounting under IAS 18	Accounting under IFRS 15
<p>The vendor recognised revenue on a straight line basis over the contract term. The service levels were assessed at each reporting date to determine whether the additional consideration was earned. At the inception of the contract, the additional amount of consideration was not recorded; rather, the vendor recognised the consideration only once the service levels were met. (i.e. CU 50,000 of 'one off' revenue recognised in 2017 when the service level was achieved).</p>	<p>An analysis of the contractual terms indicates that revenue will continue to be recognised on a straight line basis over the contract term. In determining the transaction price, the vendor considers the approach that will best predict the amount of consideration that it will ultimately be entitled to, and determines that the most likely amount method is the appropriate approach.</p> <p>The estimated amount of variable consideration is updated at each reporting date to reflect the position at that date, and any changes in circumstances since the last reporting date.</p> <p>Variable consideration is estimated at CU 50,000 at the inception date. This amount would have been included in the transaction price, because it was highly probable that it would not be subject to a significant reversal in the future (Monthly revenue = CU 230,000 / 18 = CU 12,778). The vendor re-evaluates the estimate of variable consideration each reporting period, and determines that there were no changes in the estimate.</p>

Example 2 (continued)

	2017	2018
Revenue reported in profit or loss		
IAS 18 – Revenue	CU 170,000	CU 40,000
Retrospective Method – Revenue	CU 153,333	CU 51,111
Cumulative Effect Method – Revenue	CU 170,000	CU 51,111
Effect on retained earnings		
Retrospective Method – Adjustment to opening retained earnings	CU 5,556	-
Cumulative Effect Method – Adjustment to opening retained earnings	-	CU 11,111

BDO comment

Since the contract commenced in 2016, there would be an opening retained earnings adjustment in the 2017 comparative period for an entity using the Retrospective Method (assuming only one year of comparative amounts are included in the financial statements). The adjustment amount is the difference between the amount recorded under IAS 18 and the amount that would have been recorded under IFRS 15. Under IAS 18 two months revenue at CU 10,000 per month (CU 20,000) would be recognised, under IFRS 15 two months revenue at CU 12,778 per month (CU 25,556). As a result there will be CU 5,556 of revenue that is not recognised through the income statement using the Retrospective Method, compared to CU 11,111 if the Cumulative Effect Method is used.

3.3. Example 3 – Treatment of a multiple deliverable arrangement

Example 3

A vendor enters into a 2 year contract with a customer to supply a licence for a standard 'off the shelf' software package, install the software, and to provide upgrades and technical support for a period of two years on 1 June 2016 for CU 480,000. The vendor sells the licence, and upgrade and technical support, separately and the installation service is routinely provided by a number of other unrelated vendors. The software is functional without the upgrades and technical support.

Accounting under IAS 18	Accounting under IFRS 15
<p>The provider treated the contract as a single deliverable. Revenue was recognised for the arrangement on a straight-line basis over the 2 year contract term at CU 20,000 per month.</p>	<p>It is concluded that the customer can benefit from each of the goods or services either on their own or together with other goods or services that are readily available to the customer. In addition, each of the promises to transfer goods or services is separately identifiable; because the installation services do not significantly modify or customise the software, the installation and software are separate outputs promised by the vendor, and not one overall combined output.</p> <p>The following distinct goods or services are identified along with their relative fair values:</p> <ul style="list-style-type: none"> – Software licence – CU 260,000 – Installation service – CU 100,000 – Technical support – CU 120,000. <p>The revenue attributable to the licence and installation service is recognised at the delivery date of 1 June 2016.</p> <p>The technical support is satisfied over time and it is determined that its progress is best depicted by expected direct labour hours as follows:</p> <ul style="list-style-type: none"> – 2016 – 100 hours – 2017 – 300 hours – 2018 – 200 hours. <p>The total expected labour hours at inception of the contract were 600.</p>

Analysis of Transition under IFRS 15

Retrospective Method	Cumulative Effect Method
<p>Revenue for the software licence and installation is recognised in 2016, when delivered. As a result the amount is shown as an adjustment to opening retained earnings.</p>	<p>Revenue for 2017 as reported under IAS 18 is not adjusted, because the new standard is only applied from the date of initial application.</p> <p>At the date of initial application (1 January 2018), an adjustment is made to adjust opening retained earnings for the difference in revenue that would have been recorded in previous periods under the new standard.</p>

Example 3 (continued)

	2017	2018
Revenue reported in profit or loss		
IAS 18 – Revenue	CU 240,000	CU 100,000
Retrospective Method – Revenue	CU 60,000	CU 40,000
Cumulative Effect Method – Revenue	CU 240,000	CU 40,000
Effect on retained earnings		
Retrospective Method – Adjustment to opening retained earnings	CU 240,000	-
Cumulative Effect Method – Adjustment to opening retained earnings	-	CU 60,000

BDO comment

Since the contract commenced in 2016, there would be an opening retained earnings adjustment in the 2017 comparative period for an entity using the Retrospective Method. The adjustment amount is the difference between the amount recorded under IAS 18 and the amount that would have been recorded under IFRS 15. As a result there will be CU 240,000 of revenue that is not recognised through the income statement using the Retrospective Method, compared to CU 60,000 if the Cumulative Effect Method is used.

3.4. Example 4 – Treatment of a contract modification

Example 4

A vendor enters into a contract with a customer to sell 200 units of a product for CU 16,000 (CU 80 per unit). These are to be supplied evenly to the customer over a ten month period commencing on 1 April 2017 (20 units per month) and control over each unit passes to the customer on delivery. On 1 December 2017, after 160 units have been delivered, the contract is modified to require the delivery of an additional 80 units (20 units per month). This is in addition to the remaining 40 units that have not yet been delivered under the terms of the original contract.

At the point at which the contract is modified, the stand-alone selling price of one unit of the product has declined to CU 75. In accordance with the requirements of IFRS 15, the additional units to be delivered are distinct. The selling price of the additional 80 units is CU 65.

Accounting under IAS 18	Accounting under IFRS 15
<p>The vendor recognised revenue of CU 80 per unit for the first 200 units evenly over the ten months. The additional units are accounted for as being sold under a new and separate contract from the units to be delivered under the terms of the original contract. Revenue is recognised at an amount of CU 65 per unit for the 80 units that are added as a result of the contract modification.</p>	<p>In this case, the selling price of the additional units is not the stand-alone price at the date of contract modification. Consequently, for accounting purposes, the original contract is considered to be terminated at the point of contract modification. The remaining units to be sold that were covered by the original contract, together with the additional units from the contract modification, are combined and accounted for as being sold under a new contract. The amount of revenue recognised for each of the units is a weighted average price of CU 70. This is calculated as $((40 \text{ units} \times \text{CU } 80) + (80 \text{ units} \times \text{CU } 65)) / 120$.</p>
Analysis of Transition under IFRS 15	
<p>Retrospective Method</p> <p>Revenue for the original 160 units is recognised as delivered at a price of CU 80 per unit. When the contract is modified, the remaining 40 units plus the additional 80 units are recognised at a price of CU 70 per unit.</p>	<p>Cumulative Effect Method</p> <p>Revenue for 2017 as reported under IAS 18 is not adjusted, because the new standard is only applied from the date of initial application.</p> <p>At the date of initial application (1 January 2018), an adjustment is made to adjust opening retained earnings for the difference in revenue that would have been recorded in previous periods under the new standard.</p>

Example 4 (continued)

	2017	2018
Revenue reported in profit or loss		
IAS 18 – Revenue	CU 15,700	CU 5,500
Retrospective Method – Revenue	CU 15,600	CU 5,600
Cumulative Effect Method – Revenue	CU 15,700	CU 5,600
Effect on retained earnings		
Cumulative Effect Method – Adjustment to opening retained earnings	-	CU (100)

BDO comment

In this example, CU 100 less revenue is recognised through the income statement under the Retrospective Method than under the Cumulative Effect Method. This CU 100 difference is recognised as an adjustment to opening retained earnings in 2018 under the Cumulative Effect Method and the total revenue recognised through the income statement under the Cumulative Effect Method is greater than the total consideration received under the contract because some revenue is recognised twice.

4. PRACTICAL EXPEDIENTS

- There are four practical expedients available to ease the transition to IFRS 15 for entities using the retrospective approach.
- One practical expedient is available if the Cumulative Effect Method is used
- An entity can choose to use one or more of the practical expedients.
- The practical expedients need to be applied consistently to all contracts within all reporting periods.
- Completed contracts as used in practical expedients one and two below are defined as contracts for which the entity has transferred all of the goods or services identified in accordance with IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related Interpretations.

The illustration below explains each practical expedient (PE).

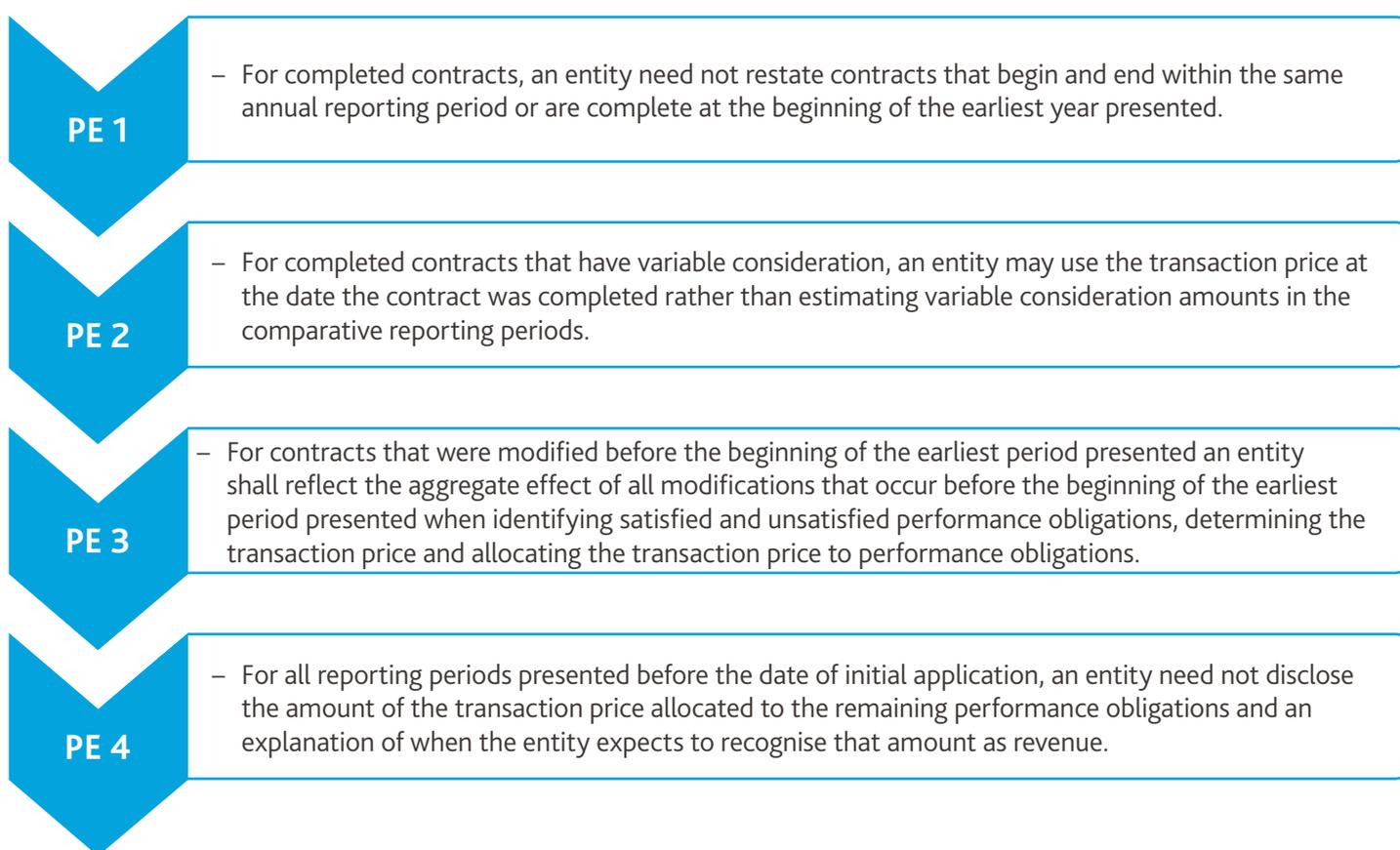


Figure 2: Practical expedients

If the Cumulative Effect Method is used, PE 3 may be applied for all contract modifications occurring before the beginning of the earliest period presented or modifications that occur before the date of initial application.

Three additional examples are set out below, which illustrate the application of practical expedients one, two and three.

4.1. Example 5 – PE 1 Contracts beginning and ending in the same annual reporting period

Example 5

A customer enters into a contract to purchase software code for CU 1,000 on 1 February 2017. The code will be delivered on 1 May 2017. The vendor will develop the code over the three month period.

Accounting under IAS 18	Accounting under IFRS 15	
The vendor recognised revenue of CU 1,000 on 1 May 2017 when the code was delivered.	The vendor determines that the control transferred over time and that revenue should be recognised over time using a percentage of completion method.	
Analysis of Transition under IFRS 15		
Retrospective Method	Cumulative Effect Method	
There is no impact on revenue presented for the 2017 year because the contract is completed within the same annual period.	Revenue for 2017 as reported under IAS 18 is not adjusted, because the new standard is only applied from the date of initial application (1 January 2018).	
Practical expedient 1 is available because the contract began and was completed in the same annual reporting period under IAS 18. Assuming it was elected, the entity is not required to assess the contract under IFRS 15.		
	2017	2018
Revenue reported in profit or loss		
IAS 18 – Revenue	CU 1,000	-
Retrospective Method – Revenue	CU 1,000	-
Cumulative Effect Method – Revenue	CU 1,000	-

BDO comment

In this example, there is no adjustment to the 2017 figures reported under the Retrospective Method or the Cumulative Effect Method. However, if the entity reported quarterly, there would be an effect on amounts reported in the 2017 comparative periods. This could give rise to a loss of comparability. Assume that in the example above, there was an identical contract in 2018. The following amounts would be reported in the Q1 and Q2 2018 interim reports:

	Q1 2017	Q2 2017	Q1 2018	Q2 2018
Revenue reported in profit or loss				
Retrospective Method – No practical expedient	CU 666	CU 334	CU 666	CU 334
Retrospective Method – Practical expedient	-	CU 1,000	CU 666	CU 334

4.2. Example 6 – PE 2 Treatment of a completed contract that has variable consideration

Example 6

A vendor enters into a 12 month contract with a customer to construct a shopping mall starting on 1 November 2016. The amount of consideration specified in the contract is CU 12 million. However, that amount will be decreased by CU 0.5 million if, by the time the first shopping mall has been completed, the customer engages the vendor to construct a second shopping mall. At the inception of the contract, the vendor did expect to be awarded the second contract. By completion of the first contract, the vendor had not been awarded the second construction contract and, as a result, no price concession was applied.

Accounting under IAS 11	Accounting under IFRS 15
<p>The vendor recognised revenue on a percentage of completion basis over the contract term based on the expectation that the second contract would be awarded.</p>	<p>Revenue will continue to be recognised on a percentage of completion basis. In determining the transaction price, the vendor considers the approach that will better predict the amount of consideration that it will ultimately be entitled to, and determines that the most likely amount method is the appropriate approach. This is because there are only two possible outcomes; either the price concession will be applied or it will not. The estimated amount of variable consideration is updated at each reporting date to reflect the position at that date, and any changes in circumstances since the last reporting date.</p> <p>Variable consideration is estimated at CU 0.5 million at the inception date. This amount would have decreased the transaction price, because, at contract inception, if the full amount had been recognised it would not have been highly probable that it would not be subject to a significant reversal in the future. The vendor re-evaluated the estimate of variable consideration 31 December 2017 and determined that there were no changes in the estimate.</p>

Analysis of Transition under IFRS 15

Retrospective Method

Without applying any practical expedients, the 2017 comparative figures are adjusted for IFRS 15 accounting. The vendor includes its estimate of the amount of variable consideration in the transaction price at the inception of the contract and the transaction price is recognised over time.

Practical expedient 2 is available because the contract has variable consideration and was completed by the date of initial application of the new standard. Assuming it was elected, the vendor would record the transaction price at the date the contract was completed rather than estimating variable consideration amounts in the comparative reporting periods.

Cumulative Effect Method

Revenue for 2016 and 2017 reported under IAS 18 is not adjusted, because the new standard is only applied from the date of initial application.

Example 6 (continued)

	2017	2018
Revenue reported in profit or loss		
IAS 11 – Revenue	CU 10.1 m ¹	-
Retrospective Method – Revenue with no practical expedient	CU 10.1 m ²	-
Retrospective Method – Revenue with practical expedient two	CU 10 m ³	-
Cumulative Effect Method – Revenue	CU 10.1 m ⁴	-
Effect on retained earnings		
Retrospective Method – PE 3 Revenue with practical expedient two	CU 0.1 m	-

¹ CU 10.1 m of revenue is recognised in 2017 under IAS 11 as this is the difference between the ultimate contract value (CU 12 m) and the revenue recognised in 2016 (CU 1.9 m). Revenue recognised in 2016 is calculated as CU 11.5 m x 2/12. CU 11.5 m is the transaction price in 2016 under IAS 11 since the vendor expected to be awarded the second construction contract, which reduced the transaction price.

² Revenue recognised under IFRS 15 (retrospective method – no practical expedients) for 2017 is the same as under IAS 11. This is because under IFRS 15, the vendor would use CU 11.5 m as the transaction price in 2016 due to the variable consideration constraint discussed above. Revenue recognised in 2017 would be the difference between the ultimate transaction price (CU 12 m) and revenue recognised in the previous period, which presumed the discount would be given, due to the variable consideration constraint.

³ Revenue recognised under IFRS 15 (retrospective method – with practical expedient two) differs from IAS 11/IFRS 15 with no practical expedients because practical expedient two allows the vendor to utilise hindsight in determining the transaction price in 2016. In transitioning to IFRS 15, the vendor knew the ultimate outcome of the contract; they were not awarded the second construction contract, and therefore, no discount was given. Therefore, revenue recognised in 2016 is CU 2 m (CU 12 m total x 2/12) and revenue recognised in 2017 is CU 10 (CU 12 x 10/12). These calculations use the ultimate transaction price in the contract (CU 12 m) as opposed to the 'constrained' amount (CU 11.5 m) since hindsight is utilised in establishing the transaction price.

⁴ Revenue recognised under IFRS 15 (cumulative effect method) is the same as revenue as determined under IFRS 15 (modified retrospective approach – no practical expedients) because neither method permits hindsight to be used in determining the transaction price in 2016, which affects the revenue recognised in 2017.

BDO comment

In this scenario the practical expedient will require an adjustment to opening retained earnings. In this scenario under IAS 11 and IFRS 15, the treatment of the variable consideration is consistent. If using the practical expedient, the accounting would have to be adjusted to reflect the CU 12 million throughout the term of the contract.

4.3. Example 7 – PE 3 Treatment of contract modifications

Example 7

Company A manufactures widgets and has a 10 year supply contract in 2014 with a customer to provide a specified number of widgets. The price and the number of widgets is modified regularly (3-4 times a year) based on discussions with the customer.

Accounting under IAS 18	Accounting under IFRS 15
Under IAS 18 revenue was recognised based on the agreed upon transaction price for each unit. There was no guidance in IAS 18 on contract modifications.	Under IFRS 15 each change to the terms of the contract would have to be assessed to determine if it created a new contract in addition to the original contract or if it was a contract modification. If it is a contract modification, it would then have to be determined if the modification is the termination of the old contract and establishment of a new contract, a continuation of the existing contract or a combination of the two approaches.

Analysis of Transition under IFRS 15

Retrospective Method

Without applying any practical expedients, the 2017 comparative figures are adjusted for IFRS 15 accounting. This would involve analysing each change in terms since inception of the contract to determine how the change in terms should be accounted for.

Practical expedient 3 is available because a number of contract modifications took place before the earliest year presented. The practical expedient allows the use of hindsight. This results in aggregating the impact of all modifications prior to the earliest year presented and inclusion of them in the identification of the satisfied and unsatisfied performance obligations, determination of the transaction price and allocation of the transaction price to the performance obligations.

Cumulative Effect Method

Revenue for 2017 reported under IAS 18 is not adjusted, because the new standard is only applied from the date of initial application.

Instead, at the date of initial application (1 January 2018), an adjustment is made to opening retained earnings for the difference in revenue that would have been recorded in previous periods under the new standard. To make this determination, a similar analysis to Retrospective Method would be undertaken.

Practical expedient 3 is available because a number of contract modifications took place before the earliest year presented. If the Cumulative Effect Method is used the practical expedient can be applied at either the beginning of the earliest year presented or the date of initial application. The practical expedient allows the use of hindsight. This results in aggregating the impact of all modifications prior to the earliest year presented and include them in identifying the satisfied and unsatisfied performance obligations, determining transaction price and allocating the transaction price to the performance obligations.

BDO comment

Use of the practical expedient from contract modifications will significantly reduce the effort required on transition for contracts that have been subject to multiple modifications.

5. COMPLETED CONTRACTS WITH VARIABLE CONSIDERATION

A common issue that arises in practice is a completed contract that has an element of variable consideration which, as at the transition date, remains uncertain. In these cases PE 1, the completed contracts practical expedient, should be considered. This is illustrated by the following fact pattern:

- Company A entered into a customer contract in 2015 that was also completed in that year (i.e. all performance obligations had been satisfied in 2015, prior to the date of initial application of IFRS 15);
- The contract includes an element of variable consideration which as at 1 January 2017 remains unresolved.

Company A would account for any ongoing variability in the revenue amount associated with the contract by continuing to apply the accounting policy it has previously adopted under IAS 18 *Revenue*.

6. TRANSITIONAL DISCLOSURES

IFRS 15 *Revenue from Contracts with Customers* includes specific transitional disclosures which generally supplement the transitional or change in accounting policy disclosure requirements of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. An entity is required to provide an explanation to users of financial statements about which practical expedients were used and, to the extent reasonably possible, a qualitative assessment of the estimated effect of applying those practical expedients.

6.1. Retrospective transitional disclosure

If an entity applies IFRS 15 retrospectively comparative information would be restated. An entity applying a new accounting policy is required to follow IAS 8, including disclosure for the current period and each prior period presented, to the extent practicable, the amount of the adjustment:

- i. For each financial statement line item affected; and
- ii. If IAS 33 *Earnings per Share* applies to the entity, for basic and diluted earnings per share.

However, under the IFRS 15 transitional disclosures an entity need only present this quantitative information for the annual period immediately preceding the first annual period for which the new standard is applied. An entity may also present this information for the current period or for earlier comparative periods, but is not required to do so. In addition, an entity is also required to provide an explanation of the reasons for any significant changes in the current year.

6.2. Cumulative catch up transitional disclosure

Under the cumulative catch-up transition method the comparative information will not be restated. As a result additional disclosures are required to help users of financial statements understand the effect on trend information. Consequently, when an entity uses the cumulative catch-up transition method, the entity is required to disclose the following information for reporting periods that include the date of initial application:

- a) The amount by which each financial statement line item is affected in the current year as a result of the entity applying IFRS 15 rather than previous revenue Standards in IFRS; and
- b) An explanation of the reasons for the significant changes in those financial statement line items.

BDO comment

To provide the required disclosures, an entity would have to determine the amounts recognised under the previous revenue standards in the year of initial application. This is the only way to determine the effect of applying IFRS 15 on each line item in the current year.

6.3. Remaining performance obligation disclosure

IFRS 15 requires an entity to disclose information about its remaining performance obligations, including 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 an explanation of when the entity expects to recognise that amount as revenue. However, as a practical expedient on transition, for periods presented before the date of initial application, an entity need not disclose the amount of the transaction price allocated to the remaining performance obligations and an explanation of when the entity expects to recognise that amount as revenue.

CONTACT

For further information about how BDO can assist you and your organisation, please get in touch with one of our key contacts listed below.

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