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What you need to know

• The TRG held four meetings since its inception to discuss a number of implementation issues. Two more meetings are scheduled for the second half of 2015.

• During the discussions, TRG members reached general agreement on many topics, which are summarised in this publication.

• Although the views expressed by TRG members are non-authoritative, they represent the latest thinking on each topic; entities should consider these views as they implement the standards.
Overview

The International Accounting Standards Board (IASB) and Financial Accounting Standards Board (FASB) (collectively, the Boards) created the Joint Transition Resource Group for Revenue Recognition (TRG) to help them determine whether more application guidance is needed on their new revenue standards.¹ TRG members include financial statement preparers, auditors and users from a variety of industries, countries and public and private entities. This publication summarises the issues on which members of the TRG generally agreed at meetings in 2014 and 2015.

While any views expressed by the members of the TRG are non-authoritative, they represent the latest thinking on each topic and entities should consider them as they implement the standards. Our summary, which is organised both by the step within the standards’ five-step model and by TRG discussion topic, is not intended to replace any summaries provided by the TRG or the Boards. We will update this publication periodically. For more information about these issues and issues the TRG discussed, but about which it did not reach general agreement, see our publications on TRG meetings, which are available on www.ey.com/ifrs.

1. Step 1: Identify the contract(s) with a customer

1.1 Collectability

Under the standards, collectability refers to the customer’s ability and intent to pay the amount of consideration to which the entity expects to be entitled. The Boards concluded that assessing a customer’s credit risk is an important part of determining whether a contract, as defined by the standards, exists. If an arrangement does not meet the collectability criterion (or any of the other criteria) to be considered a contract under the standards, an entity can only recognise non-refundable consideration received as revenue when one of two events has occurred: (1) the entity has completed performance and received substantially all consideration; or (2) the contract has been terminated.

How would an entity assess collectability for a portfolio of contracts? [TRG meeting 26 January 2015]

TRG members generally agreed that if an entity has determined it is probable that a specific customer will pay amounts owed under a contract, but the entity has historical experience that it will not collect consideration from some customers within a portfolio of contracts, it would be appropriate for the entity to record revenue for the specific contract in full and separately evaluate the corresponding contract asset or receivable for impairment.

¹ IFRS 15 Revenue from Contracts with Customers/Accounting Standards Update 2014-09, Revenue from Contracts with Customers (largely codified in Accounting Standards Codification (ASC) 606).
Some TRG members cautioned that the analysis to determine whether to recognise a bad debt expense for a contract in the same period in which revenue is recognised (instead of reducing revenue for an anticipated price concession) will require judgement.

When would an entity reassess collectability? [TRG meeting 26 January 2015]
The standards require an entity to evaluate, at contract inception (and when significant facts and circumstances change), whether it is probable that it will collect the consideration to which it expects to be entitled (i.e., the transaction price, not the stated contract price). TRG members generally agreed that entities would need to exercise judgement to determine whether changes in the facts and circumstances require a reassessment of collectability. Judgement would also be needed to determine whether changes in facts and circumstances are significant enough to indicate that a contract no longer exists under the standards.

How would an entity assess whether a contract includes a price concession? [TRG meeting 26 January 2015]
The Boards indicated that an entity’s belief that it will receive partial payment for performance may be sufficient evidence that an arrangement meets the definition of a contract (and that the expected shortfall of consideration is more akin to a price concession).

TRG members generally agreed that entities would need to exercise judgement. They also acknowledged that it may be difficult in some cases to distinguish between price concessions, impairment and a lack of sufficient commercial substance to be considered a contract under the standards.

While this topic was not on the TRG agenda, TRG members questioned whether the Boards intended to indefinitely delay recognition of non-refundable cash consideration received in a number of situations (e.g., a month-to-month service arrangement when the entity continues to perform). [TRG meeting 26 January 2015]
TRG members raised this issue in their discussion and generally agreed that the Boards’ intent was not clear.

At the Boards’ March 2015 joint meeting, the FASB decided to propose an amendment to its standard to clarify that a contract would be terminated when an entity has the ability to stop transferring goods or providing services and has actually done so. The FASB also decided to propose an amendment its standard to refine the requirements in the Step 1 collectability threshold and/or add or amend examples to clarify that an entity would consider the probability of collecting the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer, rather than the total amount promised.

The IASB continued to discuss this topic at its April 2015 meeting. The IASB decided not to make any clarifications or amendments to IFRS 15 in respect of the Step 1 collectability threshold. The IASB noted that sufficient guidance exists within IFRS 15 and in the explanatory material in the Basis for Conclusions.

The Boards have discussed some issues that were referred by the TRG.
1.2 Contract enforceability and termination clauses

Under the standards, termination clauses are an important consideration when determining whether both parties are committed to perform under a contract and, consequently, whether a contract, as defined by the standards, exists.

How would termination clauses be evaluated in determining the duration of a contract (i.e., the contractual period)? [TRG meeting 31 October 2014]

TRG members generally agreed with the conclusions reached in the examples included in the staffs’ issue paper on this topic. For example, if a contract with a stated contractual term can be terminated by either party at any time, for no consideration, TRG members generally agreed that the arrangement should be treated as a month-to-month contract, regardless of its stated contractual term.

TRG members also generally agreed that when a contract includes a substantive termination payment, the duration of the contract would equal the stated contractual term (or to the date when a termination payment would not be due).

2. Step 2: Identify the performance obligations in the contract

2.1 Identification of performance obligations

To apply the new requirements, an entity must identify the promised goods and services within the contract and determine which of those goods and services are distinct (i.e., performance obligations).

Will the standards require the identification of promised goods or services that are not identified as deliverables today? [TRG meeting 26 January 2015]

TRG members generally agreed that the standards are not intended to require the identification of promised goods or services that are not accounted for as separate deliverables today. Entities may not disregard items that they deem to be perfunctory or inconsequential and will need to consider ‘free’ goods and services. However, entities would consider materiality in determining whether items are promised goods or services. For example, telecommunications entities may have to allocate consideration to the ‘free’ handsets that they provide. Likewise, automobile manufacturers may have to allocate consideration to ‘free’ maintenance that may be considered a marketing incentive under current practice.

At the Boards’ February 2015 joint meeting, the FASB decided to propose allowing entities to disregard promises that are deemed to be immaterial in the context of the contract. The FASB’s intent is to allow entities to disregard immaterial items at the contract level and not to require that they be aggregated and assessed for materiality at the entity level. The IASB, however, decided not to make any changes to the requirements in IFRS 15 to avoid any risk of unintended consequences, since they believe the requirements are sufficiently clear and because there may be broader implications to consider beyond the revenue standard.
2.2 Stand-ready obligations

The standards state that a contract may include “a service of standing ready to provide goods or services (e.g., unspecified updates to software that are provided on a when-and-if-available basis) or of making goods or services available for a customer to use as and when the customer decides”.\(^2\)

What is the nature of the promise in a ‘typical’ stand-ready obligation? [TRG meeting 26 January 2015]

TRG members generally agreed that the promise in a stand-ready obligation is the assurance that the customer will have access to the good or service, not the delivery of the underlying good or service.

A FASB staff member indicated that the staff does not believe that the FASB intended to change current practice under US GAAP for determining when software/technology transactions include specified upgrade rights (i.e., a separate performance obligation) or unspecified upgrade rights (i.e., a stand-ready obligation).

How would an entity measure progress toward satisfaction of a stand-ready obligation that is satisfied over time? [TRG meeting 26 January 2015]

TRG members generally agreed that an entity should not default to a straight line revenue attribution model. However, if an entity expects the customer to receive and consume the benefits of its promise throughout the contract period, a time-based measure of progress (e.g., straight line) would be appropriate. A FASB staff member indicated that this may often be the case for unspecified upgrade rights. TRG members generally agreed that rateable recognition may not be appropriate if the benefits are not spread evenly over the contract period (e.g., an annual snow removal contract that provides more benefit in winter).

2.3 Series of distinct goods and services

The standards require that a series of distinct goods or services be accounted for as a single performance obligation if they are substantially the same, have the same pattern of transfer and both of the following criteria are met: (1) each distinct good or service in the series represents a performance obligation that would be satisfied over time; and (2) the entity would measure its progress toward satisfaction of the performance obligation using the same measure of progress for each distinct good or service in the series (the series requirement).

Entities will need to determine whether a single performance obligation is created as a result of applying the series requirement, in order to appropriately allocate variable consideration and apply the contract modification and changes in transaction price requirements.

In order to apply the series requirement, must the goods or services be consecutively transferred? [TRG meeting 30 March 2015]

TRG members generally agreed that a series of distinct goods or services need not be consecutively transferred. That is, the series requirement must also be applied when there is a gap or an overlap in an entity’s transfer of goods or services, provided that the other criteria are met. TRG members in London\(^3\)

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\(^2\) IFRS 15.26(e).

\(^3\) Due to technological difficulties during the 30 March 2015 TRG meeting, TRG members attending the meeting at the FASB’s office in Norwalk, Connecticut held a separate discussion from those attending the meeting at the IASB’s office in London.
also noted that entities may need to carefully consider whether the series requirement applies depending on the length of the gap between an entity's transfer of goods or services.

In order to apply the series requirement, does the accounting result need to be the same as if the underlying distinct goods and services were accounted for as separate performance obligations? [TRG meeting 30 March 2015]

TRG members generally agreed that the accounting result does not need to be the same and that an entity is not required to prove that the result would be the same as if the goods and services were accounted for as separate performance obligations.

2.4 Gross versus net revenue – amounts billed to customers

Under the standards, an entity is required to determine whether the nature of its promise is to provide the specified goods or services itself (i.e., the entity is a principal) or to arrange for another party to provide those goods or services (i.e., the entity is an agent). Furthermore, the standards require that any “amounts collected on behalf of third parties (for example, some sales taxes)” be excluded from the transaction price.4

How would entities determine the presentation of amounts billed to customers (e.g., shipping and handling, reimbursement of out-of-pocket expenses and taxes) under the standards (i.e., as revenue or as a reduction of costs)? [TRG meeting 18 July 2014]

TRG members generally agreed that the standards are clear that any amounts not collected on behalf of third parties would be included in the transaction price (i.e., revenue). That is, if the amounts were incurred by the entity in fulfilling its performance obligations, the amounts will be included in the transaction price and recorded as revenue.

Several TRG members noted that this would require entities to evaluate taxes collected in all jurisdictions in which they operate to determine whether a tax is levied on the entity or the customer. In addition, TRG members indicated that an entity would apply the principal versus agent application guidance when it is not clear whether the amounts are collected on behalf of third parties. This could result in amounts billed to a customer being recorded as an offset to costs incurred (i.e., on a net basis).

At the Boards’ March 2015 joint meeting, the FASB decided to propose adding a practical expedient that would allow an entity to present revenue net of certain types of taxes, including sales, use, excise, value-added and franchise taxes (collectively referred to as sales taxes) with a requirement for preparers to disclose the policy. The FASB’s decision was to address a concern expressed by stakeholders in the US as to the operability of the requirements under US GAAP. The IASB decided that such an expedient is not necessary in IFRS 15 as the topic is not an interpretative question and is consistent with current IFRS requirements.5

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4 IFRS 15.47.
5 IAS 18.8.
2.5 Customer options for additional goods and services

The standards specify that when an entity grants a customer the option to acquire additional goods or services (e.g., future sales incentives, loyalty programmes, renewal options), that option is a separate performance obligation if it provides a material right to the customer.

Should entities consider only the current transaction or should they consider past and future transactions with the same customer when determining whether an option for additional goods and services provides the customer with a material right? [TRG meeting 31 October 2014]

TRG members generally agreed that entities should consider accumulating incentives in programmes (e.g., loyalty programmes) when determining whether an option represents a material right. That is, they do not believe the evaluation should be performed only in relation to the current transaction.

Is the material right evaluation solely a quantitative evaluation or should the evaluation also consider qualitative factors? [TRG meeting 31 October 2014]

TRG members generally agreed that the evaluation should consider both quantitative and qualitative factors (e.g., what a new customer would pay for the same service, the availability and pricing of competitors’ service alternatives, whether the average customer life indicates that the fee provides an incentive for customers to remain beyond the stated contract term).

How would an entity account for the exercise of a material right? That is, would an entity account for it as: a contract modification, a continuation of the existing contract or variable consideration? [TRG meeting 30 March 2015]

Some TRG members thought it would be reasonable for an entity to apply the requirements for contract modifications to the exercise of a material right. This conclusion primarily focuses on the definition of a contract modification (i.e., a change in the scope or price, or both, of a contract). However, many TRG members favoured an approach that would treat the exercise of a material right as a continuation of the existing contract (and not a contract modification) because an option to purchase additional goods or services is contemplated in the original contract (and not as part of a separate and subsequent negotiation).

TRG members generally agreed that the exercise of a material right would not be treated as variable consideration, but as either a contract modification or a continuation of the existing contract. TRG members discussed and agreed that an entity would need to consider which approach is most appropriate depending on the facts and circumstances and consistently apply that approach to similar contracts.

Is an entity required to evaluate whether a customer option that provides a material right includes a significant financing component? If so, how would entities perform this evaluation? [TRG meeting 30 March 2015]

TRG members generally agreed that an entity will have to evaluate whether a material right includes a significant financing component, in the same way as it would evaluate any other performance obligation. This evaluation will require judgement and consideration of the facts and circumstances.
On this question, the staff paper discussed a factor that may be determinative in this evaluation. The standards indicate that if a customer provides advance payment for a good or service, but the customer can choose when the good or service is transferred, no significant financing component exists. As a result, if the customer can choose when to exercise the option, there may not be a significant financing component.

Over what period should an entity recognise a non-refundable upfront fee (e.g., fees paid for membership to a club, activation fees for phone, cable or internet services) that does not relate to the transfer of a good or service? [TRG meeting 30 March 2015]

TRG members generally agreed that the period over which a non-refundable upfront fee will be recognised depends on whether the fee provides the customer with a material right with respect to future contract renewals. For example, assume that an entity charges a one-time activation fee of CU$50 to provide CU$100 of services to a customer on a month-to-month basis. If the entity concludes that the activation fee provides a material right, the fee would be recognised over the estimated customer life (e.g., two years) because that represents the period of benefit for the activation fee. If the entity concludes that the activation fee does not provide a material right, the fee would be recognised over the contract term (i.e., one month).

3. Step 3: Determine the transaction price

3.1 Variable consideration

Entities will be required to constrain the amount of variable consideration included in the estimated transaction price. That is, they will have to conclude that it is highly probable (probable)\(^6\) that a significant revenue reversal will not occur in future periods before including any such amounts in the transaction price.

Would the constraint on variable consideration be applied at the contract or performance obligation level? [TRG meeting 26 January 2015]

TRG members generally agreed that the constraint would be applied at the contract level and not at the performance obligation level. That is, the significance assessment of the potential revenue reversal would consider the total transaction price of the contract (and not the portion of transaction price allocated to a performance obligation).

3.2 Significant financing components

Under the standards, an entity is required to assess whether a contract contains a significant financing component if it receives consideration more than one year before or after it transfers goods or services to the customer (e.g., the consideration is prepaid or is paid after the goods/services are provided).

The standards state that a significant financing component does not exist if the difference between the promised consideration and the cash selling price of the good or service arises for reasons other than the provision of finance. Should this factor be broadly or narrowly applied? [TRG meeting 30 March 2015]

\(^6\) The FASB’s standard uses the term ‘probable’, which is intended to have the same meaning as ‘highly probable’ under IFRS.
TRG members generally agreed that there will likely be significant judgement involved in determining whether a significant financing component exists. TRG members generally agreed that the Boards did not seem to intend to imply that there is a presumption that a significant financing component exists if the cash selling price differs from the promised consideration or, conversely, that a significant financing component does not exist simply because an advance payment is received from the customer. TRG members generally agreed that, while there may be valid non-financing reasons for advance payments, the standards do not exclude advance payments from the requirements on significant financing components. As a result, it is important that entities analyse all of the facts and circumstances in a contract.

The standards state that an entity must consider the difference, if any, between the amount of promised consideration and the cash selling price of a promised good or service when determining whether a significant financing component exists in a contract. If the promised consideration is equal to the cash selling price, does a financing component exist? [TRG meeting 30 March 2015]

TRG members generally agreed that even if the list price, cash selling price and promised consideration of a good or service are all equal, an entity should not automatically assume that there is no significant financing component. This would be a factor to consider, but would not be determinative.

Do the standards preclude accounting for financing components that are not significant? [TRG meeting 30 March 2015]

TRG members generally agreed that the standards do not preclude an entity from deciding to account for a financing component that is not significant. In addition, an entity electing to apply the requirements for significant financing components for an insignificant financing component needs to be consistent in its application to all similar contracts with similar circumstances.

The standards include a practical expedient that allows an entity not to assess a contract for a significant financing component if the period between the customer’s payment and the entity’s transfer of the goods or services is one year or less. How should entities consider whether the practical expedient applies to contracts with a single payment stream for multiple performance obligations? [TRG meeting 30 March 2015]

TRG members generally agreed that entities will either: (1) apply any consideration received to the earliest good or service delivered; or (2) allocate it proportionately between the goods and services depending on the facts and circumstances.

The staff paper on this topic provided an example of a telecommunications entity that enters into a two-year contract to provide a device at contract inception and related data services over 24 months in exchange for 24 equal monthly instalments. The approach under (1) would allow the entity to apply the practical expedient because the period between transfer of the good or service and customer payment would be less than one year for both the device and the related services. The approach under (2) would not allow an entity to apply the practical expedient because the device would be deemed to be paid off over the full 24 months (i.e., greater than one year).
The approach under (2) may be appropriate in circumstances similar to the staffs’ example, when the cash payment is not directly tied to a particular good or service in a contract. However, the approach under (1) may be appropriate when the cash payment is directly tied to a particular good or service.

If a significant financing component exists in a contract, how should an entity calculate the adjustment to revenue? [TRG meeting 30 March 2015] TRG members generally agreed that the standards do not contain requirements on how to calculate the adjustment to the transaction price due to a financing component. A financing component will be recognised as interest expense (when the customer pays in advance) or interest income (when the customer pays in arrears). Entities need to consider requirements outside the revenue standards to determine the appropriate accounting treatment (i.e., IFRS 9 Financial Instruments/IAS 39 Financial Instruments: Recognition and Measurement or Accounting Standards Codification (ASC) 835-30, Interest — Imputation of Interest).

How should an entity allocate a significant financing component when there are multiple performance obligations in a contract? [TRG meeting 30 March 2015] TRG members noted it may be difficult to require allocation to specific performance obligations because cash is fungible, but it may be reasonable for entities to apply other requirements in the standards to allocate variable consideration and/or discounts to one or more (but not all) performance obligations, if specified criteria are met.

4. Step 4: Allocate the transaction price to the performance obligations identified in the contract

4.1 Variable discounts
Under the standards’ relative stand-alone selling price method, a contract’s transaction price will be allocated proportionately to all performance obligations identified in a contract, with two exceptions. The exceptions specify that variable consideration and/or discounts must be allocated entirely to a specific part of a contract, such as one or more (but not all) performance obligations, if specified criteria are met. The criteria for each exception are different.

Since some discounts will also meet the definition of variable consideration (i.e., a discount that is variable in amount and/or contingent on future events), which exception would an entity apply? [TRG meeting 30 March 2015] TRG members generally agreed that, under the standards, an entity will first determine whether a variable discount meets the variable consideration exception. If it does not, the entity will then consider whether it meets the discount exception. However, if the discount is not variable (i.e., the amount of the discount is fixed and not contingent on future events), it would only be evaluated under the discount exception.
5. Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

5.1 Partial satisfaction of performance obligations prior to identifying the contract

An entity cannot begin to recognise revenue on an arrangement until it meets all five criteria to be considered a contract under the standards, regardless of whether it has received any consideration or has begun performing under the terms of the arrangement. Furthermore, an entity can capitalise certain fulfilment costs on specifically identified anticipated contracts, if specified criteria are met.

Entities sometimes will begin activities on a specifically anticipated contract either: (1) before agreeing to the contract with the customer; or (2) before the contract satisfies the criteria to be accounted for under the standards (referred to in the staff paper as the ‘contract establishment date’ or CED). If these activities will result in the transfer of a good or service to the customer at the CED, how should revenue for those activities be recognised at the CED? [TRG meeting 30 March 2015]

TRG members generally agreed that if the goods or services that ultimately will be transferred meet the criteria to be recognised over time, revenue would be recognised on a cumulative catch-up basis at the CED, reflecting the performance obligation(s) that are partially or fully satisfied at that time. The cumulative catch-up method was deemed to be consistent with the overall principle of the standards that revenue is recognised when (or as) an entity transfers control of goods or services to a customer.

How should an entity account for fulfilment costs incurred prior to the CED that are outside the scope of another standard (e.g., IAS 2 Inventories)? [TRG meeting 30 March 2015]

TRG members generally agreed that costs in respect of pre-CED activities that relate to a good or service that will transfer to the customer at or after the CED may be capitalised as costs to fulfil a specifically anticipated contract. However, TRG members noted that such costs would still need to meet the other criteria in the standards to be capitalised (e.g., they are expected to be recovered under the anticipated contract). Subsequent to capitalisation, costs that relate to goods or services that are transferred to the customer at the CED would be expensed immediately. Any remaining capitalised costs would be amortised over the period that the related goods or services are transferred to the customer.

6. Other measurement and recognition topics

6.1 Warranties

The standards identify two types of warranties – service-type warranties and assurance-type warranties. A warranty is a service-type warranty if the customer has the option to purchase it separately or if it provides a service to the customer beyond fixing defects that existed at the time of sale. A service-type warranty is accounted for as a performance obligation. An assurance-type warranty does not provide an additional good or service, but, instead, is a promise to the customer that the delivered product is as specified in the contract. An assurance-type warranty is accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets/ASC 460, Guarantees.
How does an entity evaluate whether a product warranty is a service-type warranty (i.e., a performance obligation) when it is not separately priced? [TRG meeting 30 March 2015]

TRG members generally agreed that the evaluation of whether a warranty provides a service in addition to the assurance that the product complies with agreed-upon specifications will require judgement and depend on the facts and circumstances. There is no bright line in the standards on what constitutes a service-type warranty, beyond it being separately priced.

However, the standards do include three factors that would need to be considered in each evaluation (i.e., whether the warranty is required by law, the length of the warranty coverage and the nature of the tasks that the entity promises to perform). Entities will need to evaluate each type of warranty offered to determine the appropriate accounting treatment.

6.2 Incremental costs to obtain a contract
Under IFRS 15/ASC 340-40, the incremental cost of obtaining a contract (e.g., sales commissions) will be recognised as an asset if the entity expects to recover it.

The following questions were discussed at the 26 January 2015 TRG meeting:
When, and for how much, would an entity capitalise commissions that are paid on renewal contracts? How would an entity amortise such an asset and evaluate whether the renewals are commensurate with the initial commissions paid?
Should commissions earned on contract modifications that are not treated as separate contracts be capitalised?
If commissions are contingent on future events, can they be considered incremental?
Can commissions that are subject to claw backs and/or achieving cumulative thresholds be capitalised?
Should fringe benefits on commission payments be included in the capitalised amounts?
What is the pattern of amortisation for a contract cost asset that relates to multiple performance obligations that are satisfied over disparate periods of time?
Instead of focusing on the detailed questions in the staff paper, TRG members discussed the underlying principle for capitalising costs under the standards. The TRG members generally agreed that IFRS 15 (ASC 340-40 or ASC 606) did not amend the current IFRS/US GAAP liabilities standards. Therefore, entities would first refer to the applicable liabilities standards to determine when they are required to accrue for certain costs. Entities would then use the requirements in IFRS 15/ASC 340-40 to determine whether the related costs need to be capitalised.

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7 ASC 340-40, Other Assets and Deferred Costs —Contracts with Customers.
TRG members generally agreed that no changes to the standards are necessary. They also agreed that certain aspects of the recognition of costs will require entities to apply significant judgement in analysing the facts and circumstances and determining the appropriate accounting treatment. For example, judgement will be needed to assess items such as the amortisation pattern for a contract cost asset that relates to multiple performance obligations that are satisfied over different periods of time.

6.3 Impairment testing of capitalised contract costs
Any costs capitalised under IFRS 15/ASC 340-40 (i.e., costs incurred in fulfilling a contract and incremental costs of obtaining a contract) are subject to an impairment assessment at the end of each reporting period. An impairment exists if the carrying amount of any asset(s) exceeds the amount of consideration the entity expects to receive in exchange for providing the related promised goods and services, less the remaining costs that directly relate to providing those good and services.

Should entities include contract renewals or extensions when determining the remaining amount of consideration the entity expects to receive in order to perform an impairment test on capitalised contract costs? [TRG meeting 18 July 2014]

TRG members generally agreed that an impairment test of capitalised contract costs should include future cash flows associated with contract renewal or extension periods. The question was raised because of an inconsistency within IFRS 15 and between ASC 340-40 and ASC 606. IFRS 15/ASC 340-40 indicates that costs capitalised under the standards could relate to goods or services to be transferred under ‘a specific anticipated contract’ (e.g., goods or services to be provided under contract renewals and/or extensions). The requirements further indicate that an impairment loss would be recognised when the carrying amount of the asset exceeds the remaining amount of consideration expected to be received in exchange for the goods or services to which the asset relates and that an entity would use the principles of IFRS 15/ASC 606 when determining the remaining transaction price. However, IFRS 15.49/ASC 606-10-32-4 indicates that an entity should not anticipate that the contract will be ‘cancelled, renewed or modified’ when determining the transaction price.

In some instances, excluding renewals or extensions would trigger an immediate impairment of a contract asset because the consideration an entity expects to receive would not include anticipated cash flows from contract extensions or renewal periods, but the entity would have capitalised contract costs on the basis that they would be recovered over the contract extension or renewal periods.

6.4 Contract assets and liabilities
The standards are based on the notion that a contract asset or contract liability is generated when either party to a contract performs. The standards require that an entity present these contract assets or contract liabilities in the statement of financial position. When an entity satisfies a performance obligation by delivering the promised good or service, the entity has earned a right to consideration from the customer and, therefore, has a contract asset. When the customer performs first, for example, by prepaying its promised consideration, the entity has a contract liability.
How would an entity determine the presentation of contract assets and liabilities for contracts that contain multiple performance obligations? [TRG meeting 31 October 2014]

TRG members generally agreed that contract assets and liabilities would be determined at the contract level and not at the performance obligation level (i.e., an entity would not separately recognise an asset or liability for each performance obligation within a contract, but would aggregate them into a single contract asset or liability).

How would an entity determine the presentation of two or more contracts that are required to be combined under the standards? [TRG meeting 31 October 2014]

TRG members generally agreed that the contract asset or liability would be combined (i.e., presented net) for different contracts with the same customer (or a related party of the customer) if an entity is otherwise required to combine those contracts under the standards. However, TRG members acknowledged that this analysis may be operationally difficult for some entities because their systems will generally capture data at the performance obligation level in order to comply with the recognition and measurement requirements of the standards.

When would an entity offset contract assets and liabilities against other balance sheet items (e.g., accounts receivable)? [TRG meeting 31 October 2014]

TRG members generally agreed that, because the standards do not provide requirements for offsetting, entities will need to apply the requirements of other standards\(^8\) to determine whether offsetting is appropriate.

### 7. Scope of the standards

7.1 Islamic financing transactions (This topic was raised in an IFRS context).

Islamic financial institutions (IFIs) enter into Sharia-compliant instruments and transactions that do not result in IFIs earning interest on loans. Instead, these transactions involve purchases and sales of real assets (e.g., vehicles) on which IFIs can earn a premium to compensate them for deferred payment terms. Typically, an IFI makes a cash purchase of the underlying asset, takes legal possession, even if only for a short time, and immediately sells it on deferred payment terms. The financial instruments created by these transactions are within the scope of the financial instruments standards.\(^9\)

Before applying the financial instruments standards, are deferred-payment transactions that are part of Sharia-compliant instruments and transactions within the scope of the revenue standards? [TRG meeting 26 January 2015]

TRG members meeting in London agreed that Sharia-compliant instruments and transactions may be outside the scope of the revenue standards. However, the analysis would depend on the specific facts and circumstances and may require significant judgement as contracts often differ within and between jurisdictions. TRG members meeting in Norwalk did not discuss this issue.

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9. IFRS 9 (or IAS 39) and IAS 32.
7.2 Contributions (This topic was raised in a US GAAP context)

Today, not-for-profit entities that report under US GAAP follow ASC 958-605, Not-for-Profit Entities — Revenue Recognition, to account for contributions (i.e., unconditional promises of cash or other assets in voluntary non-reciprocal transfers). Contributions are not explicitly excluded from the scope of the FASB’s new revenue standard. However, ASC 958-605 will not be wholly superseded by the FASB’s new revenue standard (i.e., ASC 606).

Are contributions in the scope of the FASB’s new revenue standard? [TRG meeting 30 March 2015]

TRG members meeting in London did not discuss this issue. TRG members meeting in Norwalk agreed that contributions are not within the scope of ASC 606 because they are non-reciprocal transfers. That is, contributions are generally not given in exchange for goods or services that are an output of the entity’s ordinary activities.
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