



FAP

FEDERATION OF ACCOUNTING PROFESSIONS

เอกสารประกอบการสัมมนาพิจารณา (Focus group)

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ณ ศูนย์อบรมสัมมนาศาสตราจารย์เกียรติคุณเกษรี ณรงค์เดช อาคารสภาวิชาชีพบัญชี สุขุมวิท 21

IFRS 15 Revenue from Contracts with Customers

The new revenue standard

Agenda

- ▶ Overview and transition
- ▶ The five step model
- ▶ Other aspects

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Overview and transition

- ▶ The Boards issued a new revenue recognition standard on 28 May 2014.
- ▶ This standard replaces the majority of existing IFRS and US GAAP requirements on revenue recognition.
 - ▶ Virtually every industry is affected
- ▶ Contains the accounting principles for all revenue arising from contracts with customers.
- ▶ IASB and FASB set up joint transition resource group.
- ▶ The impact to financial statements, business processes and internal controls will likely be significant for some entities.

Overview and transition (cont.)

- ▶ Effective for annual periods beginning on or after 1 January 2018*
- ▶ Early adoption allowed for IFRS preparers
- ▶ Effective for US GAAP public entities for fiscal years beginning on or after 15 December 2017**
- ▶ Early adoption prohibited for US GAAP public companies
 - ▶ Private entities: 15 December 2018**, but may elect to apply the standard one year earlier, on the US public companies effective date

* When IFRS 15 was issued, it became effective for annual periods beginning on or after 1 January 2017, however in September 2015, the IASB issued an amendment to IFRS 15 to defer the effective date by one year.

** FASB ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date

Overview and transition: adoption methods available

		PY1 (2017)	CY (2018)	CY footnote
Full retrospective (with optional practical expedients)	Cumulative catch-up	← Contracts under new standard → Contracts restated		IFRS 15 and IAS 8 disclosures apply
Modified retrospective (Cumulative effect at date of application)		Contracts not restated	Cumulative catch-up	Existing* and new contracts under new standard Existing and new contract compared using legacy IFRS

*Contracts not completed in prior years as determined under legacy revenue requirements (i.e., IAS 11, IAS 18 and related Interpretations)



Effective date and transition

Adoption methods available

Key Considerations	Full retrospective approach	Modified retrospective approach
<i>Apply to which periods presented?</i>	All periods presented	Only the most current period presented
<i>Apply to which contracts?</i>	All contracts that would have existed during all periods presented if the new standard had been applied from contract inception	Any contracts existing as at the effective date (as if new standard had been applied since inception of contract), as well as any new contracts from that date forward
<i>Recognition of the effect of adoption in the financial statements?</i>	Follow requirements of IAS 8, cumulative effect of changes to periods prior to periods presented is reflected in opening balance of retained earnings	Cumulative effect of changes is reflected in the opening balance of retained earnings in the most current period presented
<i>Adoption disclosure requirements?</i>	Follow requirements of IAS 8, including disclosure of the reason for the change and the method of applying the change	In the year of adoption, disclose the amount each financial statement line item was affected as a result of applying the new standard and an explanation of significant changes (effectively requires two sets of accounts during the year of adoption)

Effective date and transition

Full retrospective adoption – optional reliefs

- ▶ An entity may choose to apply one or more of the following when it applies the full retrospective approach:
 - ▶ For completed contracts, an entity need not restate contracts that begin and end within the same annual reporting period
 - ▶ For completed contracts that have variable consideration, an entity may use the transaction price at the date the contract was completed rather than estimating variable consideration amounts in the comparative reporting periods
 - ▶ For all reporting 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

Scope and scope exceptions

What is in scope or affected by the standard

- ▶ Contracts with customers
- ▶ Sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., property, plant and equipment, intangible assets)

What is not in scope

- ▶ Leasing contracts
- ▶ Insurance contracts
- ▶ Financial instruments and certain other contracts
- ▶ Certain non-monetary exchanges
- ▶ Certain put options on sale and repurchase agreements

Summary of the model

Core principle: Recognise revenue to depict the transfer of 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

Step 1 :	Identify the contract(s) with the customer
Step 2 :	Identify the performance obligations
Step 3 :	Determine the transaction price
Step 4 :	Allocate the transaction price to the performance obligations
Step 5 :	Recognise revenue when (or as) the entity satisfies a performance obligation

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

- ▶ **Contract** defined as an agreement between two or more parties that creates enforceable rights and obligations.
 - ▶ Could be written, oral or implied
 - ▶ Does not exist if both parties can cancel without penalty
- ▶ **Criteria** must be met for arrangement to be within scope of new standard:
 - ▶ Contract has commercial substance and the parties are committed to perform
 - ▶ Parties can identify the rights in the contract
 - ▶ Payment terms can be identified and collection is probable
- ▶ **Multiple contracts** entered into at the same time with the same customer should be combined if certain conditions are met.
- ▶ The standard specifies the treatment for arrangements that do not meet the specified criteria.

Step 1: Identify the contract

Contract modifications

- ▶ A contract modification is any change in the scope and/or price of a contract
- ▶ Accounting treatment depends on what was modified

Separate contract

- ▶ Scope of the contract changes due to added goods or services that are distinct
- And**
- ▶ Price of the contract increases by the stand-alone selling price of the added goods or services

Part of original contract

- ▶ All other modifications

Step 1: Identify the contract

Contract modifications (cont.)

- ▶ Modifications considered part of the original contract are accounted for differently, depending on the attributes of the remaining goods and/or services

Modification type	Accounting result
Goods and services not yet provided are distinct from the goods and services transferred on or before the modification	Allocate the remaining transaction price to the remaining performance obligations
All promised goods and services (including those not yet provided or only partially provided) are part of a single performance obligation that is not fully satisfied at modification date	Update the transaction price and measure of progress toward completion; record an adjustment to revenue for the effect of the modification (i.e., a cumulative catch-up adjustment)
Goods and services not yet provided are a combination of two scenarios above	Completed performance obligations (and the related revenue) are not adjusted; open performance obligations are adjusted (as discussed above)

Step 2: Identify the performance obligations

- ▶ A **performance obligation** is defined as a promise in a contract with a customer to transfer a good or service.
- ▶ Performance obligations are identified at contract inception and determined based on:
 - ▶ Contractual terms
 - ▶ Customary business practice
- ▶ There are no exceptions for incidental obligations or marketing incentives.
- ▶ A series of goods or services that are substantially the same and have the same pattern of transfer is a single performance obligation if criteria are met.

Step 2: Identify the performance obligations (cont.)

Two-step model to identify which goods or services are distinct

Part 1: Focus on whether the good or service is **capable of being distinct**

Customer can benefit from the individual good or service on its own

Or

Customer can use good or service with other readily available resources

Part 2: Focus on whether the good or service is **distinct in the context of the contract**

The good or service is highly dependent on, is highly interrelated with, or significantly modifies or customises other promised goods or services in the contract

Example: Identify performance obligations

Multiple performance obligations in a contract

- ▶ Entity enters into a contract to manufacture and install customised equipment and provide maintenance services for a five-year period
- ▶ Installation services include the integration of multiple pieces of equipment at the customer's facility in order for the equipment to operate as a single unit
- ▶ Equipment cannot operate without installation
- ▶ Entity sells equipment and installation services together; does not sell installation separately
- ▶ Other vendors can provide the installation services
- ▶ The maintenance services are sold separately

Example: Identify performance obligations (cont.)

	Step 1 – Capable of being distinct	Step 2 – Distinct in the context of the contract
Equipment	Good cannot be used without installation, but customer can obtain installation from another source. Good is distinct. Move to Step 2.	Equipment and installation are highly interrelated. Significant customisation is required during installation. Good isn't distinct on its own because it must be combined with installation.
Installation	Installation can be provided by multiple vendors, so service is distinct. Move to Step 2.	See discussion above. Equipment and installation are not distinct from one another.
Maintenance	Services have a distinct function because they are sold separately. Move to Step 2.	Services are not highly interrelated. No integration, modification or customisation required. Services are individually distinct.

- ▶ In this example, there are two performance obligations: (1) the equipment and the installation because they are distinct within the context of the contract; (2) maintenance services because they are distinct services.

Step 3: Determine the transaction price

- ▶ **Transaction price** is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services separately to a customer.
- ▶ Transaction price would reflect the effects of the following:
 - ▶ Consideration paid or payable to a customer
 - ▶ Non-cash consideration
 - ▶ Significant financing component (time-value of money)
 - ▶ Variable consideration (including application of the constraint)

Step 3: Determine the transaction price

Variable consideration

- ▶ Transaction price may vary because of variable consideration
- ▶ Definition of ‘variable consideration’ is broad
- ▶ Identifying variable consideration is an important step in the new model because the constraint needs to be considered for each type of variable consideration

Common types and events that cause consideration to be variable		
Bonuses	Incentive payments	Penalties
Refunds	Market-based fees	Discounts
Returns	Money-back guarantees	Price concessions
Volume rebates	Service level agreements	Liquidating damages

Step 3: Determine the transaction price: variable consideration

- ▶ Transaction price may vary because of bonuses, discounts, rebates, refunds, credits, price concessions, incentives or other similar items.
- ▶ Assuming entity has sufficiently reliable data on which to base an estimate, the transaction price is estimated using the technique that better predicts the amount an entity will be entitled to:

Expected value	Most likely amount
<ul style="list-style-type: none">▶ Sum of the probability-weighted amounts in a range of possible outcomes▶ An appropriate estimate if an entity has a large number of contracts with similar characteristics	<ul style="list-style-type: none">▶ The single most likely amount in a range of possible outcomes▶ Most predictive when the transaction will produce few outcomes

Step 3: Determine the transaction price: variable consideration (cont.)

- ▶ Required to evaluate whether to ‘constrain’ amounts of variable consideration included in transaction price
- ▶ Objective: only include variable amounts when it is ‘highly probable’ doing so would not result in a significant revenue reversal
- ▶ Specific rule for licenced intellectual property
 - ▶ Sales or usage-based royalties (i.e., variable consideration amounts) should not be recognised until the customer’s subsequent sale or usage occurs

Step 3: Determine the transaction price

Variable consideration - rights of return

- ▶ Rights of return are a form of variable consideration
- ▶ Revenue recognition is limited to amounts for which it is 'highly probable' a significant reversal will not occur (i.e., it is highly probable the goods will not be returned)
- ▶ A refund liability is established for the expected amount of refunds and credits to be issued to customers
- ▶ Corresponding asset and adjustment to cost of sales is recorded for items expected to be returned, based on carrying amount of the asset transferred less costs to recover
 - ▶ Return assets must be recorded separately from inventory
- ▶ Return assets are subject to impairment testing

Step 3: Determine the transaction price: Other aspects of transaction price

- ▶ Consideration paid or payable to a customer
 - ▶ Determine whether such amounts are:
 - ▶ A reduction of the transaction price and revenue
 - ▶ A payment for distinct goods and services
- ▶ Non-cash consideration
 - ▶ Measured at the fair value of the consideration received or promised
- ▶ Significant financing component/time value of money
 - ▶ Considered when significant and the primary purpose of the payment terms would be to provide financing to/from counterparty
 - ▶ Evaluation not required if customer is expected to pay within a year or less of when control of the goods or services are transferred

Step 4: Allocate the transaction price

- ▶ Transaction price allocated to each separate performance obligation in proportion to stand-alone selling prices
 - ▶ If certain criteria are met, the model provides two potential exceptions, relating to:
 - ▶ Variable consideration
 - ▶ Discounts
- ▶ When the stand-alone selling price is not directly observable, an entity is required to estimate the selling price by:
 - ▶ Maximising the use of observable inputs
 - ▶ Applying estimation methods consistently for goods and services and customers with similar characteristics
 - ▶ Using a residual technique only when prices vary widely or are uncertain

Step 5: Recognise revenue when (or as) performance obligations are satisfied

- ▶ Revenue is recognised upon satisfaction of a performance obligation by transferring a good or service to a customer.
 - ▶ A good or service is generally considered to be transferred when the customer obtains control.
- ▶ Control can transfer ‘over time’ or at a ‘point in time.’
 - ▶ First, the entity determines if control transfers over time.
 - ▶ If control does not transfer over time, the default is point in time.

Step 5: Recognise revenue when (or as) performance obligations are satisfied over time

Control of goods and services are transferred *over time* if **one** of the following three criteria is met:

The entity creates or enhances an asset that the customer controls as it is created or enhanced

The entity's performance does not create an asset with alternative use and

The entity has an enforceable right to payment for performance completed to-date

The customer is simultaneously receiving and consuming the benefits of the entity's performance as the entity performs

Another entity would not have to re-perform work completed to-date

Disregard potential contractual or practical limitations that would prevent it from transferring a remaining performance obligation to another entity and presume that another entity fulfilling the remainder of the performance obligation would not have the benefit of any asset the entity controls



Step 5: Recognise revenue when (or as) performance obligations are satisfied **over** time (cont.)

- ▶ Measuring progress toward completion
 - ▶ The objective is to depict the entity's performance
 - ▶ Select a single method for a particular performance obligation:
 - ▶ Output methods
 - ▶ Input methods
 - ▶ Apply consistent method for all similar arrangements
- ▶ If unable to reasonably estimate progress, revenue should not be recognised until progress can be estimated
 - ▶ However, if an entity can determine no loss will be incurred, the entity can recognise revenue up to the value of costs incurred

Step 5: Recognise revenue as performance obligations are satisfied **at** a point in time

- ▶ If none of the criteria for transfer over time are met, control transfers at a point in time.
- ▶ The following are indicators of when control is transferred:
 - ▶ The entity has a present right to payment for the good or service.
 - ▶ The customer has legal title to the asset.
 - ▶ The customer has physical possession.
 - ▶ The customer has the significant risk and rewards of ownership of the asset.
 - ▶ The entity has evidence of the customer's acceptance of the asset.

Step 5: Recognise revenue

Sale and repurchase of an asset

- ▶ A sale subject to an entity's unconditional obligation or right to repurchase the asset (a forward or a call option) would not be considered a sale under the new standard
 - ▶ Treated as a lease if repurchase price is lower than original sales price
 - ▶ Treated as a financing arrangement if repurchase price is greater than or equal to original sales price
- ▶ A customer's right to require the entity to repurchase the asset (put option) would be outside the scope of the new standard if the customer has significant economic incentive to exercise that right
 - ▶ If such an incentive exists, the transaction is accounted for as a lease
 - ▶ If such an incentive does not exist, the transaction is accounted for as a sale with a right of return

Other aspects

- ▶ Bill-and-hold arrangements – criteria
- ▶ Breakage
- ▶ Warranties
 - ▶ Two types of warranties: assurance-type warranties and service-type warranties
- ▶ Principal versus agent considerations
- ▶ Consignment arrangements
- ▶ Onerous contracts (IAS37)

Other aspects: contract costs

- ▶ Incremental costs of obtaining a contract are capitalised if they are expected to be recovered.
 - ▶ Practical expedient to allow immediate expense recognition if the contract is one year or less in duration.
- ▶ Costs of fulfilling a contract (that are not addressed by another standard) are capitalised if they:
 - ▶ Relate directly to a contract
 - ▶ Generate or enhance resources that will be used to satisfy performance obligations in the future
 - ▶ Are expected to be recovered
- ▶ Capitalised costs are amortised over the period in which the related goods or services are transferred and subject to impairment testing.

Other aspects: licences

- ▶ Must first determine whether the licence is a distinct performance obligation in the arrangement
- ▶ For a distinct licence, assess the nature of the promise
 - ▶ Promise to provide access to the entity's intellectual property (IP) as it exists throughout the licence period (recognise over time)
 - ▶ Explicit requirement or an implicit understanding that the entity will undertake activities that significantly affect the IP
 - ▶ The licence directly exposes the customer to any changes to the IP that arise as and when the entity undertakes those activities
 - ▶ Those activities do not transfer a good or service to the customer as they occur
 - ▶ Promise to use the entity's IP as it exists at the point in time at which the licence is granted (recognise as at a point in time)

Other aspects: disclosures

- ▶ **Key principle:** To enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers
- ▶ Present both qualitative and quantitative information about:
 - ▶ Contracts with customers
 - ▶ Significant judgements and changes in judgements made in applying the standard to those contracts
 - ▶ Assets recognised from costs to obtain or fulfil a contract

Other aspects: disclosures (cont.)

- ▶ **Contracts with customers**
 - ▶ Disaggregation of reported revenue
 - ▶ Information about balances of contract assets and liabilities
 - ▶ Information about performance obligations, including:
 - ▶ Typical timing of satisfaction of performance obligations (e.g., upon shipment, upon delivery, as services are rendered)
 - ▶ Significant payment terms
 - ▶ Nature of the goods or services promised
 - ▶ Obligations for returns and refunds
 - ▶ Types of warranties and related obligations
 - ▶ For contracts of more than one year, the amount of transaction price allocated to remaining performance obligations and an explanation of when such amounts are expected to be recognised as revenue

Other aspects: disclosures (cont.)

- ▶ Significant judgements made in applying standard
 - ▶ Methods, inputs and assumptions used to determine the transaction price, apply the constraint, allocate to performance obligations and measure obligations for returns and refunds
 - ▶ Methods used to determine the timing of satisfaction of performance obligations
- ▶ Contract assets from costs to obtain or fulfil a contract
 - ▶ Qualitative information including judgements in determining amounts and amortisation methods used
 - ▶ Quantitative information including closing balances and amount of amortisation recognised during the period
- ▶ Less interim disclosures compared to annual requirements
 - ▶ Disaggregated revenue disclosure requirement added to IAS 34

Other aspects: practical implications

- ▶ Understand the magnitude of the changes to your company from both a financial statement and business perspective
- ▶ Establish a project management plan for adoption
- ▶ Determine training requirements for individuals responsible for key judgements
- ▶ Identify common transactions and potential implementation issues
- ▶ Establish a process for gathering appropriate data to comply with the new standard
- ▶ Communicate your views on the guidance through the planned implementation group

Clarifications to IFRS 15 *Revenue from Contracts with Customers*

April 2016



Background and overview

- ▶ In April 2016, the IASB issued amendments to provide clarifications to the requirements of IFRS 15:
 - ▶ Identifying performance obligations (POs)
 - ▶ Principal versus agent (PvA) considerations
 - ▶ Licences of intellectual property (IP)
 - ▶ Transition practical expedients
- ▶ Amendments will:
 - ▶ Address implementation questions discussed by the TRG
 - ▶ Reduce diversity in practice, as well as the cost and complexity of applying IFRS 15
- ▶ Effective for annual periods beginning on or after 1 January 2018, consistent with IFRS 15
- ▶ The amendments must be applied retrospectively

End