International Financial Reporting Standard

Revenue from Contracts with Customers

May 2014

ILLUSTRATIVE EXAMPLES AND IMPLEMENTATION GUIDANCE – AMENDMENTS

[IFRS 1, 3, 4, 9 (Nov 2009) & 9 (Oct 2010), IAS 37 and IFRIC 12]

[Related to AASB 2014-5]

Appendix
Amendments to guidance on other Standards

These amendments to guidance on other Standards are necessary in order to ensure consistency with the amendments to IFRS 15 Revenue from Contracts with Customers. *Amended paragraphs are shown with deleted text struck through and new text underlined.*

IFRS 1 *First-time Adoption of International Financial Reporting Standards*

Paragraph IG17 and its related heading are amended. Deleted text is struck through and new text is underlined.

~~IAS 18 *Revenue*~~ <u>IFRS 15 *Revenue from Contracts with Customers*</u>

IG17 If an entity has received amounts that do not yet qualify for recognition as revenue in accordance with ~~IAS 18~~ <u>IFRS 15</u> (for example, the proceeds of a sale that does not qualify for revenue recognition), the entity recognises ~~the amounts received as~~ a liability in its opening IFRS statement of financial position and measures that liability at the amount received<u>, adjusted (if appropriate) for a significant financing component in accordance with IFRS 15</u>.

IFRS 3 *Business Combinations*

A footnote is added to the Comparison of IFRS 3 (as revised in 2008) and SFAS 141(R) table. New text is underlined.

Comparison of IFRS 3 (as revised in 2008) and SFAS 141(R)

...

Guidance	IFRS 3 (as revised in 2008)	SFAS 141(R)
...	...	...
Assets and liabilities arising from contingencies	**Subsequent measurement** The revised IFRS 3 carries forward the existing requirements that a contingent liability recognised in a business combination must be measured subsequently at the higher of the amount that would be recognised in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or the amount initially recognised less, if appropriate, cumulative amortisation recognised in accordance with IAS 18 *Revenue*.[*] [paragraph 56]	**Subsequent measurement** SFAS 141(R) requires an acquirer to continue to report an asset or liability arising from a contractual or non-contractual contingency that is recognised as of the acquisition date that would be in the scope of SFAS 5 if not acquired or assumed in a business combination at its acquisition-date fair value until the acquirer obtains new information about the possible outcome of the contingency. The acquirer evaluates that new information and measures the asset or liability as follows: (a) a liability is measured at the *higher* of: (i) its acquisition-date fair value; or (ii) the amount that would be recognised if applying SFAS 5. (b) an asset is measured at the *lower* of: (i) its acquisition-date fair value; or (ii) the best estimate of its future settlement amount. [paragraphs 62 and 63]
...	...	...

* IFRS 15 *Revenue from Contracts with Customers*, issued in May 2014, replaced IAS 18 *Revenue* and amended paragraph 56 of IFRS 3 for consistency with the requirements in IFRS 15.

IFRS 4 *Insurance Contracts*

IG Example 1 in paragraph IG2 is amended. Deleted text is struck through and new text is underlined.

1.18	Group insurance contract that gives the insurer an enforceable and non-cancellable contractual right to recover all claims paid out of future premiums, with appropriate compensation for the time value of money.	Insurance risk is insignificant. Therefore, the contract is a financial instrument within the scope of IAS 39. Servicing fees are within the scope of ~~IAS 18~~ IFRS 15 (recognise when (or as) services are provided, subject to various conditions).

Paragraph IG25 is amended. Deleted text is struck through and new text is underlined.

IG25 ~~IAS 18~~ IFRS 15 requires an entity to ~~disclose the amount of each significant category of revenue recognised during the period, and specifically requires disclosure of revenue arising from the rendering of services~~ disaggregate revenue from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. Although revenue from insurance contracts is outside the scope of ~~IAS 18~~ IFRS 15, similar disclosures may be appropriate for insurance contracts. The IFRS does not prescribe a particular method for recognising revenue and various models exist:

(a) ...

IFRS 9 *Financial Instruments* (November 2009)[2]

Paragraph IGA12 and its related heading are deleted. Paragraphs IGA3 and IGA37 are amended. Deleted text is struck through and new text is underlined.

IFRS 4 *Insurance Contracts*

IGA3 The guidance on implementing IFRS 4 is amended as described below.

In the table in IG Example 1, the 'Treatment in Phase I' column of contract type 1.18 is amended as follows:

2 IFRS 9 *Financial Instruments*, as issued in November 2009, used mark-up to show the amendments made to paragraph IGA37. For this publication, those changes have been accepted and new changes have been shown in mark-up.

Insurance risk is insignificant. Therefore, the contract is a financial asset within the scope of IFRS 9. Servicing fees are within the scope of ~~IAS 18~~ IFRS 15 (recognise when (or as) services are provided, subject to various conditions).

IFRIC 12 *Service Concession Arrangements*

IGA37 In the illustrative examples accompanying IFRIC 12, paragraphs IE7 and IE28 are amended as follows:

IE7 ~~IFRS 9 *Financial Instruments* may require the entity to measure the amounts due from the grantor at amortised cost, unless the entity designates those amounts as measured at fair value through profit or loss. If the receivable is measured at amortised cost in accordance with IFRS 9, it is measured initially at fair value and subsequently at amortised cost, ie the amount initially recognised plus the cumulative interest on that amount (calculated using the effective interest method) minus repayments.~~ During the first two years, the entity recognises a contract asset and accounts for the significant financing component in the arrangement in accordance with IFRS 15. Once the construction is complete, the amounts due from the grantor are accounted for in accordance with IFRS 9 *Financial Instruments* as receivables.

IE28 ~~IFRS 9 *Financial Instruments* may require the entity to measure the amount due from or at the direction of the grantor in exchange for the construction services at amortised cost. If the receivable is measured at amortised cost in accordance with IFRS 9, it is measured initially at fair value and subsequently at amortised cost, ie the amount initially recognised plus the cumulative interest on that amount minus repayments.~~ During the first two years, the entity recognises a contract asset and accounts for the significant financing component in the arrangement in accordance with IFRS 15. Once the construction is complete, the amount due from, or at the direction of, the grantor in exchange for the construction services is accounted for in accordance with IFRS 9 as a receivable.

IFRS 9 *Financial Instruments* (October 2010)

Paragraph IGA20 and its related heading are deleted. Paragraphs IGA3 and IGA44 are amended. Deleted text is struck through and new text is underlined.

IFRS 4 *Insurance Contracts*

IGA3 In the table in IG Example 1, the 'Treatment in Phase I' column of contract types 1.7–1.12, 1.15, 1.18, 1.19 and 1.20(a) are amended to read as follows:

…
Insurance risk is insignificant. Therefore, the contract is a financial asset within the scope of IFRS 9. Servicing fees are within the scope of ~~IAS 18~~ IFRS 15 (recognise when (or as) services are provided, subject to various conditions).
…

IFRIC 12 *Service Concession Arrangements*

IGA44 Paragraphs IE7 and IE28 are amended to read as follows:

IE7 ~~IFRS 9 *Financial Instruments* may require the entity to measure the amounts due from the grantor at amortised cost, unless the entity designates those amounts as measured at fair value through profit or loss. If the receivable is measured at amortised cost in accordance with IFRS 9, it is measured initially at fair value and subsequently at amortised cost, ie the amount initially recognised plus the cumulative interest on that amount (calculated using the effective interest method) minus repayments.~~ During the first two years, the entity recognises a contract asset and accounts for the significant financing component in the arrangement in accordance with IFRS 15. Once the construction is complete, the amounts due from the grantor are accounted for in accordance with IFRS 9 *Financial Instruments* as receivables.

IE28 ~~IFRS 9 *Financial Instruments* may require the entity to measure the amount due from or at the direction of the grantor in exchange for the construction services at amortised cost. If the receivable is measured at amortised cost in accordance with IFRS 9, it is measured initially at fair value and subsequently at amortised cost, ie the amount initially recognised plus the cumulative interest on that amount minus repayments.~~ During the first two years, the entity recognises a contract asset and accounts for the significant financing component in the arrangement in accordance with IFRS 15. Once the construction is complete, the amount due from, or at the direction of, the grantor in exchange for the construction services is accounted for in accordance with IFRS 9 as a receivable.

IFRS 9 *Financial Instruments* (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39)

Paragraph IGA19 and the related heading are deleted. Paragraphs IGA3 and IGA34 are amended. Deleted text is struck through and new text is underlined.

IFRS 4 *Insurance Contracts*

IGA3 In the table in IG Example 1, the 'Treatment in Phase I' column of contract types 1.7–1.12, 1.15, 1.18, 1.19 and 1.20(a) are amended to read as follows:

…
Insurance risk is insignificant. Therefore, the contract is a financial asset within the scope of IFRS 9. Servicing fees are within the scope of ~~IAS 18~~ IFRS 15 (recognise when (or as) services are provided, subject to various conditions).
…

IFRIC 12 *Service Concession Arrangements*

IGA34 Paragraphs IE7 and IE28 are amended to read as follows:

IE7 ~~IFRS 9 *Financial Instruments* may require the entity to measure the amounts due from the grantor at amortised cost, unless the entity designates those amounts as measured at fair value through profit or loss. If the receivable is measured at amortised cost in accordance with IFRS 9, it is measured initially at fair value and subsequently at amortised cost, ie the amount initially recognised plus the cumulative interest on that amount (calculated using the effective interest method) minus repayments.~~ During the first two years, the entity recognises a contract asset and accounts for the significant financing component in the arrangement in accordance with IFRS 15. Once the construction is complete, the amounts due from the grantor are accounted for in accordance with IFRS 9 *Financial Instruments* as receivables.

IE28 ~~IFRS 9 *Financial Instruments* may require the entity to measure the amount due from or at the direction of the grantor in exchange for the construction services at amortised cost. If the receivable is measured at amortised cost in accordance with IFRS 9, it is measured initially at fair value and subsequently at amortised cost, ie the amount initially recognised plus the cumulative interest on that amount minus repayments.~~ During the first two years, the entity recognises a contract asset and accounts for the significant financing component in the arrangement in accordance with IFRS 15. Once the construction is complete, the amount due from, or at the direction of, the grantor in exchange for the construction services is accounted for in accordance with IFRS 9 as a receivable.

IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*

In Section C, Example 9 is amended. Deleted text is struck through and new text is underlined.

Example 9 A single guarantee

...

Conclusion – The guarantee is subsequently measured at the higher of (a) the best estimate of the obligation (see paragraphs 14 and 23), and (b) the amount initially recognised less, when appropriate, the cumulative ~~amortisation~~ amount of income recognised in accordance with ~~IAS 18 *Revenue*~~ the principles of IFRS 15 *Revenue from Contracts with Customers*.

IFRIC 12 *Service Concession Arrangements*

Paragraph IE1 is amended. Paragraphs IE4–IE5 and their related heading are also amended. Deleted text is struck through and new text is underlined.

Arrangement terms

IE1 The terms of the arrangement require an operator to construct a road—completing construction within two years—and maintain and operate the road to a specified standard for eight years (ie years 3–10). The terms of the arrangement also require the operator to resurface the road at the end of year 8~~—the resurfacing activity is revenue-generating~~. At the end of year 10, the arrangement will end. Assume that the operator identifies three performance obligations for construction services, operation services and road resurfacing. The operator estimates that the costs it will incur to fulfil its obligations will be:

...

~~Contract revenue~~ Revenue

IE4 The operator recognises ~~contract~~ revenue ~~and costs~~ in accordance with ~~IAS 11 *Construction Contracts* and IAS 18 *Revenue*~~ IFRS 15 *Revenue from Contracts with Customers*. ~~The costs of each activity—construction, operation and resurfacing—are recognised as expenses by reference to the stage of completion of that activity. Contract revenue—the fair value of~~ Revenue—the amount ~~due~~ of consideration to which the operator expects to be entitled from the grantor for the ~~activity undertaken~~ services provided—is recognised ~~at the same time~~ when (or as) the performance obligations are satisfied. Under the terms of the arrangement the operator is obliged to resurface the road at the end of year 8. In year 8 the operator will be reimbursed by the grantor for resurfacing the road. ~~The obligation to resurface the road is measured at zero in the statement of financial position and the revenue and expense are not recognised in profit or loss until the resurfacing work is performed.~~

IE5 The total expected consideration (CU200 in each of years 3–~~8~~10) ~~reflects the fair values for each of the services, which are~~ is allocated to the performance obligations based on the relative stand-alone selling prices of the construction services, operation services and road resurfacing, taking into account the significant financing component, as follows:

Table 1.2 is replaced.

Table 1.2 ***Transaction price allocated to each performance obligation***

	Transaction price allocation (including effect of the significant financing component) **CU**
Construction services (over two years)[(a)]	1,050
Operation services (over 8 years)[(b)]	96
Road resurfacing services (in year 8)[(c)]	110
Total	1,256
Implied interest rate[(d)]	6.18% per year

(a) The operator estimates the relative stand-alone selling price by reference to the forecast cost plus 5 per cent.
(b) The operator estimates the relative stand-alone selling price by reference to the forecast cost plus 20 per cent.
(c) The operator estimates the relative stand-alone selling price by reference to the forecast cost plus 10 per cent.
(d) The implied interest rate is assumed to be the rate that would be reflected in a financing transaction between the operator and the grantor.

Paragraphs IE6–IE7, IE11, IE14–IE15, IE17, IE23–IE24, IE27–IE28 and IE31 are amended. Paragraph IE33 and its related heading and Tables 1.3, 2.1–2.2 and 3.1–3.4 are also amended. Deleted text is struck through and new text is underlined.

...

IE6 In year 1, for example, construction costs of CU500, construction revenue of CU525 ~~(cost plus 5 per cent)~~, and hence construction profit of CU25 are recognised in profit or loss.

Financial asset

...

IE7 ~~The amounts due from the grantor meet the definition of a receivable in IAS 39 *Financial Instruments: Recognition and Measurement*. The receivable is measured initially at fair value. It is subsequently measured at amortised cost, ie the amount initially recognised plus the cumulative interest on that amount calculated using the effective interest method minus repayments.~~ During the first two years, the entity recognises a contract asset and accounts for the significant financing component in the arrangement in accordance with

IFRS 15. Once the construction is complete, the amounts due from the grantor are accounted for in accordance with IFRS 9 *Financial Instruments* as receivables.

...

Table 1.3 *Measurement of contract asset/receivable*

	CU
Amount due for construction in year 1	525
~~Receivable~~ Contract asset at end of year 1[(a)]	**525**
Effective interest in year 2 on ~~receivable~~ contract asset at the end of year 1 (6.18% × CU525)	32
Amount due for construction in year 2	525
Receivable at end of year 2	**1,082**
Effective interest in year 3 on receivable at the end of year 2 (6.18% × CU1,082)	67
Amount due for operation in year 3 (CU10 × (1 + 20%))	12
Cash receipts in year 3	(200)
Receivable at end of year 3	**961**

(a) No effective interest arises in year 1 because the cash flows are assumed to take place at the end of the year.

...

Arrangement terms

IE11 The terms of a service arrangement require an operator to construct a road—completing construction within two years—and maintain and operate the road to a specified standard for eight years (ie years 3–10). The terms of the arrangement also require the operator to resurface the road when the original surface has deteriorated below a specified condition. The operator estimates that it will have to undertake the resurfacing at the end of year 8. At the end of year 10, the service arrangement will end. Assume that the operator identifies a single performance obligation for construction services. The operator estimates that the costs it will incur to fulfil its obligations will be:

Table 2.1 ***Contract costs***

	Year	CU[a]
Construction services	1	500
	2	500
~~Operation services~~ Operating the road (per year)	3–10	10
Road resurfacing	8	100

(a) in this example, monetary amounts are denominated in 'currency units (CU)'.

...

Intangible asset

IE14 The operator provides construction services to the grantor in exchange for an intangible asset, ie a right to collect tolls from road users in years 3–10. In accordance with ~~IAS 38 *Intangible Assets*, the operator recognises the intangible asset at cost, ie the fair value of consideration transferred to acquire the asset, which is the fair value of the consideration received or receivable for~~ IFRS 15, the operator measures this non-cash consideration at fair value. In this case, the operator determines the fair value indirectly by reference to the stand-alone selling price of the construction services delivered.

IE15 During the construction phase of the arrangement the operator's contract asset (representing its accumulating right to be paid for providing construction services) is ~~classified~~ presented as an intangible asset (licence to charge users of the infrastructure). The operator ~~measures~~ estimates the ~~fair value of its consideration received~~ stand-alone selling price of the construction services to be equal to the forecast construction costs plus 5 per cent margin, which the operator concludes is consistent with the rate that a market participant would require as compensation for providing the construction services and for assuming the risk associated with the construction costs. It is also assumed that, in accordance with IAS 23 *Borrowing Costs*, the operator capitalises the borrowing costs, estimated at 6.7 per cent, during the construction phase of the arrangement:

Table 2.2 ***Initial measurement of intangible asset***

	CU
Construction services in year 1 ~~(CU500 × (1 + 5%))~~	525
Capitalisation of borrowing costs (table 2.4)	34
Construction services in year 2 ~~(CU500 × (1 + 5%))~~	525
Intangible asset at end of year 2	1,084

...

Construction costs and revenue

IE17 The operator ~~recognises the revenue and costs~~ accounts for the construction services in accordance with ~~IAS 11 *Construction Contracts*, ie by reference to the~~

~~stage of completion of the construction~~ IFRS 15. It measures ~~contract~~ revenue at the fair value of the non-cash consideration received or receivable. Thus in each of years 1 and 2 it recognises in its profit or loss construction costs of CU500, construction revenue of CU525 ~~(cost plus 5 per cent)~~ and, hence, construction profit of CU25.

...

Arrangement terms

IE23 The terms of a service arrangement require an operator to construct a road—completing construction within two years—and to operate the road and maintain it to a specified standard for eight years (ie years 3–10). The terms of the arrangement also require the operator to resurface the road when the original surface has deteriorated below a specified condition. The operator estimates that it will have to undertake the resurfacing at the end of year 8. At the end of year 10, the arrangement will end. Assume that the operator identifies a single performance obligation for construction services. The operator estimates that the costs it will incur to fulfil its obligations will be:

Table 3.1 *Contract costs*

	Year	CU[(a)]
Construction services	1	500
	2	500
~~Operation services~~ Operating the road (per year)	3–10	10
Road resurfacing	8	100

(a) in this example, monetary amounts are denominated in 'currency units (CU)'.

IE24 The operator estimates the consideration in respect of construction services to be CU1,050 by reference to the stand-alone selling price of those services (which it estimates at forecast costs plus 5 per cent~~)~~.

...

Dividing the arrangement

IE27 The contractual right to receive cash from the grantor for the services and the right to charge users for the public services should be regarded as two separate assets under IFRSs. Therefore in this arrangement it is necessary to divide the operator's ~~consideration~~ contract asset during the construction phase into two components—a financial asset component based on the guaranteed amount and an intangible asset for the remainder. When the construction services are completed, the two components of the contract asset would be classified and measured as a financial asset and an intangible asset accordingly.

Table 3.2 ***Dividing the operator's consideration***

Year	**Total**	**Financial asset**	**Intangible asset**
Construction services in year 1 ~~(CU500 × (1 + 5%))~~	525	350	175
Construction services in year 2 ~~(CU500 × (1 + 5%))~~	525	350	175
Total construction services	1,050	700	350
	100%	*67%*[a]	*33%*
Finance income, at specified rate of 6.18% on receivable (see table 3.3)	22	22	–
Borrowing costs capitalised (interest paid in years 1 and 2 × 33%) (see table 3.7)	11	–	11
Total fair value of the operator's consideration	1,083	722	361

(a) Amount guaranteed by the grantor as a proportion of the construction services.

Financial asset

IE28 ~~The amount due from or at the direction of the grantor in exchange for the construction services meets the definition of a receivable in IAS 39~~ ~~*Financial Instruments: Recognition and Measurement*~~~~. The receivable is measured initially at fair value. It is subsequently measured at amortised cost, ie the amount initially recognised plus the cumulative interest on that amount minus repayments.~~ During the first two years, the entity recognises a contract asset and accounts for the significant financing component in the arrangement in accordance with IFRS 15. Once the construction is complete, the amount due from, or at the direction of, the grantor in exchange for the construction services is accounted for in accordance with IFRS 9 as a receivable.

...

Table 3.3 ***Measurement of contract asset/receivable***

	CU
Construction services in year 1 allocated to the ~~financial~~ contract asset	350
~~Receivable~~ Contract asset at end of year 1	350
Construction services in year 2 allocated to the ~~financial~~ contract asset	350
Interest in year 2 on ~~receivable~~ contract asset at end of year 1 (6.18% × CU350)	22
Receivable at end of year 2	722
Interest in year 3 on receivable at end of year 2 (6.18% × CU722)	45
Cash receipts in year 3 (see table 3.5)	(117)
Receivable at end of year 3	650

Intangible asset

...

IE31 During the construction phase of the arrangement the portion of the operator's contract asset that ~~(representing~~ represents its accumulating right to be paid amounts in excess of the guaranteed amount for providing construction services~~)~~ is ~~classified~~ presented as a right to receive a licence to charge users of the infrastructure. The operator ~~measures~~ estimates the ~~fair value of its consideration received or receivable~~ stand-alone selling price of the construction services as equal to the forecast construction costs plus 5 per cent, which the operator concludes is consistent with the rate that a market participant would require as compensation for providing the construction services and for assuming the risk associated with the construction costs. It is also assumed that, in accordance with IAS 23 *Borrowing Costs*, the operator capitalises the borrowing costs, estimated at 6.7 per cent, during the construction phase:

Table 3.4 ***Initial measurement of intangible asset***

	CU
Construction services in year 1 ~~(CU500 × (1 + 5%) × 33%)~~	175
Borrowing costs (interest paid in years 1 and 2 × 33%) (see table 3.7)	11
Construction services in year 2 ~~(CU500 × (1 + 5%) × 33%)~~	175
Intangible asset at the end of year 2	361

...

~~Contract revenue~~ Revenue and costs

IE33 The operator provides construction services to the grantor in exchange for a financial asset and an intangible asset. Under both the financial asset model and intangible asset model, the operator ~~recognises contract revenue and costs~~ accounts for the construction services in accordance with ~~IAS 11 *Construction Contracts*, ie by reference to the stage of completion of the construction. It measures contract revenue at the fair value of the consideration receivable~~ IFRS 15. Thus in each of years 1 and 2 it recognises in profit or loss construction costs of CU500 and construction revenue of CU525 ~~(cost plus 5 per cent)~~.