Think Ahead ACCA

IASB/RFI/2023/2 Post-implementation Review: IFRS 15 *Revenue from Contracts with Customers*

Request for information issued by the IASB in June 2023

Comments from ACCA
17 October 2023

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GENERAL COMMENTS

ACCA welcomes the opportunity to provide views in response to the IASB's request for information for the post-implementation review of IFRS 15 *Revenue from Contracts with Customers*.

This was done with the assistance of ACCA's Global Forum for Corporate Reporting.

Overall, the five-step revenue recognition model in IFRS 15 (the Standard) is working as intended, though the Standard is complex and implementing the Standard involved a significant learning process for entities. In the initial years, it involved a change in mindset from recognising revenue based on transfer of significant risks and rewards to customers, to a model that transfers control over goods or services to customers.

Consequently, accountants are more frequently consulted, or engaged in business transactions and contract management as the accounting is an integral part of the business transaction. This closer collaboration between the finance and operations may lead to better control over revenue recognition.

Reducing diversity in accounting requirements would ease financial reporting for multinational entities, enable accountants to work between jurisdictions, and improve comparability of financial statements of different reporting entities. Therefore, we support retaining converged requirements in IFRS 15 and Topic 606 in US GAAP.

We support principles-based requirements in IFRS 15 and the ability to use judgements in applying the Standard. This should continue to be the case as they make the Standard suitable for contracts with customers of varying complexity and business terms.

We suggest the IASB clarify the issues that have come to the IASB's attention, particularly those in Spotlight 3 of the RfI. There's room to improve consistency such that the same accounting treatment can be applied to the same facts and circumstances.

When transitioning to IFRS 15, the modified retrospective method provides an appropriate balance of useful information to users and managing the initial costs of implementing the Standard. In support of proportionality, the modified retrospective method should continue to exist alongside full retrospective application – i.e., giving some flexibility to accommodate the different resources and complexity of contracts with customers in entities of varying sizes.

The disclosure requirements in IFRS 15 have generally enabled users to better understand an entity's revenue sources and the significant judgements involved in recognising revenue. However, we have received some concerns about the cost of meeting certain disclosure requirements and the time spent on preparing them.

Our detailed responses to the specific questions asked are set out below.

RESPONSES TO SPECIFIC QUESTIONS RAISED

Question 1 – Overall assessment of IFRS 15

a) In your view, has IFRS 15 achieved its objective? Why or why not?

b) Do you have any feedback on the understandability and accessibility of IFRS 15 that the IASB could consider:
   i) in developing future Standards; or
   ii) in assessing whether, and if so how, it could improve the understandability of IFRS 15 without changing its requirements or causing significant cost and disruption to entities already applying the Standard – for example, by providing education materials or flowcharts explaining the links between the requirements?

c) What are the ongoing costs and benefits of applying the requirements in IFRS 15 and how significant are they?

ACCA response – Question 1

Overall, the five-step revenue recognition model in IFRS 15 is working well. IFRS 15 (the Standard) is complex, and we received similar feedback as the IASB that implementing the Standard involved a significant learning process for entities. We received feedback that while the Standard is scalable, entities need to understand all the requirements in the Standard first, before scaling up or down as individual contracts with customers require.

Separating the revenue recognition process into five steps illustrates the complexity, though it also helps entities in applying the Standard by breaking the complex concept into five smaller processes. Most entities took time to understand the concepts and terminology. In the initial years, it involved a change in mindset from recognising revenue based on transfer of significant risks and rewards to customers, to a model that transfers control over goods or services to customers.

We support principles-based requirements and the ability to use judgements in applying the Standard. This should continue to be the case. They make the Standard suitable for contracts with customers of varying complexity though it results in entities assessing every contract with non-standard terms.

Entities have said they need to use significant judgement in applying the requirements in IFRS 15 to complex fact patterns, though where significant judgement is applied varies from one contract to another. These include identifying who the customer is (for example, in a contract for utility service), determining if a good or service is distinct in identifying performance obligation, and determining when to recognise revenue. We received feedback about the challenges in separating the performance obligations in contracts that offer bundled services to customers, and difficulties in allocating transaction price in such contracts. However, we are unable to comment on their pervasiveness.

While the requirements are difficult for accountants to understand, it is more difficult for the accountants to explain them to non-accountants. Accountants are now more frequently consulted, or engaged in business transactions and contract management as the accounting is an integral part of the business transaction. The closer collaboration between finance and operations is perhaps a positive consequence that may improve control over revenue recognition.

Although applying IFRS 15 was initially challenging, entities have put or are putting accounting policies in place. The application guidance in the Standard is generally helpful in assisting entities to understand the requirements, though there's room for improvement as mentioned in our response to question 4.

We're unable to comment on the initial or transition costs and the ongoing costs of applying IFRS 15.

Question 2 – Identifying performance obligations in a contract

a) Does IFRS 15 provide a clear and sufficient basis to identify performance obligations in a contract? If not, why not?

b) Do you have any suggestions for resolving the matters you have identified?

ACCA response – Question 2

Refer to our response to question 1.

Question 3 – Determining the transaction price

a) Does IFRS 15 provide a clear and sufficient basis to determine the transaction price in a contract – in particular, in relation to accounting for consideration payable to a customer? If not, why not?

b) Do you have any suggestions for resolving the matters you have identified?

ACCA response – Question 3

We have not received feedback on this matter.

However, we suggest the IASB clarify the issues on the accounting for marketing incentive offered in a three-way arrangement and 'negative' revenue (both issues in Spotlight 3) that have already been made known to the IASB by other stakeholders.

As the IASB has noted, some entities treat these incentives as payments to customers and so account for them as reductions of revenue. Other entities treat these incentives as marketing expenses. We agree that there's room for clarifying whether incentives to customers in a three-way arrangement should be presented as reductions of revenue or as expenses. Guidance that sets out a fact pattern, the assessment of the facts and circumstances, and the resulting accounting treatment would be helpful to aid consistent application of requirements in the Standard. While we do not see consistency to mean identical application by all organisations, the same accounting treatment should be applied to same facts and circumstances.

Perhaps more pressing is clarifying whether 'negative' revenue should be allowed and if so, the circumstances that allow it, instead of presenting the amount as an expense.

The notion of negative revenue appears to contradict the definition of revenue in Appendix A of the Standard, in which, revenue is defined as "**income** arising in the course of an entity's ordinary activities." Meanwhile, income is defined in the same appendix as, "**Increases** in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in an increase in equity, other than those relating to contributions from equity participants."

Question 4 – Determining when to recognise revenue

a) Does IFRS 15 provide a clear and sufficient basis to determine when to recognise revenue? If not, why not?

b) Do you have any suggestions for resolving the matters you have identified?

ACCA response – Question 4

Assessing when to recognise revenue (i.e., over time or at a point in time) in complex transactions may require the use of judgement in identifying who the customer is and the performance obligation to determine the pattern of transfer of control of goods or services to customers. While that might present some challenges, it does not indicate that the requirements in IFRS 15 are not working.

However, the IASB may consider studying the revenue recognition of some contemporary business models. For example, we have received some concerns about determining when control transfers to customers in the sale of virtual currencies for use in video games, and thus when to recognise revenue in such transactions.

Question 5 – Principal versus agent considerations

a) Does IFRS 15 provide a clear and sufficient basis to determine whether an entity is a principal or an agent? If not, why not?

b) Do you have any suggestions for resolving the matters you have identified?

ACCA response – Question 5

The challenges in determining whether an entity is a principal stem from the application of the transfer of control principle and the related indicators. To help an entity determine whether it controls the goods or services before transferring them and thus whether the entity is a principal, the IASB has included indicators in paragraph B37 of IFRS 15 (as per paragraph BC382 of IFRS 15).

But there’s still ambiguity over whether each indicator needs to be assessed or whether all indicators need to be met in determining if the entity is a principal. Paragraph B37A has explained, to some extent, how the indicators in paragraph 37 should be assessed.

We suggest the IASB enhance paragraph B37A to include further explanation from paragraph BC385H of the Standard, i.e., *“Considering one or more of the indicators will often be helpful and, depending on the facts and circumstances, individual indicators will be more or less relevant or persuasive to the assessment of control.*

The indicators:
- *should not be considered a checklist of criteria to be met, or factors to be considered, in all scenarios;*
- *do not constitute a separate or additional evaluation;*
- *should not be viewed in isolation; and*
- *do not override the assessment of control.”*

If the IASB receives examples of other indicators that may help entities assess if it’s a principal, we suggest the IASB consider if those indicators should be added to paragraph B37.

Question 6 – Licensing

a) Does IFRS 15 provide a clear and sufficient basis for accounting for contracts involving licences? If not, why not?

   Response to Q6(a) should describe fact patterns in which the requirements are unclear or are applied inconsistently – in particular, in relation to matters described in Spotlight 6 in the RfI.

b) Do you have any suggestions for resolving the matters you have identified?

ACCA response – Question 6

We have not come across feedback that identifies significant challenges in applying the requirements in IFRS 15 to recognise revenue from contracts involving licences.

Question 7 – Disclosure requirements

a) Do the disclosure requirements in IFRS 15 result in entities providing useful information to users of financial statements? Why or why not?

b) Do any disclosure requirements in IFRS 15 give rise to significant ongoing costs?

c) Have you observed significant variation in the quality of disclosed revenue information? If so, what in your view causes such variation and what steps, if any, could the IASB take to improve the quality of the information provided?

ACCA response – Question 7

The disclosure requirements in IFRS 15 have generally enabled users to better understand an entity’s revenue sources, in particular the disaggregation of revenue. However, we received mixed views for certain information as explained below.

We received mixed views about the usefulness of information about the remaining unsatisfied (or partially satisfied) performance obligation as required by paragraph 120 of the Standard. Those who were not supportive indicated that the cost of producing the disclosure about the remaining unsatisfied performance obligations outweigh the usefulness of the information, in particular for entities with many ongoing contracts that are at different stages of completion. Such information about revenue to be recognised in the future periods only relates to existing contracts on hand and would not adequately reflect the earning potential of the entity as a whole.

In addition, we received similar concerns as highlighted in Spotlight 7 of the RfI in relation to the cost of meeting disclosure requirements for contract balances. The requirement in paragraph 118 of the Standard to disclose quantitative information to explain the significant changes in contract asset and contract liability balances may result in significant ongoing costs when an entity has many ongoing contracts. For example, property developers that develop multiple townships simultaneously.

Consequently, there are concerns about whether the time spent on producing the above disclosures is justified.

Other than the above, the overarching requirement in paragraph 110(b) to disclose information about where significant judgement has been applied, and changes in the judgements made in recognising revenue has been useful. For example, in identifying who the customer is, in determining if a good or service is distinct in identifying performance obligation, and in determining when revenue was recognised (i.e., over time or at a point in time).

We have not come across major complaints over the comparability of revenue information among entities that apply the IFRS Accounting Standards.

Question 8 – Transition requirements

Did the transition requirements work as the IASB intended? Why or why not?

ACCA response – Question 8

As mentioned in our response to question 1, the Standard is complex, and most entities took time to understand the concepts and terminology before putting in place new accounting policies.

The modified retrospective method provides an appropriate balance of useful information to users and managing the initial costs of implementing IFRS 15. The modified retrospective method should continue to exist alongside full retrospective application, in support of proportionality – i.e., giving some flexibility to accommodate the different resources and complexity of contracts with customers in entities of varying sizes.

Question 9 – Applying IFRS 15 with other IFRS Accounting Standards

a) Is it clear how to apply the requirements in IFRS 15 with the requirements in other IFRS Accounting Standards? If not, why not?

b) Do you have any suggestions for resolving the matters you have identified?

ACCA response – Question 9

We have not come across feedback that identifies significant challenges in applying the requirements in IFRS 15 with the requirements in other IFRS Accounting Standards. Hence, we have no comments to add.

Question 10 – Convergence with Topic 606

How important is retaining the current level of convergence between IFRS 15 and Topic 606 to you and why?

ACCA response – Question 10

At the very least, retaining converged requirements would be a desirable outcome. Converged accounting requirements would be important for multinational entities with operations across jurisdictions that apply the IFRS Accounting Standards and US GAAP.

Users want to be able to understand and compare the revenue of different reporting entities that are accounted for using same accounting requirements. While international accounting standards will not be able to provide precise directions for the accounting of all the different business circumstances that may be encountered over time and in different jurisdictions, divergence in accounting requirements should be minimised.

Reducing diversity in accounting requirements would ease financial reporting, enable accountants to work between jurisdictions, and improve comparability of financial statements of different reporting entities.

Question 11 – Other matters

Are there any further matters that you think the IASB should examine as part of the post-implementation review of IFRS 15? If yes, what are those matters and why should they be examined?

ACCA response – Question 11

We have no further comments.