IFRS 15 Revenue from Contracts with Customers
Illustrative Examples

IFRS 15 Revenue from Contracts with Customers
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CONTENTS

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS
ILLUSTRATIVE EXAMPLES

IDENTIFYING THE CONTRACT
Example 1—Collectability of the consideration
Example 2—Consideration is not the stated price—implicit price concession
Example 3—Implicit price concession
Example 4—Reassessing the criteria for identifying a contract

CONTRACT MODIFICATIONS
Example 5—Modification of a contract for goods
Example 6—Change in the transaction price after a contract modification
Example 7—Modification of a services contract
Example 8—Modification resulting in a cumulative catch-up adjustment to revenue
Example 9—Unapproved change in scope and price

IDENTIFYING PERFORMANCE OBLIGATIONS
Example 10—Goods and services are not distinct
Example 11—Determining whether goods or services are distinct
Example 12—Explicit and implicit promises in a contract

PERFORMANCE OBLIGATIONS SATISFIED OVER TIME
Example 13—Customer simultaneously receives and consumes the benefits
Example 14—Assessing alternative use and right to payment
Example 15—Asset has no alternative use to the entity
Example 16—Enforceable right to payment for performance completed to date
Example 17—Assessing whether a performance obligation is satisfied at a point in time or over time

MEASURING PROGRESS TOWARDS COMPLETE SATISFACTION OF A PERFORMANCE OBLIGATION
Example 18—Measuring progress when making goods or services available
Example 19—Uninstalled materials

VARIABLE CONSIDERATION
Example 20—Penalty gives rise to variable consideration
Example 21—Estimating variable consideration

CONSTRAINING ESTIMATES OF VARIABLE CONSIDERATION
Example 22—Right of return
Example 23—Price concessions
Example 24—Volume discount incentive
Example 25—Management fees subject to the constraint
THE EXISTENCE OF A SIGNIFICANT FINANCING COMPONENT IN THE CONTRACT
Example 26—Significant financing component and right of return
Example 27—Withheld payments on a long-term contract
Example 28—Determining the discount rate
Example 29—Advance payment and assessment of the discount rate
Example 30—Advance payment

NON–CASH CONSIDERATION
Example 31—Entitlement to non-cash consideration

CONSIDERATION PAYABLE TO A CUSTOMER
Example 32—Consideration payable to a customer

ALLOCATING THE TRANSACTION PRICE TO PERFORMANCE OBLIGATIONS
Example 33—Allocation methodology
Example 34—Allocating a discount
Example 35—Allocation of variable consideration

CONTRACT COSTS
Example 36—Incremental costs of obtaining a contract
Example 37—Costs that give rise to an asset

PRESENTATION
Example 38—Contract liability and receivable
Example 39—Contract asset recognised for the entity’s performance
Example 40—Receivable recognised for the entity’s performance

DISCLOSURE
Example 41—Disaggregation of revenue—quantitative disclosure
Example 42—Disclosure of the transaction price allocated to the remaining performance obligations
Example 43—Disclosure of the transaction price allocated to the remaining performance obligations—qualitative disclosure

WARRANTIES
Example 44—Warranties

PRINCIPAL VERSUS AGENT CONSIDERATIONS
Example 45—Arranging for the provision of goods or services (entity is an agent)
Example 46—Promise to provide goods or services (entity is a principal)
Example 47—Promise to provide goods or services (entity is a principal)
Example 48—Arranging for the provision of goods or services (entity is an agent)

CUSTOMER OPTIONS FOR ADDITIONAL GOODS OR SERVICES
Example 49—Option that provides the customer with a material right (discount voucher)
Example 50—Option that does not provide the customer with a material right (additional goods or services)
Example 51—Option that provides the customer with a material right (renewal option)

Example 52—Customer loyalty programme

NON-REFUNDABLE UPFRONT FEES

Example 53—Non-refundable upfront fee

LICENSING

Example 54—Right to use intellectual property
Example 55—Licence of intellectual property
Example 56—Identifying a distinct licence

Example 57—Franchise rights
Example 58—Access to intellectual property
Example 59—Right to use intellectual property
Example 60—Access to intellectual property
Example 61—Access to intellectual property

REPURCHASE AGREEMENTS

Example 62—Repurchase agreements

BILL-AND-HOLD ARRANGEMENTS

Example 63—Bill-and-hold arrangement

APPENDIX

Amendments to guidance on other Standards
**IFRS 15 Revenue from Contracts with Customers**

**Illustrative Examples**

These examples accompany, but are not part of, IFRS 15. They illustrate aspects of IFRS 15 but are not intended to provide interpretative guidance.

**IE1** These examples portray hypothetical situations illustrating how an entity might apply some of the requirements in IFRS 15 to particular aspects of a contract with a customer on the basis of the limited facts presented. The analysis in each example is not intended to represent the only manner in which the requirements could be applied, nor are the examples intended to apply only to the specific industry illustrated. Although some aspects of the examples may be present in actual fact patterns, all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying IFRS 15.

**Identifying the contract**

**IE2** Examples 1–4 illustrate the requirements in paragraphs 9–16 of IFRS 15 on identifying the contract. In addition, the following requirements are illustrated in these examples:

(a) the interaction of paragraph 9 of IFRS 15 with paragraphs 47 and 52 of IFRS 15 on estimating variable consideration (Examples 2–3); and

(b) paragraph B63 of IFRS 15 on consideration in the form of sales-based or usage-based royalties on licences of intellectual property (Example 4).

**Example 1—Collectability of the consideration**

**IE3** An entity, a real estate developer, enters into a contract with a customer for the sale of a building for CU1 million.\(^1\) The customer intends to open a restaurant in the building. The building is located in an area where new restaurants face high levels of competition and the customer has little experience in the restaurant industry.

**IE4** The customer pays a non-refundable deposit of CU50,000 at inception of the contract and enters into a long-term financing agreement with the entity for the remaining 95 per cent of the promised consideration. The financing arrangement is provided on a non-recourse basis, which means that if the customer defaults, the entity can repossess the building, but cannot seek further compensation from the customer, even if the collateral does not cover the full value of the amount owed. The entity’s cost of the building is CU600,000. The customer obtains control of the building at contract inception.

**IE5** In assessing whether the contract meets the criteria in paragraph 9 of IFRS 15, the entity concludes that the criterion in paragraph 9(e) of IFRS 15 is not met because it is not probable that the entity will collect the consideration to which it is entitled in exchange for the transfer of the building. In reaching this conclusion, the entity observes that the customer’s ability and intention to pay may be in doubt because of the following factors:

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1 In these examples monetary amounts are denominated in ‘currency units’ (CU).
(a) the customer intends to repay the loan (which has a significant balance) primarily from income derived from its restaurant business (which is a business facing significant risks because of high competition in the industry and the customer’s limited experience);

(b) the customer lacks other income or assets that could be used to repay the loan; and

(c) the customer’s liability under the loan is limited because the loan is non-recourse.

IE6 Because the criteria in paragraph 9 of IFRS 15 are not met, the entity applies paragraphs 15–16 of IFRS 15 to determine the accounting for the non-refundable deposit of CU50,000. The entity observes that none of the events described in paragraph 15 have occurred—that is, the entity has not received substantially all of the consideration and it has not terminated the contract. Consequently, in accordance with paragraph 16, the entity accounts for the non-refundable CU50,000 payment as a deposit liability. The entity continues to account for the initial deposit, as well as any future payments of principal and interest, as a deposit liability, until such time that the entity concludes that the criteria in paragraph 9 are met (ie the entity is able to conclude that it is probable that the entity will collect the consideration) or one of the events in paragraph 15 has occurred. The entity continues to assess the contract in accordance with paragraph 14 to determine whether the criteria in paragraph 9 are subsequently met or whether the events in paragraph 15 of IFRS 15 have occurred.

Example 2—Consideration is not the stated price—implicit price concession

IE7 An entity sells 1,000 units of a prescription drug to a customer for promised consideration of CU1 million. This is the entity’s first sale to a customer in a new region, which is experiencing significant economic difficulty. Thus, the entity expects that it will not be able to collect from the customer the full amount of the promised consideration. Despite the possibility of not collecting the full amount, the entity expects the region’s economy to recover over the next two to three years and determines that a relationship with the customer could help it to forge relationships with other potential customers in the region.

IE8 When assessing whether the criterion in paragraph 9(e) of IFRS 15 is met, the entity also considers paragraphs 47 and 52(b) of IFRS 15. Based on the assessment of the facts and circumstances, the entity determines that it expects to provide a price concession and accept a lower amount of consideration from the customer. Accordingly, the entity concludes that the transaction price is not CU1 million and, therefore, the promised consideration is variable. The entity estimates the variable consideration and determines that it expects to be entitled to CU400,000.

IE9 The entity considers the customer’s ability and intention to pay the consideration and concludes that even though the region is experiencing economic difficulty, it is probable that it will collect CU400,000 from the customer. Consequently, the entity concludes that the criterion in paragraph 9(e) of IFRS 15 is met based on an estimate of variable consideration.
of CU400,000. In addition, on the basis of an evaluation of the contract terms and other facts and circumstances, the entity concludes that the other criteria in paragraph 9 of IFRS 15 are also met. Consequently, the entity accounts for the contract with the customer in accordance with the requirements in IFRS 15.

**Example 3—Implicit price concession**

IE10 An entity, a hospital, provides medical services to an uninsured patient in the emergency room. The entity has not previously provided medical services to this patient but is required by law to provide medical services to all emergency room patients. Because of the patient’s condition upon arrival at the hospital, the entity provides the services immediately and, therefore, before the entity can determine whether the patient is committed to perform its obligations under the contract in exchange for the medical services provided. Consequently, the contract does not meet the criteria in paragraph 9 of IFRS 15 and, in accordance with paragraph 14 of IFRS 15, the entity will continue to assess its conclusion based on updated facts and circumstances.

IE11 After providing services, the entity obtains additional information about the patient including a review of the services provided, standard rates for such services and the patient’s ability and intention to pay the entity for the services provided. During the review, the entity notes its standard rate for the services provided in the emergency room is CU10,000. The entity also reviews the patient’s information and to be consistent with its policies designates the patient to a customer class based on the entity’s assessment of the patient’s ability and intention to pay.

IE12 Before reassessing whether the criteria in paragraph 9 of IFRS 15 have been met, the entity considers paragraphs 47 and 52(b) of IFRS 15. Although the standard rate for the services is CU10,000 (which may be the amount invoiced to the patient), the entity expects to accept a lower amount of consideration in exchange for the services. Accordingly, the entity concludes that the transaction price is not CU10,000 and, therefore, the promised consideration is variable. The entity reviews its historical cash collections from this customer class and other relevant information about the patient. The entity estimates the variable consideration and determines that it expects to be entitled to CU1,000.

IE13 In accordance with paragraph 9(e) of IFRS 15, the entity evaluates the patient’s ability and intention to pay (i.e. the credit risk of the patient). On the basis of its collection history from patients in this customer class, the entity concludes it is probable that the entity will collect CU1,000 (which is the estimate of variable consideration). In addition, on the basis of an assessment of the contract terms and other facts and circumstances, the entity concludes that the other criteria in paragraph 9 of IFRS 15 are also met. Consequently, the entity accounts for the contract with the patient in accordance with the requirements in IFRS 15.

**Example 4—Reassessing the criteria for identifying a contract**

IE14 An entity licences a patent to a customer in exchange for a usage-based royalty. At contract inception, the contract meets all the criteria in paragraph 9 of IFRS 15 and the entity accounts for the contract with the customer in
accordance with the requirements in IFRS 15. The entity recognises revenue when the customer’s subsequent usage occurs in accordance with paragraph B63 of IFRS 15.

IE15 Throughout the first year of the contract, the customer provides quarterly reports of usage and pays within the agreed-upon period.

IE16 During the second year of the contract, the customer continues to use the entity’s patent, but the customer’s financial condition declines. The customer’s current access to credit and available cash on hand are limited. The entity continues to recognise revenue on the basis of the customer’s usage throughout the second year. The customer pays the first quarter’s royalties but makes nominal payments for the usage of the patent in Quarters 2–4. The entity accounts for any impairment of the existing receivable in accordance with IFRS 9 Financial Instruments.

IE17 During the third year of the contract, the customer continues to use the entity’s patent. However, the entity learns that the customer has lost access to credit and its major customers and thus the customer’s ability to pay significantly deteriorates. The entity therefore concludes that it is unlikely that the customer will be able to make any further royalty payments for ongoing usage of the entity’s patent. As a result of this significant change in facts and circumstances, in accordance with paragraph 13 of IFRS 15, the entity reassesses the criteria in paragraph 9 of IFRS 15 and determines that they are not met because it is no longer probable that the entity will collect the consideration to which it will be entitled. Accordingly, the entity does not recognise any further revenue associated with the customer’s future usage of its patent. The entity accounts for any impairment of the existing receivable in accordance with IFRS 9 Financial Instruments.

Contract modifications

IE18 Examples 5–9 illustrate the requirements in paragraphs 18–21 of IFRS 15 on contract modifications. In addition, the following requirements are illustrated in these examples:

(a) paragraphs 22–30 of IFRS 15 on identifying performance obligations (Examples 7–8);
(b) paragraphs 56–58 of IFRS 15 on constraining estimates of variable consideration (Examples 6 and 8–9); and
(c) paragraphs 87–90 of IFRS 15 on changes in the transaction price (Example 6).

Example 5—Modification of a contract for goods

IE19 An entity promises to sell 120 products to a customer for CU12,000 (CU100 per product). The products are transferred to the customer over a six-month period. The entity transfers control of each product at a point in time. After the entity has transferred control of 60 products to the customer, the contract is modified...
to require the delivery of an additional 30 products (a total of 150 identical products) to the customer. The additional 30 products were not included in the initial contract.

**Case A—Additional products for a price that reflects the stand-alone selling price**

IE20 When the contract is modified, the price of the contract modification for the additional 30 products is an additional CU2,850 or CU95 per product. The pricing for the additional products reflects the stand-alone selling price of the products at the time of the contract modification and the additional products are distinct (in accordance with paragraph 27 of IFRS 15) from the original products.

IE21 In accordance with paragraph 20 of IFRS 15, the contract modification for the additional 30 products is, in effect, a new and separate contract for future products that does not affect the accounting for the existing contract. The entity recognises revenue of CU100 per product for the 120 products in the original contract and CU95 per product for the 30 products in the new contract.

**Case B—Additional products for a price that does not reflect the stand-alone selling price**

IE22 During the process of negotiating the purchase of an additional 30 products, the parties initially agree on a price of CU80 per product. However, the customer discovers that the initial 60 products transferred to the customer contained minor defects that were unique to those delivered products. The entity promises a partial credit of CU15 per product to compensate the customer for the poor quality of those products. The entity and the customer agree to incorporate the credit of CU900 (CU15 credit × 60 products) into the price that the entity charges for the additional 30 products. Consequently, the contract modification specifies that the price of the additional 30 products is CU1,500 or CU50 per product. That price comprises the agreed-upon price for the additional 30 products of CU2,400, or CU80 per product, less the credit of CU900.

IE23 At the time of modification, the entity recognises the CU900 as a reduction of the transaction price and, therefore, as a reduction of revenue for the initial 60 products transferred. In accounting for the sale of the additional 30 products, the entity determines that the negotiated price of CU80 per product does not reflect the stand-alone selling price of the additional products. Consequently, the contract modification does not meet the conditions in paragraph 20 of IFRS 15 to be accounted for as a separate contract. Because the remaining products to be delivered are distinct from those already transferred, the entity applies the requirements in paragraph 21(a) of IFRS 15 and accounts for the modification as a termination of the original contract and the creation of a new contract.

IE24 Consequently, the amount recognised as revenue for each of the remaining products is a blended price of CU93.33 \[\frac{(CU100 \times 60 \text{ products not yet transferred under the original contract}) + (CU80 \times 30 \text{ products to be transferred under the contract modification})}{90 \text{ remaining products}}\].
Example 6—Change in the transaction price after a contract modification

IE25 On 1 July 20X0, an entity promises to transfer two distinct products to a customer. Product X transfers to the customer at contract inception and Product Y transfers on 31 March 20X1. The consideration promised by the customer includes fixed consideration of CU1,000 and variable consideration that is estimated to be CU200. The entity includes its estimate of variable consideration in the transaction price because it concludes that it is highly probable that a significant reversal in cumulative revenue recognised will not occur when the uncertainty is resolved.

IE26 The transaction price of CU1,200 is allocated equally to the performance obligation for Product X and the performance obligation for Product Y. This is because both products have the same stand-alone selling prices and the variable consideration does not meet the criteria in paragraph 85 that requires allocation of the variable consideration to one but not both of the performance obligations.

IE27 When Product X transfers to the customer at contract inception, the entity recognises revenue of CU600.

IE28 On 30 November 20X0, the scope of the contract is modified to include the promise to transfer Product Z (in addition to the undelivered Product Y) to the customer on 30 June 20X1 and the price of the contract is increased by CU300 (fixed consideration), which does not represent the stand-alone selling price of Product Z. The stand-alone selling price of Product Z is the same as the stand-alone selling prices of Products X and Y.

IE29 The entity accounts for the modification as if it were the termination of the existing contract and the creation of a new contract. This is because the remaining Products Y and Z are distinct from Product X, which had transferred to the customer before the modification, and the promised consideration for the additional Product Z does not represent its stand-alone selling price. Consequently, in accordance with paragraph 21(a) of IFRS 15, the consideration to be allocated to the remaining performance obligations comprises the consideration that had been allocated to the performance obligation for Product Y (which is measured at an allocated transaction price amount of CU600) and the consideration promised in the modification (fixed consideration of CU300). The transaction price for the modified contract is CU900 and that amount is allocated equally to the performance obligation for Product Y and the performance obligation for Product Z (ie CU450 is allocated to each performance obligation).

IE30 After the modification but before the delivery of Products Y and Z, the entity revises its estimate of the amount of variable consideration to which it expects to be entitled to CU240 (rather than the previous estimate of CU200). The entity concludes that the change in estimate of the variable consideration can be included in the transaction price, because it is highly probable that a significant reversal in cumulative revenue recognised will not occur when the uncertainty is resolved. Even though the modification was accounted for as if it were the termination of the existing contract and the creation of a new contract in accordance with paragraph 21(a) of IFRS 15, the increase in the transaction price...
of CU40 is attributable to variable consideration promised before the modification. Therefore, in accordance with paragraph 90 of IFRS 15, the change in the transaction price is allocated to the performance obligations for Product X and Product Y on the same basis as at contract inception. Consequently, the entity recognises revenue of CU20 for Product X in the period in which the change in the transaction price occurs. Because Product Y had not transferred to the customer before the contract modification, the change in the transaction price that is attributable to Product Y is allocated to the remaining performance obligations at the time of the contract modification. This is consistent with the accounting that would have been required by paragraph 21(a) of IFRS 15 if that amount of variable consideration had been estimated and included in the transaction price at the time of the contract modification.

IE31 The entity also allocates the CU20 increase in the transaction price for the modified contract equally to the performance obligations for Product Y and Product Z. This is because the products have the same stand-alone selling prices and the variable consideration does not meet the criteria in paragraph 85 that require allocation of the variable consideration to one but not both of the performance obligations. Consequently, the amount of the transaction price allocated to the performance obligations for Product Y and Product Z increases by CU10 to CU460 each.

IE32 On 31 March 20X1, Product Y is transferred to the customer and the entity recognises revenue of CU460. On 30 June 20X1, Product Z is transferred to the customer and the entity recognises revenue of CU460.

Example 7—Modification of a services contract

IE33 An entity enters into a three-year contract to clean a customer's offices on a weekly basis. The customer promises to pay CU100,000 per year. The stand-alone selling price of the services at contract inception is CU100,000 per year. The entity recognises revenue of CU100,000 per year during the first two years of providing services. At the end of the second year, the contract is modified and the fee for the third year is reduced to CU80,000. In addition, the customer agrees to extend the contract for three additional years for consideration of CU200,000 payable in three equal annual instalments of CU66,667 at the beginning of years 4, 5 and 6. After the modification, the contract has four years remaining in exchange for total consideration of CU280,000. The stand-alone selling price of the services at the beginning of the third year is CU80,000 per year. The entity's stand-alone selling price at the beginning of the third year, multiplied by the remaining number of years to provide services, is deemed to be an appropriate estimate of the stand-alone selling price of the multi-year contract (ie the stand-alone selling price is 4 years × CU80,000 per year = CU320,000).

IE34 At contract inception, the entity assesses that each week of cleaning service is distinct in accordance with paragraph 27 of IFRS 15. Notwithstanding that each week of cleaning service is distinct, the entity accounts for the cleaning contract as a single performance obligation in accordance with paragraph 22(b) of IFRS 15. This is because the weekly cleaning services are a series of distinct
services that are substantially the same and have the same pattern of transfer to the customer (the services transfer to the customer over time and use the same method to measure progress—that is, a time-based measure of progress).

IE35 At the date of the modification, the entity assesses the remaining services to be provided and concludes that they are distinct. However, the amount of remaining consideration to be paid (CU280,000) does not reflect the stand-alone selling price of the services to be provided (CU320,000).

IE36 Consequently, the entity accounts for the modification in accordance with paragraph 21(a) of IFRS 15 as a termination of the original contract and the creation of a new contract with consideration of CU280,000 for four years of cleaning service. The entity recognises revenue of CU70,000 per year (CU280,000 ÷ 4 years) as the services are provided over the remaining four years.

Example 8—Modification resulting in a cumulative catch-up adjustment to revenue

IE37 An entity, a construction company, enters into a contract to construct a commercial building for a customer on customer-owned land for promised consideration of CU1 million and a bonus of CU200,000 if the building is completed within 24 months. The entity accounts for the promised bundle of goods and services as a single performance obligation satisfied over time in accordance with paragraph 35(b) of IFRS 15 because the customer controls the building during construction. At the inception of the contract, the entity expects the following:

<table>
<thead>
<tr>
<th>CU</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transaction price</td>
</tr>
<tr>
<td>Expected costs</td>
</tr>
<tr>
<td>Expected profit (30%)</td>
</tr>
</tbody>
</table>

IE38 At contract inception, the entity excludes the CU200,000 bonus from the transaction price because it cannot conclude that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. Completion of the building is highly susceptible to factors outside the entity’s influence, including weather and regulatory approvals. In addition, the entity has limited experience with similar types of contracts.

IE39 The entity determines that the input measure, on the basis of costs incurred, provides an appropriate measure of progress towards complete satisfaction of the performance obligation. By the end of the first year, the entity has satisfied 60 per cent of its performance obligation on the basis of costs incurred to date (CU420,000) relative to total expected costs (CU700,000). The entity reassesses the variable consideration and concludes that the amount is still constrained in accordance with paragraphs 56–58 of IFRS 15. Consequently, the cumulative revenue and costs recognised for the first year are as follows:
In the first quarter of the second year, the parties to the contract agree to modify the contract by changing the floor plan of the building. As a result, the fixed consideration and expected costs increase by CU150,000 and CU120,000, respectively. Total potential consideration after the modification is CU1,350,000 (CU1,150,000 fixed consideration + CU200,000 completion bonus). In addition, the allowable time for achieving the CU200,000 bonus is extended by 6 months to 30 months from the original contract inception date. At the date of the modification, on the basis of its experience and the remaining work to be performed, which is primarily inside the building and not subject to weather conditions, the entity concludes that it is highly probable that including the bonus in the transaction price will not result in a significant reversal in the amount of cumulative revenue recognised in accordance with paragraph 56 of IFRS 15 and includes the CU200,000 in the transaction price. In assessing the contract modification, the entity evaluates paragraph 27(b) of IFRS 15 and concludes (on the basis of the factors in paragraph 29 of IFRS 15) that the remaining goods and services to be provided using the modified contract are not distinct from the goods and services transferred on or before the date of contract modification; that is, the contract remains a single performance obligation.

Consequently, the entity accounts for the contract modification as if it were part of the original contract (in accordance with paragraph 21(b) of IFRS 15). The entity updates its measure of progress and estimates that it has satisfied 51.2 per cent of its performance obligation (CU420,000 actual costs incurred ÷ CU820,000 total expected costs). The entity recognises additional revenue of CU91,200 [(51.2 per cent complete × CU1,350,000 modified transaction price) – CU600,000 revenue recognised to date] at the date of the modification as a cumulative catch-up adjustment.

**Example 9—Unapproved change in scope and price**

An entity enters into a contract with a customer to construct a building on customer-owned land. The contract states that the customer will provide the entity with access to the land within 30 days of contract inception. However, the entity was not provided access until 120 days after contract inception because of storm damage to the site that occurred after contract inception. The contract specifically identifies any delay (including force majeure) in the entity's access to customer-owned land as an event that entitles the entity to compensation that is equal to actual costs incurred as a direct result of the delay. The entity is able to demonstrate that the specific direct costs were incurred as a result of the delay in accordance with the terms of the contract and prepares a claim. The customer initially disagreed with the entity's claim.

The entity assesses the legal basis of the claim and determines, on the basis of the underlying contractual terms, that it has enforceable rights. Consequently, it accounts for the claim as a contract modification in accordance with
paragraphs 18–21 of IFRS 15. The modification does not result in any additional goods and services being provided to the customer. In addition, all of the remaining goods and services after the modification are not distinct and form part of a single performance obligation. Consequently, the entity accounts for the modification in accordance with paragraph 21(b) of IFRS 15 by updating the transaction price and the measure of progress towards complete satisfaction of the performance obligation. The entity considers the constraint on estimates of variable consideration in paragraphs 56–58 of IFRS 15 when estimating the transaction price.

**Identifying performance obligations**

IE44 Examples 10–12 illustrate the requirements in paragraphs 22–30 of IFRS 15 on identifying performance obligations.

**Example 10—Goods and services are not distinct**

IE45 An entity, a contractor, enters into a contract to build a hospital for a customer. The entity is responsible for the overall management of the project and identifies various goods and services to be provided, including engineering, site clearance, foundation, procurement, construction of the structure, piping and wiring, installation of equipment and finishing.

IE46 The promised goods and services are capable of being distinct in accordance with paragraph 27(a) of IFRS 15. That is, the customer can benefit from the goods and services either on their own or together with other readily available resources. This is evidenced by the fact that the entity, or competitors of the entity, regularly sells many of these goods and services separately to other customers. In addition, the customer could generate economic benefit from the individual goods and services by using, consuming, selling or holding those goods or services.

IE47 However, the goods and services are not distinct within the context of the contract in accordance with paragraph 27(b) of IFRS 15 (on the basis of the factors in paragraph 29 of IFRS 15). That is, the entity’s promise to transfer individual goods and services in the contract are not separately identifiable from other promises in the contract. This is evidenced by the fact that the entity provides a significant service of integrating the goods and services (the inputs) into the hospital (the combined output) for which the customer has contracted.

IE48 Because both criteria in paragraph 27 of IFRS 15 are not met, the goods and services are not distinct. The entity accounts for all of the goods and services in the contract as a single performance obligation.

**Example 11—Determining whether goods or services are distinct**

**Case A—Distinct goods or services**

IE49 An entity, a software developer, enters into a contract with a customer to transfer a software licence, perform an installation service and provide unspecified software updates and technical support (online and telephone) for a
The entity sells the licence, installation service and technical support separately. The installation service includes changing the web screen for each type of user (for example, marketing, inventory management and information technology). The installation service is routinely performed by other entities and does not significantly modify the software. The software remains functional without the updates and the technical support.

The entity assesses the goods and services promised to the customer to determine which goods and services are distinct in accordance with paragraph 27 of IFRS 15. The entity observes that the software is delivered before the other goods and services and remains functional without the updates and the technical support. Thus, the entity concludes that the customer can benefit from each of the goods and services either on their own or together with the other goods and services that are readily available and the criterion in paragraph 27(a) of IFRS 15 is met.

The entity also considers the factors in paragraph 29 of IFRS 15 and determines that the promise to transfer each good and service to the customer is separately identifiable from each of the other promises (thus the criterion in paragraph 27(b) of IFRS 15 is met). In particular, the entity observes that the installation service does not significantly modify or customise the software itself and, as such, the software and the installation service are separate outputs promised by the entity instead of inputs used to produce a combined output.

On the basis of this assessment, the entity identifies four performance obligations in the contract for the following goods or services:

(a) the software licence;
(b) an installation service;
(c) software updates; and
(d) technical support.

The entity applies paragraphs 31–38 of IFRS 15 to determine whether each of the performance obligations for the installation service, software updates and technical support are satisfied at a point in time or over time. The entity also assesses the nature of the entity’s promise to transfer the software licence in accordance with paragraph B58 of IFRS 15 (see Example 54 in paragraphs IE276–IE277).

Case B—Significant customisation

The promised goods and services are the same as in Case A, except that the contract specifies that, as part of the installation service, the software is to be substantially customised to add significant new functionality to enable the software to interface with other customised software applications used by the customer. The customised installation service can be provided by other entities.

The entity assesses the goods and services promised to the customer to determine which goods and services are distinct in accordance with paragraph 27 of IFRS 15. The entity observes that the terms of the contract result in a promise to provide a significant service of integrating the licenced software into the existing software system by performing a customised
installation service as specified in the contract. In other words, the entity is using the licence and the customised installation service as inputs to produce the combined output (i.e., a functional and integrated software system) specified in the contract (see paragraph 29(a) of IFRS 15). In addition, the software is significantly modified and customised by the service (see paragraph 29(b) of IFRS 15). Although the customised installation service can be provided by other entities, the entity determines that within the context of the contract, the promise to transfer the licence is not separately identifiable from the customised installation service and, therefore, the criterion in paragraph 27(b) of IFRS 15 (on the basis of the factors in paragraph 29 of IFRS 15) is not met. Thus, the software licence and the customised installation service are not distinct.

As in Case A, the entity concludes that the software updates and technical support are distinct from the other promises in the contract. This is because the customer can benefit from the updates and technical support either on their own or together with the other goods and services that are readily available and because the promise to transfer the software updates and the technical support to the customer are separately identifiable from each of the other promises.

On the basis of this assessment, the entity identifies three performance obligations in the contract for the following goods or services:

(a) customised installation service (that includes the software licence);
(b) software updates; and
(c) technical support.

The entity applies paragraphs 31–38 of IFRS 15 to determine whether each performance obligation is satisfied at a point in time or over time.

Example 12—Explicit and implicit promises in a contract

An entity, a manufacturer, sells a product to a distributor (i.e., its customer) who will then resell it to an end customer.

Case A—Explicit promise of service

In the contract with the distributor, the entity promises to provide maintenance services for no additional consideration (i.e., ‘free’) to any party (i.e., the end customer) that purchases the product from the distributor. The entity outsources the performance of the maintenance services to the distributor and pays the distributor an agreed-upon amount for providing those services on the entity’s behalf. If the end customer does not use the maintenance services, the entity is not obliged to pay the distributor.

Because the promise of maintenance services is a promise to transfer goods or services in the future and is part of the negotiated exchange between the entity and the distributor, the entity determines that the promise to provide maintenance services is a performance obligation (see paragraph 26(g) of IFRS 15). The entity concludes that the promise would represent a performance obligation regardless of whether the entity, the distributor, or a third party provides the service. Consequently, the entity allocates a portion of the transaction price to the promise to provide maintenance services.
Case B—Implicit promise of service

IE62 The entity has historically provided maintenance services for no additional consideration (i.e. ‘free’) to end customers that purchase the entity’s product from the distributor. The entity does not explicitly promise maintenance services during negotiations with the distributor and the final contract between the entity and the distributor does not specify terms or conditions for those services.

IE63 However, on the basis of its customary business practice, the entity determines at contract inception that it has made an implicit promise to provide maintenance services as part of the negotiated exchange with the distributor. That is, the entity’s past practices of providing these services create valid expectations of the entity’s customers (i.e. the distributor and end customers) in accordance with paragraph 24 of IFRS 15. Consequently, the entity identifies the promise of maintenance services as a performance obligation to which it allocates a portion of the transaction price.

Case C—Services are not a performance obligation

IE64 In the contract with the distributor, the entity does not promise to provide any maintenance services. In addition, the entity typically does not provide maintenance services and, therefore, the entity’s customary business practices, published policies and specific statements at the time of entering into the contract have not created an implicit promise to provide goods or services to its customers. The entity transfers control of the product to the distributor and, therefore, the contract is completed. However, before the sale to the end customer, the entity makes an offer to provide maintenance services to any party that purchases the product from the distributor for no additional promised consideration.

IE65 The promise of maintenance is not included in the contract between the entity and the distributor at contract inception. That is, in accordance with paragraph 24 of IFRS 15, the entity does not explicitly or implicitly promise to provide maintenance services to the distributor or the end customers. Consequently, the entity does not identify the promise to provide maintenance services as a performance obligation. Instead, the obligation to provide maintenance services is accounted for in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

Performance obligations satisfied over time

IE66 Examples 13–17 illustrate the requirements in paragraphs 35–37 and B2–B13 of IFRS 15 on performance obligations satisfied over time. In addition, the following requirements are illustrated in these examples:

(a) paragraphs 35(a) and B3–B4 of IFRS 15 on when a customer simultaneously receives and consumes the benefits provided by the entity’s performance as the entity performs (Examples 13–14);
(b) paragraphs 35(c), 36–37 and B6–B13 of IFRS 15 on an entity’s performance that does not create an asset with an alternative use and an entity’s enforceable right to payment for performance completed to date (Examples 14–17); and

(c) paragraph 38 of IFRS 15 on performance obligations satisfied at a point in time (Example 17).

**Example 13—Customer simultaneously receives and consumes the benefits**

IE67 An entity enters into a contract to provide monthly payroll processing services to a customer for one year.

IE68 The promised payroll processing services are accounted for as a single performance obligation in accordance with paragraph 22(b) of IFRS 15. The performance obligation is satisfied over time in accordance with paragraph 35(a) of IFRS 15 because the customer simultaneously receives and consumes the benefits of the entity’s performance in processing each payroll transaction as and when each transaction is processed. The fact that another entity would not need to re-perform payroll processing services for the service that the entity has provided to date also demonstrates that the customer simultaneously receives and consumes the benefits of the entity’s performance as the entity performs. (The entity disregards any practical limitations on transferring the remaining performance obligation, including setup activities that would need to be undertaken by another entity.) The entity recognises revenue over time by measuring its progress towards complete satisfaction of that performance obligation in accordance with paragraphs 39–45 and B14–B19 of IFRS 15.

**Example 14—Assessing alternative use and right to payment**

IE69 An entity enters into a contract with a customer to provide a consulting service that results in the entity providing a professional opinion to the customer. The professional opinion relates to facts and circumstances that are specific to the customer. If the customer were to terminate the consulting contract for reasons other than the entity’s failure to perform as promised, the contract requires the customer to compensate the entity for its costs incurred plus a 15 per cent margin. The 15 per cent margin approximates the profit margin that the entity earns from similar contracts.

IE70 The entity considers the criterion in paragraph 35(a) of IFRS 15 and the requirements in paragraphs B3 and B4 of IFRS 15 to determine whether the customer simultaneously receives and consumes the benefits of the entity’s performance. If the entity were to be unable to satisfy its obligation and the customer hired another consulting firm to provide the opinion, the other consulting firm would need to substantially re-perform the work that the entity had completed to date, because the other consulting firm would not have the benefit of any work in progress performed by the entity. The nature of the professional opinion is such that the customer will receive the benefits of the
entity's performance only when the customer receives the professional opinion. Consequently, the entity concludes that the criterion in paragraph 35(a) of IFRS 15 is not met.

IE71 However, the entity's performance obligation meets the criterion in paragraph 35(c) of IFRS 15 and is a performance obligation satisfied over time because of both of the following factors:

(a) in accordance with paragraphs 36 and B6–B8 of IFRS 15, the development of the professional opinion does not create an asset with alternative use to the entity because the professional opinion relates to facts and circumstances that are specific to the customer. Therefore, there is a practical limitation on the entity's ability to readily direct the asset to another customer.

(b) in accordance with paragraphs 37 and B9–B13 of IFRS 15, the entity has an enforceable right to payment for its performance completed to date for its costs plus a reasonable margin, which approximates the profit margin in other contracts.

IE72 Consequently, the entity recognises revenue over time by measuring the progress towards complete satisfaction of the performance obligation in accordance with paragraphs 39–45 and B14–B19 of IFRS 15.

Example 15—Asset has no alternative use to the entity

IE73 An entity enters into a contract with a customer, a government agency, to build a specialised satellite. The entity builds satellites for various customers, such as governments and commercial entities. The design and construction of each satellite differ substantially, on the basis of each customer’s needs and the type of technology that is incorporated into the satellite.

IE74 At contract inception, the entity assesses whether its performance obligation to build the satellite is a performance obligation satisfied over time in accordance with paragraph 35 of IFRS 15.

IE75 As part of that assessment, the entity considers whether the satellite in its completed state will have an alternative use to the entity. Although the contract does not preclude the entity from directing the completed satellite to another customer, the entity would incur significant costs to rework the design and function of the satellite to direct that asset to another customer. Consequently, the asset has no alternative use to the entity (see paragraphs 35(c), 36 and B6–B8 of IFRS 15) because the customer-specific design of the satellite limits the entity’s practical ability to readily direct the satellite to another customer.

IE76 For the entity’s performance obligation to be satisfied over time when building the satellite, paragraph 35(c) of IFRS 15 also requires the entity to have an enforceable right to payment for performance completed to date. This condition is not illustrated in this example.
Example 16—Enforceable right to payment for performance completed to date

IE77 An entity enters into a contract with a customer to build an item of equipment. The payment schedule in the contract specifies that the customer must make an advance payment at contract inception of 10 per cent of the contract price, regular payments throughout the construction period (amounting to 50 per cent of the contract price) and a final payment of 40 per cent of the contract price after construction is completed and the equipment has passed the prescribed performance tests. The payments are non-refundable unless the entity fails to perform as promised. If the customer terminates the contract, the entity is entitled only to retain any progress payments received from the customer. The entity has no further rights to compensation from the customer.

IE78 At contract inception, the entity assesses whether its performance obligation to build the equipment is a performance obligation satisfied over time in accordance with paragraph 35 of IFRS 15.

IE79 As part of that assessment, the entity considers whether it has an enforceable right to payment for performance completed to date in accordance with paragraphs 35(c), 37 and B9–B13 of IFRS 15 if the customer were to terminate the contract for reasons other than the entity’s failure to perform as promised. Even though the payments made by the customer are non-refundable, the cumulative amount of those payments is not expected, at all times throughout the contract, to at least correspond to the amount that would be necessary to compensate the entity for performance completed to date. This is because at various times during construction the cumulative amount of consideration paid by the customer might be less than the selling price of the partially completed item of equipment at that time. Consequently, the entity does not have a right to payment for performance completed to date.

IE80 Because the entity does not have a right to payment for performance completed to date, the entity’s performance obligation is not satisfied over time in accordance with paragraph 35(c) of IFRS 15. Accordingly, the entity does not need to assess whether the equipment would have an alternative use to the entity. The entity also concludes that it does not meet the criteria in paragraph 35(a) or (b) of IFRS 15 and thus, the entity accounts for the construction of the equipment as a performance obligation satisfied at a point in time in accordance with paragraph 38 of IFRS 15.

Example 17—Assessing whether a performance obligation is satisfied at a point in time or over time

IE81 An entity is developing a multi-unit residential complex. A customer enters into a binding sales contract with the entity for a specified unit that is under construction. Each unit has a similar floor plan and is of a similar size, but other attributes of the units are different (for example, the location of the unit within the complex).
Case A—Entity does not have an enforceable right to payment for performance completed to date

The customer pays a deposit upon entering into the contract and the deposit is refundable only if the entity fails to complete construction of the unit in accordance with the contract. The remainder of the contract price is payable on completion of the contract when the customer obtains physical possession of the unit. If the customer defaults on the contract before completion of the unit, the entity only has the right to retain the deposit.

At contract inception, the entity applies paragraph 35(c) of IFRS 15 to determine whether its promise to construct and transfer the unit to the customer is a performance obligation satisfied over time. The entity determines that it does not have an enforceable right to payment for performance completed to date because, until construction of the unit is complete, the entity only has a right to the deposit paid by the customer. Because the entity does not have a right to payment for work completed to date, the entity's performance obligation is not a performance obligation satisfied over time in accordance with paragraph 35(c) of IFRS 15. Instead, the entity accounts for the sale of the unit as a performance obligation satisfied at a point in time in accordance with paragraph 38 of IFRS 15.

Case B—Entity has an enforceable right to payment for performance completed to date

The customer pays a non-refundable deposit upon entering into the contract and will make progress payments during construction of the unit. The contract has substantive terms that preclude the entity from being able to direct the unit to another customer. In addition, the customer does not have the right to terminate the contract unless the entity fails to perform as promised. If the customer defaults on its obligations by failing to make the promised progress payments as and when they are due, the entity would have a right to all of the consideration promised in the contract if it completes the construction of the unit. The courts have previously upheld similar rights that entitle developers to require the customer to perform, subject to the entity meeting its obligations under the contract.

At contract inception, the entity applies paragraph 35(c) of IFRS 15 to determine whether its promise to construct and transfer the unit to the customer is a performance obligation satisfied over time. The entity determines that the asset (unit) created by the entity's performance does not have an alternative use to the entity because the contract precludes the entity from transferring the specified unit to another customer. The entity does not consider the possibility of a contract termination in assessing whether the entity is able to direct the asset to another customer.

The entity also has a right to payment for performance completed to date in accordance with paragraphs 37 and B9–B13 of IFRS 15. This is because if the customer were to default on its obligations, the entity would have an enforceable right to all of the consideration promised under the contract if it continues to perform as promised.
Therefore, the terms of the contract and the practices in the legal jurisdiction indicate that there is a right to payment for performance completed to date. Consequently, the criteria in paragraph 35(c) of IFRS 15 are met and the entity has a performance obligation that it satisfies over time. To recognise revenue for that performance obligation satisfied over time, the entity measures its progress towards complete satisfaction of its performance obligation in accordance with paragraphs 39–45 and B14–B19 of IFRS 15.

In the construction of a multi-unit residential complex, the entity may have many contracts with individual customers for the construction of individual units within the complex. The entity would account for each contract separately. However, depending on the nature of the construction, the entity’s performance in undertaking the initial construction works (ie the foundation and the basic structure), as well as the construction of common areas, may need to be reflected when measuring its progress towards complete satisfaction of its performance obligations in each contract.

**Case C—Entity has an enforceable right to payment for performance completed to date**

The same facts as in Case B apply to Case C, except that in the event of a default by the customer, either the entity can require the customer to perform as required under the contract or the entity can cancel the contract in exchange for the asset under construction and an entitlement to a penalty of a proportion of the contract price.

Notwithstanding that the entity could cancel the contract (in which case the customer’s obligation to the entity would be limited to transferring control of the partially completed asset to the entity and paying the penalty prescribed), the entity has a right to payment for performance completed to date because the entity could also choose to enforce its rights to full payment under the contract. The fact that the entity may choose to cancel the contract in the event the customer defaults on its obligations would not affect that assessment (see paragraph B11 of IFRS 15), provided that the entity’s rights to require the customer to continue to perform as required under the contract (ie pay the promised consideration) are enforceable.

**Measuring progress towards complete satisfaction of a performance obligation**

Examples 18–19 illustrate the requirements in paragraphs 39–45 of IFRS 15 on measuring progress towards complete satisfaction of a performance obligation satisfied over time. Example 19 also illustrates the requirements in paragraph B19 of IFRS 15 on uninstalled materials when costs incurred are not proportionate to the entity’s progress in satisfying a performance obligation.

**Example 18—Measuring progress when making goods or services available**

An entity, an owner and manager of health clubs, enters into a contract with a customer for one year of access to any of its health clubs. The customer has unlimited use of the health clubs and promises to pay CU100 per month.
The entity determines that its promise to the customer is to provide a service of making the health clubs available for the customer to use as and when the customer wishes. This is because the extent to which the customer uses the health clubs does not affect the amount of the remaining goods and services to which the customer is entitled. The entity concludes that the customer simultaneously receives and consumes the benefits of the entity’s performance as it performs by making the health clubs available. Consequently, the entity’s performance obligation is satisfied over time in accordance with paragraph 35(a) of IFRS 15.

The entity also determines that the customer benefits from the entity’s service of making the health clubs available evenly throughout the year. (That is, the customer benefits from having the health clubs available, regardless of whether the customer uses it or not.) Consequently, the entity concludes that the best measure of progress towards complete satisfaction of the performance obligation over time is a time-based measure and it recognises revenue on a straight-line basis throughout the year at CU100 per month.

**Example 19—Uninstalled materials**

In November 20X2, an entity contracts with a customer to refurbish a 3-storey building and install new elevators for total consideration of CU5 million. The promised refurbishment service, including the installation of elevators, is a single performance obligation satisfied over time. Total expected costs are CU4 million, including CU1.5 million for the elevators. The entity determines that it acts as a principal in accordance with paragraphs B34–B38 of IFRS 15, because it obtains control of the elevators before they are transferred to the customer.

A summary of the transaction price and expected costs is as follows:

<table>
<thead>
<tr>
<th>CU</th>
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</thead>
<tbody>
<tr>
<td><strong>Transaction price</strong></td>
<td>5,000,000</td>
</tr>
<tr>
<td><strong>Expected costs:</strong></td>
<td></td>
</tr>
<tr>
<td>Elevators</td>
<td>1,500,000</td>
</tr>
<tr>
<td>Other costs</td>
<td>2,500,000</td>
</tr>
<tr>
<td><strong>Total expected costs</strong></td>
<td><strong>4,000,000</strong></td>
</tr>
</tbody>
</table>

The entity uses an input method based on costs incurred to measure its progress towards complete satisfaction of the performance obligation. The entity assesses whether the costs incurred to procure the elevators are proportionate to the entity’s progress in satisfying the performance obligation, in accordance with paragraph B19 of IFRS 15. The customer obtains control of the elevators when they are delivered to the site in December 20X2, although the elevators will not be installed until June 20X3. The costs to procure the elevators (CU1.5 million) are significant relative to the total expected costs to completely satisfy the performance obligation (CU4 million). The entity is not involved in designing or manufacturing the elevators.

The entity concludes that including the costs to procure the elevators in the measure of progress would overstate the extent of the entity’s performance.
Consequently, in accordance with paragraph B19 of IFRS 15, the entity adjusts its measure of progress to exclude the costs to procure the elevators from the measure of costs incurred and from the transaction price. The entity recognises revenue for the transfer of the elevators in an amount equal to the costs to procure the elevators (ie at a zero margin).

IE99 As of 31 December 20X2 the entity observes that:
(a) other costs incurred (excluding elevators) are CU500,000; and
(b) performance is 20 per cent complete (ie CU500,000 ÷ CU2,500,000).

IE100 Consequently, at 31 December 20X2, the entity recognises the following:

<table>
<thead>
<tr>
<th>CU</th>
</tr>
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<tbody>
<tr>
<td>Revenue</td>
</tr>
<tr>
<td>Cost of goods sold</td>
</tr>
<tr>
<td>Profit</td>
</tr>
</tbody>
</table>

(a) Revenue recognised is calculated as (20 per cent × CU3,500,000) + CU1,500,000. (CU3,500,000 is CU5,000,000 transaction price – CU1,500,000 costs of elevators.)
(b) Cost of goods sold is CU500,000 of costs incurred + CU1,500,000 costs of elevators.

Variable consideration

IE101 Examples 20–21 illustrate the requirements in paragraphs 50–54 of IFRS 15 on identifying variable consideration.

Example 20—Penalty gives rise to variable consideration

IE102 An entity enters into a contract with a customer to build an asset for CU1 million. In addition, the terms of the contract include a penalty of CU100,000 if the construction is not completed within three months of a date specified in the contract.

IE103 The entity concludes that the consideration promised in the contract includes a fixed amount of CU900,000 and a variable amount of CU100,000 (arising from the penalty).

IE104 The entity estimates the variable consideration in accordance with paragraphs 50–54 of IFRS 15 and considers the requirements in paragraphs 56–58 of IFRS 15 on constraining estimates of variable consideration.

Example 21—Estimating variable consideration

IE105 An entity enters into a contract with a customer to build a customised asset. The promise to transfer the asset is a performance obligation that is satisfied over time. The promised consideration is CU2.5 million, but that amount will be reduced or increased depending on the timing of completion of the asset. Specifically, for each day after 31 March 20X7 that the asset is incomplete, the promised consideration is reduced by CU10,000. For each day before 31 March 20X7 that the asset is complete, the promised consideration increases by CU10,000.
In addition, upon completion of the asset, a third party will inspect the asset and assign a rating based on metrics that are defined in the contract. If the asset receives a specified rating, the entity will be entitled to an incentive bonus of CU150,000.

In determining the transaction price, the entity prepares a separate estimate for each element of variable consideration to which the entity will be entitled using the estimation methods described in paragraph 53 of IFRS 15:

(a) the entity decides to use the expected value method to estimate the variable consideration associated with the daily penalty or incentive (ie CU2.5 million, plus or minus CU10,000 per day). This is because it is the method that the entity expects to better predict the amount of consideration to which it will be entitled.

(b) the entity decides to use the most likely amount to estimate the variable consideration associated with the incentive bonus. This is because there are only two possible outcomes (CU150,000 or CU0) and it is the method that the entity expects to better predict the amount of consideration to which it will be entitled.

The entity considers the requirements in paragraphs 56–58 of IFRS 15 on constraining estimates of variable consideration to determine whether the entity should include some or all of its estimate of variable consideration in the transaction price.

Constraining estimates of variable consideration

Examples 22–25 illustrate the requirements in paragraphs 56–58 of IFRS 15 on constraining estimates of variable consideration. In addition, the following requirements are illustrated in these examples:

(a) paragraph 55 of IFRS 15 on refund liabilities (Example 22);

(b) paragraphs B20–B27 of IFRS 15 on sales with a right of return (Example 22); and

(c) paragraphs 84–86 of IFRS 15 on allocating variable consideration to performance obligations (Example 25).

Example 22—Right of return

An entity enters into 100 contracts with customers. Each contract includes the sale of one product for CU100 (100 total products × CU100 = CU10,000 total consideration). Cash is received when control of a product transfers. The entity’s customary business practice is to allow a customer to return any unused product within 30 days and receive a full refund. The entity’s cost of each product is CU60.

The entity applies the requirements in IFRS 15 to the portfolio of 100 contracts because it reasonably expects that, in accordance with paragraph 4, the effects on the financial statements from applying these requirements to the portfolio would not differ materially from applying the requirements to the individual contracts within the portfolio.
Because the contract allows a customer to return the products, the consideration received from the customer is variable. To estimate the variable consideration to which the entity will be entitled, the entity decides to use the expected value method (see paragraph 53(a) of IFRS 15) because it is the method that the entity expects to better predict the amount of consideration to which it will be entitled. Using the expected value method, the entity estimates that 97 products will not be returned.

The entity also considers the requirements in paragraphs 56–58 of IFRS 15 on constraining estimates of variable consideration to determine whether the estimated amount of variable consideration of CU9,700 (CU100 × 97 products not expected to be returned) can be included in the transaction price. The entity considers the factors in paragraph 57 of IFRS 15 and determines that although the returns are outside the entity’s influence, it has significant experience in estimating returns for this product and customer class. In addition, the uncertainty will be resolved within a short time frame (ie the 30-day return period). Thus, the entity concludes that it is highly probable that a significant reversal in the cumulative amount of revenue recognised (ie CU9,700) will not occur as the uncertainty is resolved (ie over the return period).

The entity estimates that the costs of recovering the products will be immaterial and expects that the returned products can be resold at a profit.

Upon transfer of control of the 100 products, the entity does not recognise revenue for the three products that it expects to be returned. Consequently, in accordance with paragraphs 55 and B21 of IFRS 15, the entity recognises the following:

(a) revenue of CU9,700 (CU100 × 97 products not expected to be returned);
(b) a refund liability of CU300 (CU100 refund × 3 products expected to be returned); and
(c) an asset of CU180 (CU60 × 3 products for its right to recover products from customers on settling the refund liability).

Example 23—Price concessions

An entity enters into a contract with a customer, a distributor, on 1 December 20X7. The entity transfers 1,000 products at contract inception for a price stated in the contract of CU100 per product (total consideration is CU100,000). Payment from the customer is due when the customer sells the products to the end customers. The entity’s customer generally sells the products within 90 days of obtaining them. Control of the products transfers to the customer on 1 December 20X7.

On the basis of its past practices and to maintain its relationship with the customer, the entity anticipates granting a price concession to its customer because this will enable the customer to discount the product and thereby move the product through the distribution chain. Consequently, the consideration in the contract is variable.
Case A—Estimate of variable consideration is not constrained

IE118 The entity has significant experience selling this and similar products. The observable data indicate that historically the entity grants a price concession of approximately 20 per cent of the sales price for these products. Current market information suggests that a 20 per cent reduction in price will be sufficient to move the products through the distribution chain. The entity has not granted a price concession significantly greater than 20 per cent in many years.

IE119 To estimate the variable consideration to which the entity will be entitled, the entity decides to use the expected value method (see paragraph 53(a) of IFRS 15) because it is the method that the entity expects to better predict the amount of consideration to which it will be entitled. Using the expected value method, the entity estimates the transaction price to be CU80,000 (CU80 × 1,000 products).

IE120 The entity also considers the requirements in paragraphs 56–58 of IFRS 15 on constraining estimates of variable consideration to determine whether the estimated amount of variable consideration of CU80,000 can be included in the transaction price. The entity considers the factors in paragraph 57 of IFRS 15 and determines that it has significant previous experience with this product and current market information that supports its estimate. In addition, despite some uncertainty resulting from factors outside its influence, based on its current market estimates, the entity expects the price to be resolved within a short time frame. Thus, the entity concludes that it is highly probable that a significant reversal in the cumulative amount of revenue recognised (ie CU80,000) will not occur when the uncertainty is resolved (ie when the total amount of price concessions is determined). Consequently, the entity recognises CU80,000 as revenue when the products are transferred on 1 December 20X7.

Case B—Estimate of variable consideration is constrained

IE121 The entity has experience selling similar products. However, the entity's products have a high risk of obsolescence and the entity is experiencing high volatility in the pricing of its products. The observable data indicate that historically the entity grants a broad range of price concessions ranging from 20–60 per cent of the sales price for similar products. Current market information also suggests that a 15–50 per cent reduction in price may be necessary to move the products through the distribution chain.

IE122 To estimate the variable consideration to which the entity will be entitled, the entity decides to use the expected value method (see paragraph 53(a) of IFRS 15) because it is the method that the entity expects to better predict the amount of consideration to which it will be entitled. Using the expected value method, the entity estimates that a discount of 40 per cent will be provided and, therefore, the estimate of the variable consideration is CU60,000 (CU60 × 1,000 products).

IE123 The entity also considers the requirements in paragraphs 56–58 of IFRS 15 on constraining estimates of variable consideration to determine whether some or all of the estimated amount of variable consideration of CU60,000 can be included in the transaction price. The entity considers the factors in paragraph 57 of IFRS 15 and observes that the amount of consideration is highly susceptible to factors outside the entity’s influence (ie risk of obsolescence) and
it is likely that the entity may be required to provide a broad range of price concessions to move the products through the distribution chain. Consequently, the entity cannot include its estimate of CU60,000 (ie a discount of 40 per cent) in the transaction price because it cannot conclude that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. Although the entity’s historical price concessions have ranged from 20–60 per cent, market information currently suggests that a price concession of 15–50 per cent will be necessary. The entity’s actual results have been consistent with then-current market information in previous, similar transactions. Consequently, the entity concludes that it is highly probable that a significant reversal in the cumulative amount of revenue recognised will not occur if the entity includes CU50,000 in the transaction price (CU100 sales price and a 50 per cent price concession) and therefore, recognises revenue at that amount. Therefore, the entity recognises revenue of CU50,000 when the products are transferred and reassesses the estimates of the transaction price at each reporting date until the uncertainty is resolved in accordance with paragraph 59 of IFRS 15.

**Example 24—Volume discount incentive**

IE124 An entity enters into a contract with a customer on 1 January 20X8 to sell Product A for CU100 per unit. If the customer purchases more than 1,000 units of Product A in a calendar year, the contract specifies that the price per unit is retrospectively reduced to CU90 per unit. Consequently, the consideration in the contract is variable.

IE125 For the first quarter ended 31 March 20X8, the entity sells 75 units of Product A to the customer. The entity estimates that the customer’s purchases will not exceed the 1,000-unit threshold required for the volume discount in the calendar year.

IE126 The entity considers the requirements in paragraphs 56–58 of IFRS 15 on constraining estimates of variable consideration, including the factors in paragraph 57 of IFRS 15. The entity determines that it has significant experience with this product and with the purchasing pattern of the entity. Thus, the entity concludes that it is highly probable that a significant reversal in the cumulative amount of revenue recognised (ie CU100 per unit) will not occur when the uncertainty is resolved (ie when the total amount of purchases is known). Consequently, the entity recognises revenue of CU7,500 (75 units × CU100 per unit) for the quarter ended 31 March 20X8.

IE127 In May 20X8, the entity’s customer acquires another company and in the second quarter ended 30 June 20X8 the entity sells an additional 500 units of Product A to the customer. In the light of the new fact, the entity estimates that the customer’s purchases will exceed the 1,000-unit threshold for the calendar year and therefore it will be required to retrospectively reduce the price per unit to CU90.

IE128 Consequently, the entity recognises revenue of CU44,250 for the quarter ended 30 June 20X8. That amount is calculated from CU45,000 for the sale of 500 units (500 units × CU90 per unit) less the change in transaction price of CU750
Example 25—Management fees subject to the constraint

On 1 January 20X8, an entity enters into a contract with a client to provide asset management services for five years. The entity receives a two per cent quarterly management fee based on the client’s assets under management at the end of each quarter. In addition, the entity receives a performance-based incentive fee of 20 per cent of the fund’s return in excess of the return of an observable market index over the five-year period. Consequently, both the management fee and the performance fee in the contract are variable consideration.

At contract inception, the entity considers the requirements in paragraphs 50–54 of IFRS 15 on estimating variable consideration and the requirements in paragraphs 56–58 of IFRS 15 on constraining estimates of variable consideration, including the factors in paragraph 57 of IFRS 15. The entity observes that the promised consideration is dependent on the market and thus is highly susceptible to factors outside the entity’s influence. In addition, the incentive fee has a large number and a broad range of possible consideration amounts. The entity also observes that although it has experience with similar contracts, that experience is of little predictive value in determining the future performance of the market. Therefore, at contract inception, the entity cannot conclude that it is highly probable that a significant reversal in the cumulative amount of revenue recognised would not occur if the entity included its estimate of the management fee or the incentive fee in the transaction price.

At each reporting date, the entity updates its estimate of the transaction price. Consequently, at the end of each quarter, the entity concludes that it can include in the transaction price the actual amount of the quarterly management fee because the uncertainty is resolved. However, the entity concludes that it cannot include its estimate of the incentive fee in the transaction price at those dates. This is because there has not been a change in its assessment from contract inception—the variability of the fee based on the market index indicates that the entity cannot conclude that it is highly probable that a significant reversal in the cumulative amount of revenue recognised would not occur if the entity included its estimate of the incentive fee in the transaction price. At 31 March 20X8, the client’s assets under management are CU100 million. Therefore, the resulting quarterly management fee and the transaction price is CU2 million.

At the end of each quarter, the entity allocates the quarterly management fee to the distinct services provided during the quarter in accordance with paragraphs 84(b) and 85 of IFRS 15. This is because the fee relates specifically to the entity’s efforts to transfer the services for that quarter, which are distinct from the services provided in other quarters, and the resulting allocation will be
consistent with the allocation objective in paragraph 73 of IFRS 15. Consequently, the entity recognises CU2 million as revenue for the quarter ended 31 March 20X8.

The existence of a significant financing component in the contract

IE134 Examples 26–30 illustrate the requirements in paragraphs 60–65 of IFRS 15 on the existence of a significant financing component in the contract. In addition, the following requirements are illustrated in Example 26:

(a) paragraphs 56–58 of IFRS 15 on constraining estimates of variable consideration; and

(b) paragraphs B20–B27 of IFRS 15 on sales with a right of return.

Example 26—Significant financing component and right of return

IE135 An entity sells a product to a customer for CU121 that is payable 24 months after delivery. The customer obtains control of the product at contract inception. The contract permits the customer to return the product within 90 days. The product is new and the entity has no relevant historical evidence of product returns or other available market evidence.

IE136 The cash selling price of the product is CU100, which represents the amount that the customer would pay upon delivery for the same product sold under otherwise identical terms and conditions as at contract inception. The entity's cost of the product is CU80.

IE137 The entity does not recognise revenue when control of the product transfers to the customer. This is because the existence of the right of return and the lack of relevant historical evidence means that the entity cannot conclude that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur in accordance with paragraphs 56–58 of IFRS 15. Consequently, revenue is recognised after three months when the right of return lapses.

IE138 The contract includes a significant financing component, in accordance with paragraphs 60–62 of IFRS 15. This is evident from the difference between the amount of promised consideration of CU121 and the cash selling price of CU100 at the date that the goods are transferred to the customer.

IE139 The contract includes an implicit interest rate of 10 per cent (ie the interest rate that over 24 months discounts the promised consideration of CU121 to the cash selling price of CU100). The entity evaluates the rate and concludes that it is commensurate with the rate that would be reflected in a separate financing transaction between the entity and its customer at contract inception. The following journal entries illustrate how the entity accounts for this contract in accordance with paragraphs B20–B27 of IFRS 15.

(a) When the product is transferred to the customer, in accordance with paragraph B21 of IFRS 15:
Asset for right to recover product to be returned     CU80(a)
Inventory         CU80
(a) This example does not consider expected costs to recover the asset.

(b) During the three-month right of return period, no interest is recognised in accordance with paragraph 65 of IFRS 15 because no contract asset or receivable has been recognised.

(c) When the right of return lapses (the product is not returned):

Receivable           CU100(a)
Revenue              CU100
Cost of sales        CU80
Asset for product to be returned  CU80
(a) The receivable recognised would be measured in accordance with IFRS 9. This example assumes there is no material difference between the fair value of the receivable at contract inception and the fair value of the receivable when it is recognised at the time the right of return lapses. In addition, this example does not consider the impairment accounting for the receivable.

IE140 Until the entity receives the cash payment from the customer, interest revenue would be recognised in accordance with IFRS 9. In determining the effective interest rate in accordance with IFRS 9, the entity would consider the remaining contractual term.

Example 27—Withheld payments on a long-term contract

IE141 An entity enters into a contract for the construction of a building that includes scheduled milestone payments for the performance by the entity throughout the contract term of three years. The performance obligation will be satisfied over time and the milestone payments are scheduled to coincide with the entity’s expected performance. The contract provides that a specified percentage of each milestone payment is to be withheld (ie retained) by the customer throughout the arrangement and paid to the entity only when the building is complete.

IE142 The entity concludes that the contract does not include a significant financing component. The milestone payments coincide with the entity’s performance and the contract requires amounts to be retained for reasons other than the provision of finance in accordance with paragraph 62(c) of IFRS 15. The withholding of a specified percentage of each milestone payment is intended to protect the customer from the contractor failing to adequately complete its obligations under the contract.

Example 28—Determining the discount rate

IE143 An entity enters into a contract with a customer to sell equipment. Control of the equipment transfers to the customer when the contract is signed. The price stated in the contract is CU1 million plus a five per cent contractual rate of interest, payable in 60 monthly instalments of CU18,871.
Case A—Contractual discount rate reflects the rate in a separate financing transaction

IE144 In evaluating the discount rate in the contract that contains a significant financing component, the entity observes that the five per cent contractual rate of interest reflects the rate that would be used in a separate financing transaction between the entity and its customer at contract inception (i.e., the contractual rate of interest of five per cent reflects the credit characteristics of the customer).

IE145 The market terms of the financing mean that the cash selling price of the equipment is CU1 million. This amount is recognised as revenue and as a loan receivable when control of the equipment transfers to the customer. The entity accounts for the receivable in accordance with IFRS 9.

Case B—Contractual discount rate does not reflect the rate in a separate financing transaction

IE146 In evaluating the discount rate in the contract that contains a significant financing component, the entity observes that the five per cent contractual rate of interest is significantly lower than the 12 per cent interest rate that would be used in a separate financing transaction between the entity and its customer at contract inception (i.e., the contractual rate of interest of five per cent does not reflect the credit characteristics of the customer). This suggests that the cash selling price is less than CU1 million.

IE147 In accordance with paragraph 64 of IFRS 15, the entity determines the transaction price by adjusting the promised amount of consideration to reflect the contractual payments using the 12 per cent interest rate that reflects the credit characteristics of the customer. Consequently, the entity determines that the transaction price is CU848,357 (60 monthly payments of CU18,871 discounted at 12 per cent). The entity recognises revenue and a loan receivable for that amount. The entity accounts for the loan receivable in accordance with IFRS 9.

Example 29—Advance payment and assessment of discount rate

IE148 An entity enters into a contract with a customer to sell an asset. Control of the asset will transfer to the customer in two years (i.e., the performance obligation will be satisfied at a point in time). The contract includes two alternative payment options: payment of CU5,000 in two years when the customer obtains control of the asset or payment of CU4,000 when the contract is signed. The customer elects to pay CU4,000 when the contract is signed.

IE149 The entity concludes that the contract contains a significant financing component because of the length of time between when the customer pays for the asset and when the entity transfers the asset to the customer, as well as the prevailing interest rates in the market.

IE150 The interest rate implicit in the transaction is 11.8 per cent, which is the interest rate necessary to make the two alternative payment options economically equivalent. However, the entity determines that, in accordance with
paragraph 64 of IFRS 15, the rate that should be used in adjusting the promised consideration is six per cent, which is the entity’s incremental borrowing rate.

IE151 The following journal entries illustrate how the entity would account for the significant financing component:

(a) recognise a contract liability for the CU4,000 payment received at contract inception:

<table>
<thead>
<tr>
<th>Cash</th>
<th>CU4,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract liability</td>
<td>CU4,000</td>
</tr>
</tbody>
</table>

(b) during the two years from contract inception until the transfer of the asset, the entity adjusts the promised amount of consideration (in accordance with paragraph 65 of IFRS 15) and accretes the contract liability by recognising interest on CU4,000 at six per cent for two years:

<table>
<thead>
<tr>
<th>Interest expense</th>
<th>CU494&lt;sup&gt;(a)&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract liability</td>
<td>CU494</td>
</tr>
</tbody>
</table>

(a) \( \text{CU494} = \text{CU4,000 contract liability} \times (6 \text{ per cent interest per year for two years}) \).

(c) recognise revenue for the transfer of the asset:

<table>
<thead>
<tr>
<th>Contract liability</th>
<th>CU4,494</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>CU4,494</td>
</tr>
</tbody>
</table>

Example 30—Advance payment

IE152 An entity, a technology product manufacturer, enters into a contract with a customer to provide global telephone technology support and repair coverage for three years along with its technology product. The customer purchases this support service at the time of buying the product. Consideration for the service is an additional CU300. Customers electing to buy this service must pay for it upfront (ie a monthly payment option is not available).

IE153 To determine whether there is a significant financing component in the contract, the entity considers the nature of the service being offered and the purpose of the payment terms. The entity charges a single upfront amount, not with the primary purpose of obtaining financing from the customer but, instead, to maximise profitability, taking into consideration the risks associated with providing the service. Specifically, if customers could pay monthly, they would be less likely to renew and the population of customers that continue to use the support service in the later years may become smaller and less diverse over time (ie customers that choose to renew historically are those that make greater use of the service, thereby increasing the entity’s costs). In addition, customers tend to use services more if they pay monthly rather than making an upfront payment. Finally, the entity would incur higher administration costs such as the costs related to administering renewals and collection of monthly payments.
In assessing the requirements in paragraph 62(c) of IFRS 15, the entity determines that the payment terms were structured primarily for reasons other than the provision of finance to the entity. The entity charges a single upfront amount for the services because other payment terms (such as a monthly payment plan) would affect the nature of the risks assumed by the entity to provide the service and may make it uneconomical to provide the service. As a result of its analysis, the entity concludes that there is not a significant financing component.

Non-cash consideration

Example 31 illustrates the requirements in paragraphs 66–69 of IFRS 15 on non-cash consideration. In addition, the following requirements are illustrated in this example:

(a) paragraph 22 of IFRS 15 on identifying performance obligations; and
(b) paragraphs 56–58 of IFRS 15 on constraining estimates of variable consideration.

Example 31—Entitlement to non-cash consideration

An entity enters into a contract with a customer to provide a weekly service for one year. The contract is signed on 1 January 20X1 and work begins immediately. The entity concludes that the service is a single performance obligation in accordance with paragraph 22(b) of IFRS 15. This is because the entity is providing a series of distinct services that are substantially the same and have the same pattern of transfer (the services transfer to the customer over time and use the same method to measure progress—that is, a time-based measure of progress).

In exchange for the service, the customer promises 100 shares of its common stock per week of service (a total of 5,200 shares for the contract). The terms in the contract require that the shares must be paid upon the successful completion of each week of service.

The entity measures its progress towards complete satisfaction of the performance obligation as each week of service is complete. To determine the transaction price (and the amount of revenue to be recognised), the entity measures the fair value of 100 shares that are received upon completion of each weekly service. The entity does not reflect any subsequent changes in the fair value of the shares received (or receivable) in revenue.

Consideration payable to a customer

Example 32 illustrates the requirements in paragraphs 70–72 of IFRS 15 on consideration payable to a customer.

Example 32—Consideration payable to a customer

An entity that manufactures consumer goods enters into a one-year contract to sell goods to a customer that is a large global chain of retail stores. The customer commits to buy at least CU15 million of products during the year. The
contract also requires the entity to make a non-refundable payment of CU1.5 million to the customer at the inception of the contract. The CU1.5 million payment will compensate the customer for the changes it needs to make to its shelving to accommodate the entity’s products.

IE161 The entity considers the requirements in paragraphs 70–72 of IFRS 15 and concludes that the payment to the customer is not in exchange for a distinct good or service that transfers to the entity. This is because the entity does not obtain control of any rights to the customer’s shelves. Consequently, the entity determines that, in accordance with paragraph 70 of IFRS 15, the CU1.5 million payment is a reduction of the transaction price.

IE162 The entity applies the requirements in paragraph 72 of IFRS 15 and concludes that the consideration payable is accounted for as a reduction in the transaction price when the entity recognises revenue for the transfer of the goods. Consequently, as the entity transfers goods to the customer, the entity reduces the transaction price for each good by 10 per cent (CU1.5 million ÷ CU15 million). Therefore, in the first month in which the entity transfers goods to the customer, the entity recognises revenue of CU1.8 million (CU2.0 million invoiced amount less CU0.2 million of consideration payable to the customer).

Allocating the transaction price to performance obligations

IE163 Examples 33–35 illustrate the requirements in paragraphs 73–86 of IFRS 15 on allocating the transaction price to performance obligations. In addition, the following requirements are illustrated in Example 35:

(a) paragraph 53 of IFRS 15 on variable consideration; and
(b) paragraph B63 of IFRS 15 on consideration in the form of sales-based or usage-based royalties on licences of intellectual property.

Example 33—Allocation methodology

IE164 An entity enters into a contract with a customer to sell Products A, B and C in exchange for CU100. The entity will satisfy the performance obligations for each of the products at different points in time. The entity regularly sells Product A separately and therefore the stand-alone selling price is directly observable. The stand-alone selling prices of Products B and C are not directly observable.

IE165 Because the stand-alone selling prices for Products B and C are not directly observable, the entity must estimate them. To estimate the stand-alone selling prices, the entity uses the adjusted market assessment approach for Product B and the expected cost plus a margin approach for Product C. In making those estimates, the entity maximises the use of observable inputs (in accordance with paragraph 78 of IFRS 15). The entity estimates the stand-alone selling prices as follows:
The customer receives a discount for purchasing the bundle of goods because the sum of the stand-alone selling prices (CU150) exceeds the promised consideration (CU100). The entity considers whether it has observable evidence about the performance obligation to which the entire discount belongs (in accordance with paragraph 82 of IFRS 15) and concludes that it does not. Consequently, in accordance with paragraphs 76 and 81 of IFRS 15, the discount is allocated proportionately across Products A, B and C. The discount, and therefore the transaction price, is allocated as follows:

<table>
<thead>
<tr>
<th>Product</th>
<th>Stand-alone selling price</th>
<th>Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product A</td>
<td>50</td>
<td>Directly observable (see paragraph 77 of IFRS 15)</td>
</tr>
<tr>
<td>Product B</td>
<td>25</td>
<td>Adjusted market assessment approach (see paragraph 79(a) of IFRS 15)</td>
</tr>
<tr>
<td>Product C</td>
<td>75</td>
<td>Expected cost plus a margin approach (see paragraph 79(b) of IFRS 15)</td>
</tr>
<tr>
<td>Total</td>
<td>150</td>
<td></td>
</tr>
</tbody>
</table>

Example 34—Allocating a discount

An entity regularly sells Products A, B and C individually, thereby establishing the following stand-alone selling prices:

<table>
<thead>
<tr>
<th>Product</th>
<th>Stand-alone selling price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product A</td>
<td>40</td>
</tr>
<tr>
<td>Product B</td>
<td>55</td>
</tr>
<tr>
<td>Product C</td>
<td>45</td>
</tr>
<tr>
<td>Total</td>
<td>140</td>
</tr>
</tbody>
</table>

In addition, the entity regularly sells Products B and C together for CU60.

Case A—Allocating a discount to one or more performance obligations

The entity enters into a contract with a customer to sell Products A, B and C in exchange for CU100. The entity will satisfy the performance obligations for each of the products at different points in time.
The contract includes a discount of CU40 on the overall transaction, which would be allocated proportionately to all three performance obligations when allocating the transaction price using the relative stand-alone selling price method (in accordance with paragraph 81 of IFRS 15). However, because the entity regularly sells Products B and C together for CU60 and Product A for CU40, it has evidence that the entire discount should be allocated to the promises to transfer Products B and C in accordance with paragraph 82 of IFRS 15.

If the entity transfers control of Products B and C at the same point in time, then the entity could, as a practical matter, account for the transfer of those products as a single performance obligation. That is, the entity could allocate CU60 of the transaction price to the single performance obligation and recognize revenue of CU60 when Products B and C simultaneously transfer to the customer.

If the contract requires the entity to transfer control of Products B and C at different points in time, then the allocated amount of CU60 is individually allocated to the promises to transfer Product B (stand-alone selling price of CU55) and Product C (stand-alone selling price of CU45) as follows:

<table>
<thead>
<tr>
<th>Product</th>
<th>Allocated transaction price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product B</td>
<td>33 (CU55 ÷ CU100 total stand-alone selling price × CU60)</td>
</tr>
<tr>
<td>Product C</td>
<td>27 (CU45 ÷ CU100 total stand-alone selling price × CU60)</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
</tr>
</tbody>
</table>

Case B—Residual approach is appropriate

The entity enters into a contract with a customer to sell Products A, B and C as described in Case A. The contract also includes a promise to transfer Product D. Total consideration in the contract is CU130. The stand-alone selling price for Product D is highly variable (see paragraph 79(c) of IFRS 15) because the entity sells Product D to different customers for a broad range of amounts (CU15–CU45). Consequently, the entity decides to estimate the stand-alone selling price of Product D using the residual approach.

Before estimating the stand-alone selling price of Product D using the residual approach, the entity determines whether any discount should be allocated to the other performance obligations in the contract in accordance with paragraphs 82 and 83 of IFRS 15.

As in Case A, because the entity regularly sells Products B and C together for CU60 and Product A for CU40, it has observable evidence that CU100 should be allocated to those three products and a CU40 discount should be allocated to the promises to transfer Products B and C in accordance with paragraph 82 of IFRS 15. Using the residual approach, the entity estimates the stand-alone selling price of Product D to be CU30 as follows:
<table>
<thead>
<tr>
<th>Product</th>
<th>Stand-alone selling price</th>
<th>Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product A</td>
<td>CU 40</td>
<td>Directly observable (see paragraph 77 of IFRS 15)</td>
</tr>
<tr>
<td>Products B and C</td>
<td>CU 60</td>
<td>Directly observable with discount (see paragraph 82 of IFRS 15)</td>
</tr>
<tr>
<td>Product D</td>
<td>CU 30</td>
<td>Residual approach (see paragraph 79(c) of IFRS 15)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>CU 130</strong></td>
<td></td>
</tr>
</tbody>
</table>

IE176 The entity observes that the resulting CU30 allocated to Product D is within the range of its observable selling prices (CU15–CU45). Therefore, the resulting allocation (see above table) is consistent with the allocation objective in paragraph 73 of IFRS 15 and the requirements in paragraph 78 of IFRS 15.

**Case C—Residual approach is inappropriate**

IE177 The same facts as in Case B apply to Case C except the transaction price is CU105 instead of CU130. Consequently, the application of the residual approach would result in a stand-alone selling price of CU5 for Product D (CU105 transaction price less CU100 allocated to Products A, B and C). The entity concludes that CU5 would not faithfully depict the amount of consideration to which the entity expects to be entitled in exchange for satisfying its performance obligation to transfer Product D, because CU5 does not approximate the stand-alone selling price of Product D, which ranges from CU15–CU45. Consequently, the entity reviews its observable data, including sales and margin reports, to estimate the stand-alone selling price of Product D using another suitable method. The entity allocates the transaction price of CU130 to Products A, B, C and D using the relative stand-alone selling prices of those products in accordance with paragraphs 73–80 of IFRS 15.

**Example 35—Allocation of variable consideration**

IE178 An entity enters into a contract with a customer for two intellectual property licences (Licences X and Y), which the entity determines to represent two performance obligations each satisfied at a point in time. The stand-alone selling prices of Licences X and Y are CU800 and CU1,000, respectively.

**Case A—Variable consideration allocated entirely to one performance obligation**

IE179 The price stated in the contract for Licence X is a fixed amount of CU800 and for Licence Y the consideration is three per cent of the customer’s future sales of products that use Licence Y. For purposes of allocation, the entity estimates its sales-based royalties (ie the variable consideration) to be CU1,000, in accordance with paragraph 53 of IFRS 15.
To allocate the transaction price, the entity considers the criteria in paragraph 85 of IFRS 15 and concludes that the variable consideration (i.e., the sales-based royalties) should be allocated entirely to Licence Y. The entity concludes that the criteria in paragraph 85 of IFRS 15 are met for the following reasons:

(a) the variable payment relates specifically to an outcome from the performance obligation to transfer Licence Y (i.e., the customer’s subsequent sales of products that use Licence Y).

(b) allocating the expected royalty amounts of CU1,000 entirely to Licence Y is consistent with the allocation objective in paragraph 73 of IFRS 15. This is because the entity’s estimate of the amount of sales-based royalties (CU1,000) approximates the stand-alone selling price of Licence Y and the fixed amount of CU800 approximates the stand-alone selling price of Licence X. The entity allocates CU800 to Licence X in accordance with paragraph 86 of IFRS 15. This is because, based on an assessment of the facts and circumstances relating to both licences, allocating to Licence Y some of the fixed consideration in addition to all of the variable consideration would not meet the allocation objective in paragraph 73 of IFRS 15.

The entity transfers Licence Y at inception of the contract and transfers Licence X one month later. Upon the transfer of Licence Y, the entity does not recognise revenue because the consideration allocated to Licence Y is in the form of a sales-based royalty. Therefore, in accordance with paragraph B63 of IFRS 15, the entity recognises revenue for the sales-based royalty when those subsequent sales occur.

When Licence X is transferred, the entity recognises as revenue the CU800 allocated to Licence X.

Case B—Variable consideration allocated on the basis of stand-alone selling prices

The price stated in the contract for Licence X is a fixed amount of CU300 and for Licence Y the consideration is five per cent of the customer’s future sales of products that use Licence Y. The entity’s estimate of the sales-based royalties (i.e., the variable consideration) is CU1,500 in accordance with paragraph 53 of IFRS 15.

To allocate the transaction price, the entity applies the criteria in paragraph 85 of IFRS 15 to determine whether to allocate the variable consideration (i.e., the sales-based royalties) entirely to Licence Y. In applying the criteria, the entity concludes that even though the variable payments relate specifically to an outcome from the performance obligation to transfer Licence Y (i.e., the customer’s subsequent sales of products that use Licence Y), allocating the variable consideration entirely to Licence Y would be inconsistent with the principle for allocating the transaction price. Allocating CU300 to Licence X and CU1,500 to Licence Y does not reflect a reasonable allocation of the transaction price on the basis of the stand-alone selling prices of Licences X and Y of CU800.
and CU1,000, respectively. Consequently, the entity applies the general allocation requirements in paragraphs 76–80 of IFRS 15.

The entity allocates the transaction price of CU300 to Licences X and Y on the basis of relative stand-alone selling prices of CU800 and CU1,000, respectively. The entity also allocates the consideration related to the sales-based royalty on a relative stand-alone selling price basis. However, in accordance with paragraph B63 of IFRS 15, when an entity licenses intellectual property in which the consideration is in the form of a sales-based royalty, the entity cannot recognise revenue until the later of the following events: the subsequent sales occur or the performance obligation is satisfied (or partially satisfied).

Licence Y is transferred to the customer at the inception of the contract and Licence X is transferred three months later. When Licence Y is transferred, the entity recognises as revenue the CU167 (CU1,000 ÷ CU1,800 × CU300) allocated to Licence Y. When Licence X is transferred, the entity recognises as revenue the CU133 (CU800 ÷ CU1,800 × CU300) allocated to Licence X.

In the first month, the royalty due from the customer’s first month of sales is CU200. Consequently, in accordance with paragraph B63 of IFRS 15, the entity recognises as revenue the CU111 (CU1,000 ÷ CU1,800 × CU200) allocated to Licence Y (which has been transferred to the customer and is therefore a satisfied performance obligation). The entity recognises a contract liability for the CU89 (CU800 ÷ CU1,800 × CU200) allocated to Licence X. This is because although the subsequent sale by the entity’s customer has occurred, the performance obligation to which the royalty has been allocated has not been satisfied.

### Contract costs

Examples 36–37 illustrate the requirements in paragraphs 91–94 of IFRS 15 on incremental costs of obtaining a contract, paragraphs 95–98 of IFRS 15 on costs to fulfil a contract and paragraphs 99–104 of IFRS 15 on amortisation and impairment of contract costs.

**Example 36—Incremental costs of obtaining a contract**

An entity, a provider of consulting services, wins a competitive bid to provide consulting services to a new customer. The entity incurred the following costs to obtain the contract:

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost (CU)</th>
</tr>
</thead>
<tbody>
<tr>
<td>External legal fees for due diligence</td>
<td>15,000</td>
</tr>
<tr>
<td>Travel costs to deliver proposal</td>
<td>25,000</td>
</tr>
<tr>
<td>Commissions to sales employees</td>
<td>10,000</td>
</tr>
<tr>
<td><strong>Total costs incurred</strong></td>
<td><strong>50,000</strong></td>
</tr>
</tbody>
</table>

In accordance with paragraph 91 of IFRS 15, the entity recognises an asset for the CU10,000 incremental costs of obtaining the contract arising from the commissions to sales employees because the entity expects to recover those costs through future fees for the consulting services. The entity also pays discretionary annual bonuses to sales supervisors based on annual sales targets,
overall profitability of the entity and individual performance evaluations. In accordance with paragraph 91 of IFRS 15, the entity does not recognise an asset for the bonuses paid to sales supervisors because the bonuses are not incremental to obtaining a contract. The amounts are discretionary and are based on other factors, including the profitability of the entity and the individuals’ performance. The bonuses are not directly attributable to identifiable contracts.

IE191 The entity observes that the external legal fees and travel costs would have been incurred regardless of whether the contract was obtained. Therefore, in accordance with paragraph 93 of IFRS 15, those costs are recognised as expenses when incurred, unless they are within the scope of another Standard, in which case, the relevant provisions of that Standard apply.

**Example 37—Costs that give rise to an asset**

IE192 An entity enters into a service contract to manage a customer’s information technology data centre for five years. The contract is renewable for subsequent one-year periods. The average customer term is seven years. The entity pays an employee a CU10,000 sales commission upon the customer signing the contract. Before providing the services, the entity designs and builds a technology platform for the entity’s internal use that interfaces with the customer’s systems. That platform is not transferred to the customer, but will be used to deliver services to the customer.

**Incremental costs of obtaining a contract**

IE193 In accordance with paragraph 91 of IFRS 15, the entity recognises an asset for the CU10,000 incremental costs of obtaining the contract for the sales commission because the entity expects to recover those costs through future fees for the services to be provided. The entity amortises the asset over seven years in accordance with paragraph 99 of IFRS 15, because the asset relates to the services transferred to the customer during the contract term of five years and the entity anticipates that the contract will be renewed for two subsequent one-year periods.

**Costs to fulfil a contract**

IE194 The initial costs incurred to set up the technology platform are as follows:

<table>
<thead>
<tr>
<th>Cost</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Design services</td>
<td>40,000</td>
</tr>
<tr>
<td>Hardware</td>
<td>120,000</td>
</tr>
<tr>
<td>Software</td>
<td>90,000</td>
</tr>
<tr>
<td>Migration and testing of data centre</td>
<td>100,000</td>
</tr>
<tr>
<td><strong>Total costs</strong></td>
<td><strong>350,000</strong></td>
</tr>
</tbody>
</table>

IE195 The initial setup costs relate primarily to activities to fulfil the contract but do not transfer goods or services to the customer. The entity accounts for the initial setup costs as follows:
(a) hardware costs—accounted for in accordance with IAS 16 Property, Plant and Equipment.

(b) software costs—accounted for in accordance with IAS 38 Intangible Assets.

(c) costs of the design, migration and testing of the data centre—assessed in accordance with paragraph 95 of IFRS 15 to determine whether an asset can be recognised for the costs to fulfil the contract. Any resulting asset would be amortised on a systematic basis over the seven-year period (ie the five-year contract term and two anticipated one-year renewal periods) that the entity expects to provide services related to the data centre.

IE196 In addition to the initial costs to set up the technology platform, the entity also assigns two employees who are primarily responsible for providing the service to the customer. Although the costs for these two employees are incurred as part of providing the service to the customer, the entity concludes that the costs do not generate or enhance resources of the entity (see paragraph 95(b) of IFRS 15). Therefore, the costs do not meet the criteria in paragraph 95 of IFRS 15 and cannot be recognised as an asset using IFRS 15. In accordance with paragraph 98, the entity recognises the payroll expense for these two employees when incurred.

Presentation

IE197 Examples 38–40 illustrate the requirements in paragraphs 105–109 of IFRS 15 on the presentation of contract balances.

Example 38—Contract liability and receivable

Case A—Cancellable contract

IE198 On 1 January 20X9, an entity enters into a cancellable contract to transfer a product to a customer on 31 March 20X9. The contract requires the customer to pay consideration of CU1,000 in advance on 31 January 20X9. The customer pays the consideration on 1 March 20X9. The entity transfers the product on 31 March 20X9. The following journal entries illustrate how the entity accounts for the contract:

(a) The entity receives cash of CU1,000 on 1 March 20X9 (cash is received in advance of performance):

<table>
<thead>
<tr>
<th>Cash</th>
<th>CU1,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract liability</td>
<td>CU1,000</td>
</tr>
</tbody>
</table>

(b) The entity satisfies the performance obligation on 31 March 20X9:

<table>
<thead>
<tr>
<th>Contract liability</th>
<th>CU1,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>CU1,000</td>
</tr>
</tbody>
</table>
Case B—Non-cancellable contract

IE199 The same facts as in Case A apply to Case B except that the contract is non-cancellable. The following journal entries illustrate how the entity accounts for the contract:

(a) The amount of consideration is due on 31 January 20X9 (which is when the entity recognises a receivable because it has an unconditional right to consideration):

| Receivable | CU1,000 |
| Contract liability | CU1,000 |

(b) The entity receives the cash on 1 March 20X9:

| Cash | CU1,000 |
| Receivable | CU1,000 |

(c) The entity satisfies the performance obligation on 31 March 20X9:

| Contract liability | CU1,000 |
| Revenue | CU1,000 |

IE200 If the entity issued the invoice before 31 January 20X9 (the due date of the consideration), the entity would not present the receivable and the contract liability on a gross basis in the statement of financial position because the entity does not yet have a right to consideration that is unconditional.

Example 39—Contract asset recognised for the entity’s performance

IE201 On 1 January 20X8, an entity enters into a contract to transfer Products A and B to a customer in exchange for CU1,000. The contract requires Product A to be delivered first and states that payment for the delivery of Product A is conditional on the delivery of Product B. In other words, the consideration of CU1,000 is due only after the entity has transferred both Products A and B to the customer. Consequently, the entity does not have a right to consideration that is unconditional (a receivable) until both Products A and B are transferred to the customer.

IE202 The entity identifies the promises to transfer Products A and B as performance obligations and allocates CU400 to the performance obligation to transfer Product A and CU600 to the performance obligation to transfer Product B on the basis of their relative stand-alone selling prices. The entity recognises revenue for each respective performance obligation when control of the product transfers to the customer.

IE203 The entity satisfies the performance obligation to transfer Product A:

| Contract asset | CU400 |
| Revenue | CU400 |
The entity satisfies the performance obligation to transfer Product B and to recognise the unconditional right to consideration:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Receivable</td>
<td>CU1,000</td>
</tr>
<tr>
<td>Contract asset</td>
<td>CU400</td>
</tr>
<tr>
<td>Revenue</td>
<td>CU600</td>
</tr>
</tbody>
</table>

**Example 40—Receivable recognised for the entity’s performance**

An entity enters into a contract with a customer on 1 January 20X9 to transfer products to the customer for CU150 per product. If the customer purchases more than 1 million products in a calendar year, the contract indicates that the price per unit is retrospectively reduced to CU125 per product.

Consideration is due when control of the products transfer to the customer. Therefore, the entity has an unconditional right to consideration (ie a receivable) for CU150 per product until the retrospective price reduction applies (ie after 1 million products are shipped).

In determining the transaction price, the entity concludes at contract inception that the customer will meet the 1 million products threshold and therefore estimates that the transaction price is CU125 per product. Consequently, upon the first shipment to the customer of 100 products the entity recognises the following:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Receivable</td>
<td>CU15,000</td>
</tr>
<tr>
<td>Revenue</td>
<td>CU12,500</td>
</tr>
<tr>
<td>Refund liability (contract liability)</td>
<td>CU2,500</td>
</tr>
</tbody>
</table>

(a) CU150 per product × 100 products.
(b) CU125 transaction price per product × 100 products.

The refund liability (see paragraph 55 of IFRS 15) represents a refund of CU25 per product, which is expected to be provided to the customer for the volume-based rebate (ie the difference between the CU150 price stated in the contract that the entity has an unconditional right to receive and the CU125 estimated transaction price).

**Disclosure**

Example 41 illustrates the requirements in paragraphs 114–115 and B87–B89 of IFRS 15 on the disaggregation of revenue disclosure. Examples 42–43 illustrate the requirements in paragraphs 120–122 of IFRS 15 for the disclosure of the transaction price allocated to the remaining performance obligations. In addition, the following requirements are illustrated in Example 42:

(a) paragraph 57 of IFRS 15 on constraining estimates of variable consideration; and

(b) paragraph B16 of IFRS 15 on methods for measuring progress towards complete satisfaction of a performance obligation.
Example 41—Disaggregation of revenue—quantitative disclosure

IE210 An entity reports the following segments: consumer products, transportation and energy, in accordance with IFRS 8 Operating Segments. When the entity prepares its investor presentations, it disaggregates revenue into primary geographical markets, major product lines and timing of revenue recognition (i.e., goods transferred at a point in time or services transferred over time).

IE211 The entity determines that the categories used in the investor presentations can be used to meet the objective of the disaggregation disclosure requirement in paragraph 114 of IFRS 15, which is to 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. The following table illustrates the disaggregation disclosure by primary geographical market, major product line and timing of revenue recognition, including a reconciliation of how the disaggregated revenue ties in with the consumer products, transportation and energy segments, in accordance with paragraph 115 of IFRS 15.

<table>
<thead>
<tr>
<th>Segments</th>
<th>Consumer products</th>
<th>Transport</th>
<th>Energy</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>CU</td>
<td>CU</td>
<td>CU</td>
<td>CU</td>
</tr>
<tr>
<td>Primary geographical markets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>North America</td>
<td>990</td>
<td>2,250</td>
<td>5,250</td>
<td>8,490</td>
</tr>
<tr>
<td>Europe</td>
<td>300</td>
<td>750</td>
<td>1,000</td>
<td>2,050</td>
</tr>
<tr>
<td>Asia</td>
<td>700</td>
<td>260</td>
<td>–</td>
<td>960</td>
</tr>
<tr>
<td></td>
<td>1,990</td>
<td>3,260</td>
<td>6,250</td>
<td>11,500</td>
</tr>
<tr>
<td>Major goods/service lines</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Office supplies</td>
<td>600</td>
<td>–</td>
<td>–</td>
<td>600</td>
</tr>
<tr>
<td>Appliances</td>
<td>990</td>
<td>–</td>
<td>–</td>
<td>990</td>
</tr>
<tr>
<td>Clothing</td>
<td>400</td>
<td>–</td>
<td>–</td>
<td>400</td>
</tr>
<tr>
<td>Motorcycles</td>
<td>–</td>
<td>500</td>
<td>–</td>
<td>500</td>
</tr>
<tr>
<td>Automobiles</td>
<td>–</td>
<td>2,760</td>
<td>–</td>
<td>2,760</td>
</tr>
<tr>
<td>Solar panels</td>
<td>–</td>
<td>–</td>
<td>1,000</td>
<td>1,000</td>
</tr>
<tr>
<td>Power plant</td>
<td>–</td>
<td>–</td>
<td>5,250</td>
<td>5,250</td>
</tr>
<tr>
<td></td>
<td>1,990</td>
<td>3,260</td>
<td>6,250</td>
<td>11,500</td>
</tr>
<tr>
<td>Timing of revenue recognition</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goods transferred at a point in time</td>
<td>1,990</td>
<td>3,260</td>
<td>1,000</td>
<td>6,250</td>
</tr>
<tr>
<td>Services transferred over time</td>
<td></td>
<td></td>
<td>5,250</td>
<td>5,250</td>
</tr>
<tr>
<td></td>
<td>1,990</td>
<td>3,260</td>
<td>6,250</td>
<td>11,500</td>
</tr>
</tbody>
</table>
Example 42—Disclosure of the transaction price allocated to the remaining performance obligations

IE212 On 30 June 20X7, an entity enters into three contracts (Contracts A, B and C) with separate customers to provide services. Each contract has a two-year non-cancellable term. The entity considers the requirements in paragraphs 120–122 of IFRS 15 in determining the information in each contract to be included in the disclosure of the transaction price allocated to the remaining performance obligations at 31 December 20X7.

Contract A

IE213 Cleaning services are to be provided over the next two years typically at least once per month. For services provided, the customer pays an hourly rate of CU25.

IE214 Because the entity bills a fixed amount for each hour of service provided, the entity has a right to invoice the customer in the amount that corresponds directly with the value of the entity’s performance completed to date in accordance with paragraph B16 of IFRS 15. Consequently, no disclosure is necessary if the entity elects to apply the practical expedient in paragraph 121(b) of IFRS 15.

Contract B

IE215 Cleaning services and lawn maintenance services are to be provided as and when needed with a maximum of four visits per month over the next two years. The customer pays a fixed price of CU400 per month for both services. The entity measures its progress towards complete satisfaction of the performance obligation using a time-based measure.

IE216 The entity discloses the amount of the transaction price that has not yet been recognised as revenue in a table with quantitative time bands that illustrates when the entity expects to recognise the amount as revenue. The information for Contract B included in the overall disclosure is as follows:

<table>
<thead>
<tr>
<th></th>
<th>20X8</th>
<th>20X9</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue expected to be recognised on this contract as of 31 December 20X7</td>
<td>CU4,800(^{(a)})</td>
<td>CU2,400(^{(b)})</td>
<td>CU7,200</td>
</tr>
</tbody>
</table>

(a) CU4,800 = CU400 × 12 months.
(b) CU2,400 = CU400 × 6 months.

Contract C

IE217 Cleaning services are to be provided as and when needed over the next two years. The customer pays fixed consideration of CU100 per month plus a one-time variable consideration payment ranging from CU0–CU1,000 corresponding to a one-time regulatory review and certification of the customer’s facility (ie a performance bonus). The entity estimates that it will be entitled to CU750 of the variable consideration. On the basis of the entity’s assessment of the factors in paragraph 57 of IFRS 15, the entity includes its estimate of CU750 of variable
consideration in the transaction price because it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The entity measures its progress towards complete satisfaction of the performance obligation using a time-based measure.

IE218 The entity discloses the amount of the transaction price that has not yet been recognised as revenue in a table with quantitative time bands that illustrates when the entity expects to recognise the amount as revenue. The entity also includes a qualitative discussion about any significant variable consideration that is not included in the disclosure. The information for Contract C included in the overall disclosure is as follows:

<table>
<thead>
<tr>
<th></th>
<th>20X8</th>
<th>20X9</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>CU</td>
<td>1,575</td>
<td>788</td>
<td>2,363</td>
</tr>
</tbody>
</table>

(a) Transaction price = CU3,150 (CU100 × 24 months + CU750 variable consideration) recognised evenly over 24 months at CU1.575 per year.

(b) CU1,575 ÷ 2 = CU788 (ie for 6 months of the year).

IE219 In addition, in accordance with paragraph 122 of IFRS 15, the entity discloses qualitatively that part of the performance bonus has been excluded from the disclosure because it was not included in the transaction price. That part of the performance bonus was excluded from the transaction price in accordance with the requirements for constraining estimates of variable consideration.

Example 43—Disclosure of the transaction price allocated to the remaining performance obligations—qualitative disclosure

IE220 On 1 January 20X2, an entity enters into a contract with a customer to construct a commercial building for fixed consideration of CU10 million. The construction of the building is a single performance obligation that the entity satisfies over time. As of 31 December 20X2, the entity has recognised CU3.2 million of revenue. The entity estimates that construction will be completed in 20X3, but it is possible that the project will be completed in the first half of 20X4.

IE221 At 31 December 20X2, the entity discloses the amount of the transaction price that has not yet been recognised as revenue in its disclosure of the transaction price allocated to the remaining performance obligations. The entity also discloses an explanation of when the entity expects to recognise that amount as revenue. The explanation can be disclosed either on a quantitative basis using time bands that are most appropriate for the duration of the remaining performance obligation or by providing a qualitative explanation. Because the entity is uncertain about the timing of revenue recognition, the entity discloses this information qualitatively as follows:

‘As of 31 December 20X2, the aggregate amount of the transaction price allocated to the remaining performance obligation is CU6.8 million and the entity will recognise this revenue as the building is completed, which is expected to occur over the next 12–18 months.’
Example 44 illustrates the requirements in paragraphs B28–B33 of IFRS 15 on warranties. In addition, Example 44 illustrates the requirements in paragraphs 27–29 of IFRS 15 on identifying performance obligations.

Example 44—Warranties

An entity, a manufacturer, provides its customer with a warranty with the purchase of a product. The warranty provides assurance that the product complies with agreed-upon specifications and will operate as promised for one year from the date of purchase. The contract also provides the customer with the right to receive up to 20 hours of training services on how to operate the product at no additional cost.

The entity assesses the goods and services in the contract to determine whether they are distinct and therefore give rise to separate performance obligations.

The product is distinct because it meets both criteria in paragraph 27 of IFRS 15. The product is capable of being distinct in accordance with paragraphs 27(a) and 28 of IFRS 15, because the customer can benefit from the product on its own without the training services. The entity regularly sells the product separately without the training services. In addition, the product is distinct within the context of the contract in accordance with paragraphs 27(b) and 29 of IFRS 15, because the entity's promise to transfer the product is separately identifiable from other promises in the contract.

In addition, the training services are distinct because they meet both criteria in paragraph 27 of IFRS 15. The training services are capable of being distinct in accordance with paragraphs 27(a) and 28 of IFRS 15, because the customer can benefit from the training services together with the product that has already been provided by the entity. In addition, the training services are distinct within the context of the contract in accordance with paragraphs 27(b) and 29 of IFRS 15, because the entity's promise to transfer the training services are separately identifiable from other promises in the contract. The entity does not provide a significant service of integrating the training services with the product (see paragraph 29(a) of IFRS 15). The training services are not significantly modified or customised by the product (see paragraph 29(b) of IFRS 15). The training services are not highly dependent on, or highly interrelated with, the product (see paragraph 29(c) of IFRS 15).

The product and training services are each distinct and therefore give rise to two separate performance obligations.

Finally, the entity assesses the promise to provide a warranty and observes that the warranty provides the customer with the assurance that the product will function as intended for one year. The entity concludes, in accordance with paragraphs B28–B33 of IFRS 15, that the warranty does not provide the customer with a good or service in addition to that assurance and, therefore, the entity does not account for it as a performance obligation. The entity accounts for the assurance-type warranty in accordance with the requirements in IAS 37.
As a result, the entity allocates the transaction price to the two performance obligations (the product and the training services) and recognises revenue when (or as) those performance obligations are satisfied.

**Principal versus agent considerations**

Examples 45–48 illustrate the requirements in paragraphs B34–B38 of IFRS 15 on principal versus agent considerations.

**Example 45—Arranging for the provision of goods or services (entity is an agent)**

An entity operates a website that enables customers to purchase goods from a range of suppliers who deliver the goods directly to the customers. When a good is purchased via the website, the entity is entitled to a commission that is equal to 10 per cent of the sales price. The entity’s website facilitates payment between the supplier and the customer at prices that are set by the supplier. The entity requires payment from customers before orders are processed and all orders are non-refundable. The entity has no further obligations to the customer after arranging for the products to be provided to the customer.

To determine whether the entity’s performance obligation is to provide the specified goods itself (ie the entity is a principal) or to arrange for the supplier to provide those goods (ie the entity is an agent), the entity considers the nature of its promise. Specifically, the entity observes that the supplier of the goods delivers its goods directly to the customer and thus the entity does not obtain control of the goods. Instead, the entity’s promise is to arrange for the supplier to provide those goods to the customer. In reaching that conclusion, the entity considers the following indicators from paragraph B37 of IFRS 15 as follows:

(a) the supplier is primarily responsible for fulfilling the contract—ie by shipping the goods to the customer;

(b) the entity does not take inventory risk at any time during the transaction because the goods are shipped directly by the supplier to the customer;

(c) the entity’s consideration is in the form of a commission (10 per cent of the sales price);

(d) the entity does not have discretion in establishing prices for the supplier’s goods and, therefore, the benefit the entity can receive from those goods is limited; and

(e) neither the entity, nor the supplier, has credit risk because payments from customers are made in advance.

Consequently, the entity concludes that it is an agent and its performance obligation is to arrange for the provision of goods by the supplier. When the entity satisfies its promise to arrange for the goods to be provided by the supplier to the customer (which, in this example, is when goods are purchased by the customer), the entity recognises revenue in the amount of the commission to which it is entitled.
Example 46—Promise to provide goods or services (entity is a principal)

IE234 An entity enters into a contract with a customer for equipment with unique specifications. The entity and the customer develop the specifications for the equipment, which the entity communicates to a supplier that the entity contracts with to manufacture the equipment. The entity also arranges to have the supplier deliver the equipment directly to the customer. Upon delivery of the equipment to the customer, the terms of the contract require the entity to pay the supplier the price agreed to by the entity and the supplier for manufacturing the equipment.

IE235 The entity and the customer negotiate the selling price and the entity invoices the customer for the agreed-upon price with 30-day payment terms. The entity’s profit is based on the difference between the sales price negotiated with the customer and the price charged by the supplier.

IE236 The contract between the entity and the customer requires the customer to seek remedies for defects in the equipment from the supplier under the supplier’s warranty. However, the entity is responsible for any corrections to the equipment required resulting from errors in specifications.

IE237 To determine whether the entity’s performance obligation is to provide the specified goods or services itself (ie the entity is a principal) or to arrange for another party to provide those goods or services (ie the entity is an agent), the entity considers the nature of its promise. The entity has promised to provide the customer with specialised equipment; however, the entity has subcontracted the manufacturing of the equipment to the supplier. In determining whether the entity obtains control of the equipment before control transfers to the customer and whether the entity is a principal, the entity considers the indicators in paragraph B37 of IFRS 15 as follows:

(a) the entity is primarily responsible for fulfilling the contract. Although the entity subcontracted the manufacturing, the entity is ultimately responsible for ensuring that the equipment meets the specifications for which the customer has contracted.

(b) the entity has inventory risk because of its responsibility for corrections to the equipment resulting from errors in specifications, even though the supplier has inventory risk during production and before shipment.

(c) the entity has discretion in establishing the selling price with the customer, and the profit earned by the entity is an amount that is equal to the difference between the selling price negotiated with the customer and the amount to be paid to the supplier.

(d) the entity’s consideration is not in the form of a commission.

(e) the entity has credit risk for the amount receivable from the customer in exchange for the equipment.

IE238 The entity concludes that its promise is to provide the equipment to the customer. On the basis of the indicators in paragraph B37 of IFRS 15, the entity concludes that it controls the equipment before it is transferred to the customer.
Thus, the entity is a principal in the transaction and recognises revenue in the gross amount of consideration to which it is entitled from the customer in exchange for the equipment.

**Example 47—Promise to provide goods or services (entity is a principal)**

IE239 An entity negotiates with major airlines to purchase tickets at reduced rates compared with the price of tickets sold directly by the airlines to the public. The entity agrees to buy a specific number of tickets and must pay for those tickets regardless of whether it is able to resell them. The reduced rate paid by the entity for each ticket purchased is negotiated and agreed in advance.

IE240 The entity determines the prices at which the airline tickets will be sold to its customers. The entity sells the tickets and collects the consideration from customers when the tickets are purchased; therefore there is no credit risk.

IE241 The entity also assists the customers in resolving complaints with the service provided by airlines. However, each airline is responsible for fulfilling obligations associated with the ticket, including remedies to a customer for dissatisfaction with the service.

IE242 To determine whether the entity's performance obligation is to provide the specified goods or services itself (ie the entity is a principal) or to arrange for another party to provide those goods or services (ie the entity is an agent), the entity considers the nature of its promise. The entity determines that its promise is to provide the customer with a ticket, which provides the right to fly on the specified flight or another flight if the specified flight is changed or cancelled. In determining whether the entity obtains control of the right to fly before control transfers to the customer and whether the entity is a principal, the entity considers the indicators in paragraph B37 of IFRS 15 as follows:

(a) the entity is primarily responsible for fulfilling the contract, which is providing the right to fly. However, the entity is not responsible for providing the flight itself, which will be provided by the airline.

(b) the entity has inventory risk for the tickets because they are purchased before they are sold to the entity's customers and the entity is exposed to any loss as a result of not being able to sell the tickets for more than the entity's cost.

(c) the entity has discretion in setting the sales prices for tickets to its customers.

(d) as a result of the entity's ability to set the sales prices, the amount that the entity earns is not in the form of a commission, but instead depends on the sales price it sets and the costs of the tickets that were negotiated with the airline.

IE243 The entity concludes that its promise is to provide a ticket (ie a right to fly) to the customer. On the basis of the indicators in paragraph B37 of IFRS 15, the entity concludes that it controls the ticket before it is transferred to the customer.
Thus, the entity concludes that it is a principal in the transaction and recognises revenue in the gross amount of consideration to which it is entitled in exchange for the tickets transferred.

**Example 48—Arranging for the provision of goods or services (entity is an agent)**

IE244 An entity sells vouchers that entitle customers to future meals at specified restaurants. These vouchers are sold by the entity and the sales price of the voucher provides the customer with a significant discount when compared with the normal selling prices of the meals (for example, a customer pays CU100 for a voucher that entitles the customer to a meal at a restaurant that would otherwise cost CU200). The entity does not purchase vouchers in advance; instead, it purchases vouchers only as they are requested by the customers. The entity sells the vouchers through its website and the vouchers are non-refundable.

IE245 The entity and the restaurants jointly determine the prices at which the vouchers will be sold to customers. The entity is entitled to 30 per cent of the voucher price when it sells the voucher. The entity has no credit risk because the customers pay for the vouchers when purchased.

IE246 The entity also assists the customers in resolving complaints about the meals and has a buyer satisfaction programme. However, the restaurant is responsible for fulfilling obligations associated with the voucher, including remedies to a customer for dissatisfaction with the service.

IE247 To determine whether the entity is a principal or an agent, the entity considers the nature of its promise and whether it takes control of the voucher (ie a right) before control transfers to the customer. In making this determination, the entity considers the indicators in paragraph B37 of IFRS 15 as follows:

(a) the entity is not responsible for providing the meals itself, which will be provided by the restaurants;

(b) the entity does not have inventory risk for the vouchers because they are not purchased before being sold to customers and the vouchers are non-refundable;

(c) the entity has some discretion in setting the sales prices for vouchers to customers, but the sales prices are jointly determined with the restaurants; and

(d) the entity’s consideration is in the form of a commission, because it is entitled to a stipulated percentage (30 per cent) of the voucher price.

IE248 The entity concludes that its promise is to arrange for goods or services to be provided to customers (the purchasers of the vouchers) in exchange for a commission. On the basis of the indicators in paragraph B37 of IFRS 15, the entity concludes that it does not control the vouchers that provide a right to meals before they are transferred to the customers. Thus, the entity concludes that it is an agent in the arrangement and recognises revenue in the net amount
of consideration to which the entity will be entitled in exchange for the service, which is the 30 per cent commission it is entitled to upon the sale of each voucher.

**Customer options for additional goods or services**

IE249 Examples 49–52 illustrate the requirements in paragraphs B39–B43 of IFRS 15 on customer options for additional goods or services. Example 50 illustrates the requirements in paragraphs 27–29 of IFRS 15 on identifying performance obligations. Example 52 illustrates a customer loyalty programme. That example may not apply to all customer loyalty arrangements because the terms and conditions may differ. In particular, when there are more than two parties to the arrangement, an entity should consider all facts and circumstances to determine the customer in the transaction that gives rise to the award credits.

**Example 49—Option that provides the customer with a material right (discount voucher)**

IE250 An entity enters into a contract for the sale of Product A for CU100. As part of the contract, the entity gives the customer a 40 per cent discount voucher for any future purchases up to CU100 in the next 30 days. The entity intends to offer a 10 per cent discount on all sales during the next 30 days as part of a seasonal promotion. The 10 per cent discount cannot be used in addition to the 40 per cent discount voucher.

IE251 Because all customers will receive a 10 per cent discount on purchases during the next 30 days, the only discount that provides the customer with a material right is the discount that is incremental to that 10 per cent (i.e., the additional 30 per cent discount). The entity accounts for the promise to provide the incremental discount as a performance obligation in the contract for the sale of Product A.

IE252 To estimate the stand-alone selling price of the discount voucher in accordance with paragraph B42 of IFRS 15, the entity estimates an 80 per cent likelihood that a customer will redeem the voucher and that a customer will, on average, purchase CU50 of additional products. Consequently, the entity's estimated stand-alone selling price of the discount voucher is CU12 (CU50 average purchase price of additional products \(\times\) 30 per cent incremental discount \(\times\) 80 per cent likelihood of exercising the option). The stand-alone selling prices of Product A and the discount voucher and the resulting allocation of the CU100 transaction price are as follows:
Performance obligation | Stand-alone selling price
---|---
Product A | CU 100
Discount voucher | CU 12
Total | CU 112

Allocated transaction price

<table>
<thead>
<tr>
<th>Performance obligation</th>
<th>CU</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product A</td>
<td>89 (CU100 ÷ CU112 × CU100)</td>
</tr>
<tr>
<td>Discount voucher</td>
<td>11 (CU12 ÷ CU112 × CU100)</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
</tr>
</tbody>
</table>

The entity allocates CU89 to Product A and recognises revenue for Product A when control transfers. The entity allocates CU11 to the discount voucher and recognises revenue for the voucher when the customer redeems it for goods or services or when it expires.

**Example 50—Option that does not provide the customer with a material right (additional goods or services)**

An entity in the telecommunications industry enters into a contract with a customer to provide a handset and monthly network service for two years. The network service includes up to 1,000 call minutes and 1,500 text messages each month for a fixed monthly fee. The contract specifies the price for any additional call minutes or texts that the customer may choose to purchase in any month. The prices for those services are equal to their stand-alone selling prices.

The entity determines that the promises to provide the handset and network service are each separate performance obligations. This is because the customer can benefit from the handset and network service either on their own or together with other resources that are readily available to the customer in accordance with the criterion in paragraph 27(a) of IFRS 15. In addition, the handset and network service are separately identifiable in accordance with the criterion in paragraph 27(b) of IFRS 15 (on the basis of the factors in paragraph 29 of IFRS 15).

The entity determines that the option to purchase the additional call minutes and texts does not provide a material right that the customer would not receive without entering into the contract (see paragraph B41 of IFRS 15). This is because the prices of the additional call minutes and texts reflect the stand-alone selling prices for those services. Because the option for additional call minutes and texts does not grant the customer a material right, the entity concludes it is not a performance obligation in the contract. Consequently, the entity does not allocate any of the transaction price to the option for additional...
call minutes or texts. The entity will recognise revenue for the additional call minutes or texts if and when the entity provides those services.

**Example 51—Option that provides the customer with a material right (renewal option)**

An entity enters into 100 separate contracts with customers to provide one year of maintenance services for CU1,000 per contract. The terms of the contracts specify that at the end of the year, each customer has the option to renew the maintenance contract for a second year by paying an additional CU1,000. Customers who renew for a second year are also granted the option to renew for a third year for CU1,000. The entity charges significantly higher prices for maintenance services to customers that do not sign up for the maintenance services initially (ie when the products are new). That is, the entity charges CU3,000 in Year 2 and CU5,000 in Year 3 for annual maintenance services if a customer does not initially purchase the service or allows the service to lapse.

The entity concludes that the renewal option provides a material right to the customer that it would not receive without entering into the contract, because the price for maintenance services are significantly higher if the customer elects to purchase the services only in Year 2 or 3. Part of each customer’s payment of CU1,000 in the first year is, in effect, a non-refundable prepayment of the services to be provided in a subsequent year. Consequently, the entity concludes that the promise to provide the option is a performance obligation.

The renewal option is for a continuation of maintenance services and those services are provided in accordance with the terms of the existing contract. Instead of determining the stand-alone selling prices for the renewal options directly, the entity allocates the transaction price by determining the consideration that it expects to receive in exchange for all the services that it expects to provide, in accordance with paragraph B43 of IFRS 15.

The entity expects 90 customers to renew at the end of Year 1 (90 per cent of contracts sold) and 81 customers to renew at the end of Year 2 (90 per cent of the 90 customers that renewed at the end of Year 1 will also renew at the end of Year 2, that is 81 per cent of contracts sold).

At contract inception, the entity determines the expected consideration for each contract is CU2,710 [CU1,000 + (90 per cent × CU1,000) + (81 per cent × CU1,000)]. The entity also determines that recognising revenue on the basis of costs incurred relative to the total expected costs depicts the transfer of services to the customer. Estimated costs for a three-year contract are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 1</td>
<td>600</td>
</tr>
<tr>
<td>Year 2</td>
<td>750</td>
</tr>
<tr>
<td>Year 3</td>
<td>1,000</td>
</tr>
</tbody>
</table>

Accordingly, the pattern of revenue recognition expected at contract inception for each contract is as follows:
IE263 Consequently, at contract inception, the entity allocates to the option to renew at the end of Year 1 CU22,000 of the consideration received to date [cash of CU100,000 – revenue to be recognised in Year 1 of CU78,000 (CU780 × 100)].

IE264 Assuming there is no change in the entity’s expectations and the 90 customers renew as expected, at the end of the first year, the entity has collected cash of CU190,000 [(100 × CU1,000) + (90 × CU1,000)], has recognised revenue of CU78,000 (CU780 × 100) and has recognised a contract liability of CU112,000.

IE265 Consequently, upon renewal at the end of the first year, the entity allocates CU24,300 to the option to renew at the end of Year 2 [cumulative cash of CU190,000 less cumulative revenue recognised in Year 1 and to be recognised in Year 2 of CU165,700 (CU78,000 + CU877 × 100)].

IE266 If the actual number of contract renewals was different than what the entity expected, the entity would update the transaction price and the revenue recognised accordingly.

**Example 52—Customer loyalty programme**

IE267 An entity has a customer loyalty programme that rewards a customer with one customer loyalty point for every CU10 of purchases. Each point is redeemable for a CU1 discount on any future purchases of the entity’s products. During a reporting period, customers purchase products for CU100,000 and earn 10,000 points that are redeemable for future purchases. The consideration is fixed and the stand-alone selling price of the purchased products is CU100,000. The entity expects 9,500 points to be redeemed. The entity estimates a stand-alone selling price of CU0.95 per point (totalling CU9,500) on the basis of the likelihood of redemption in accordance with paragraph B42 of IFRS 15.

IE268 The points provide a material right to customers that they would not receive without entering into a contract. Consequently, the entity concludes that the promise to provide points to the customer is a performance obligation. The entity allocates the transaction price (CU100,000) to the product and the points on a relative stand-alone selling price basis as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Expected costs adjusted for likelihood of contract renewal</th>
<th>Allocation of consideration expected</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>CU</td>
<td></td>
</tr>
<tr>
<td>Year 1</td>
<td>600</td>
<td>(CU600 × 100%)</td>
</tr>
<tr>
<td>Year 2</td>
<td>675</td>
<td>(CU750 × 90%)</td>
</tr>
<tr>
<td>Year 3</td>
<td>810</td>
<td>(CU1,000 × 81%)</td>
</tr>
<tr>
<td>Total</td>
<td>2,085</td>
<td></td>
</tr>
</tbody>
</table>
At the end of the first reporting period, 4,500 points have been redeemed and the entity continues to expect 9,500 points to be redeemed in total. The entity recognises revenue for the loyalty points of CU4,110 \((\frac{4,500}{9,500} \times CU8,676)\) and recognises a contract liability of CU4,566 \((CU8,676 - CU4,110)\) for the unredeemed points at the end of the first reporting period.

At the end of the second reporting period, 8,500 points have been redeemed cumulatively. The entity updates its estimate of the points that will be redeemed and now expects that 9,700 points will be redeemed. The entity recognises revenue for the loyalty points of CU3,493 \(((\frac{8,500}{9,700} \times CU8,676) - CU4,110)\) and the contract liability balance is CU1,073 \((CU8,676 - CU7,603)\) of cumulative revenue recognised.

### Non-refundable upfront fees

Example 53 illustrates the requirements in paragraphs B48–B51 of IFRS 15 on non-refundable upfront fees.

**Example 53—Non-refundable upfront fee**

An entity enters into a contract with a customer for one year of transaction processing services. The entity’s contracts have standard terms that are the same for all customers. The contract requires the customer to pay an upfront fee to set up the customer on the entity’s systems and processes. The fee is a nominal amount and is non-refundable. The customer can renew the contract each year without paying an additional fee.

The entity’s setup activities do not transfer a good or service to the customer and, therefore, do not give rise to a performance obligation.

The entity concludes that the renewal option does not provide a material right to the customer that it would not receive without entering into that contract (see paragraph B40 of IFRS 15). The upfront fee is, in effect, an advance payment for the future transaction processing services. Consequently, the entity determines the transaction price, which includes the non-refundable upfront fee, and recognises revenue for the transaction processing services as those services are provided in accordance with paragraph B49 of IFRS 15.

### Licensing

Examples 54–61 illustrate the requirements in paragraphs 22–30 of IFRS 15 for identifying performance obligations and paragraphs B52–B63 of IFRS 15 on licensing. These examples also illustrate other requirements as follows:
Example 54—Right to use intellectual property

IE276 Using the same facts as in Case A in Example 11 (see paragraphs IE49–IE53), the entity identifies four performance obligations in a contract:

(a) the software licence;
(b) installation services;
(c) software updates; and
(d) technical support.

IE277 The entity assesses the nature of its promise to transfer the software licence in accordance with paragraph B58 of IFRS 15. The entity observes that the software is functional at the time that the licence transfers to the customer, and the customer can direct the use of, and obtain substantially all of the remaining benefits from, the software when the licence transfers to the customer. Furthermore, the entity concludes that because the software is functional when it transfers to the customer, the customer does not reasonably expect the entity to undertake activities that significantly affect the intellectual property to which the licence relates. This is because at the point in time that the licence is transferred to the customer, the intellectual property will not change throughout the licence period. The entity does not consider in its assessment of the criteria in paragraph B58 of IFRS 15 the promise to provide software updates, because they represent a separate performance obligation. Therefore, the entity concludes that none of the criteria in paragraph B58 of IFRS 15 are met and that the nature of the entity's promise in transferring the licence is to provide a right to use the entity's intellectual property as it exists at a point in time—ie the intellectual property to which the customer has rights is static. Consequently, the entity accounts for the licence as a performance obligation satisfied at a point in time.

Example 55—Licence of intellectual property

IE278 An entity enters into a contract with a customer to licence (for a period of three years) intellectual property related to the design and production processes for a good. The contract also specifies that the customer will obtain any updates to that intellectual property for new designs or production processes that may be developed by the entity. The updates are essential to the customer’s ability to use the licence, because the customer operates in an industry in which technologies change rapidly. The entity does not sell the updates separately and the customer does not have the option to purchase the licence without the updates.
IE279  The entity assesses the goods and services promised to the customer to determine which goods and services are distinct in accordance with paragraph 27 of IFRS 15. The entity determines that although the entity can conclude that the customer can obtain benefit from the licence on its own without the updates (see paragraph 27(a) of IFRS 15), that benefit would be limited because the updates are critical to the customer’s ability to continue to make use of the licence in the rapidly changing technological environment in which the customer operates. In assessing whether the criterion in paragraph 27(b) of IFRS 15 is met, the entity observes that the customer does not have the option to purchase the licence without the updates and the customer obtains limited benefit from the licence without the updates. Therefore, the entity concludes that the licence and the updates are highly interrelated and the promise to grant the licence is not distinct within the context of the contract, because the licence is not separately identifiable from the promise to provide the updates (in accordance with the criterion in paragraph 27(b) and the factors in paragraph 29 of IFRS 15).

IE280  The entity applies paragraphs 31–38 of IFRS 15 to determine whether the performance obligation (which includes the licence and the updates) is satisfied at a point in time or over time. The entity concludes that because the customer simultaneously receives and consumes the benefits of the entity’s performance as it occurs, the performance obligation is satisfied over time in accordance with paragraph 35(a) of IFRS 15.

Example 56—Identifying a distinct licence

IE281  An entity, a pharmaceutical company, licenses to a customer its patent rights to an approved drug compound for 10 years and also promises to manufacture the drug for the customer. The drug is a mature product; therefore the entity will not undertake any activities to support the drug, which is consistent with its customary business practices.

Case A—Licence is not distinct

IE282  In this case, no other entity can manufacture this drug because of the highly specialised nature of the manufacturing process. As a result, the licence cannot be purchased separately from the manufacturing services.

IE283  The entity assesses the goods and services promised to the customer to determine which goods and services are distinct in accordance with paragraph 27 of IFRS 15. The entity determines that the customer cannot benefit from the licence without the manufacturing service; therefore, the criterion in paragraph 27(a) of IFRS 15 is not met. Consequently, the licence and the manufacturing service are not distinct and the entity accounts for the licence and the manufacturing service as a single performance obligation.

IE284  The entity applies paragraphs 31–38 of IFRS 15 to determine whether the performance obligation (ie the bundle of the licence and the manufacturing services) is a performance obligation satisfied at a point in time or over time.
Case B—Licence is distinct

IE285 In this case, the manufacturing process used to produce the drug is not unique or specialised and several other entities can also manufacture the drug for the customer.

IE286 The entity assesses the goods and services promised to the customer to determine which goods and services are distinct in accordance with paragraph 27 of IFRS 15. Because the manufacturing process can be provided by other entities, the entity concludes that the customer can benefit from the licence on its own (ie without the manufacturing service) and that the licence is separately identifiable from the manufacturing process (ie the criteria in paragraph 27 of IFRS 15 are met). Consequently, the entity concludes that the licence and the manufacturing service are distinct and the entity has two performance obligations:

(a) licence of patent rights; and
(b) manufacturing service.

IE287 The entity assesses, in accordance with paragraph B58 of IFRS 15, the nature of the entity’s promise to grant the licence. The drug is a mature product (ie it has been approved, is currently being manufactured and has been sold commercially for the last several years). For these types of mature products, the entity’s customary business practices are not to undertake any activities to support the drug. Consequently, the entity concludes that the criteria in paragraph B58 of IFRS 15 are not met because the contract does not require, and the customer does not reasonably expect, the entity to undertake activities that significantly affect the intellectual property to which the customer has rights. In its assessment of the criteria in paragraph B58 of IFRS 15, the entity does not take into consideration the separate performance obligation of promising to provide a manufacturing service. Consequently, the nature of the entity’s promise in transferring the licence is to provide a right to use the entity’s intellectual property in the form and the functionality with which it exists at the point in time that it is granted to the customer. Consequently, the entity accounts for the licence as a performance obligation satisfied at a point in time.

IE288 The entity applies paragraphs 31–38 of IFRS 15 to determine whether the manufacturing service is a performance obligation satisfied at a point in time or over time.

Example 57—Franchise rights

IE289 An entity enters into a contract with a customer and promises to grant a franchise licence that provides the customer with the right to use the entity’s trade name and sell the entity’s products for 10 years. In addition to the licence, the entity also promises to provide the equipment necessary to operate a franchise store. In exchange for granting the licence, the entity receives a sales-based royalty of five per cent of the customer’s monthly sales. The fixed consideration for the equipment is CU150,000 payable when the equipment is delivered.
Identifying performance obligations

IE290 The entity assesses the goods and services promised to the customer to determine which goods and services are distinct in accordance with paragraph 27 of IFRS 15. The entity observes that the entity, as a franchisor, has developed a customary business practice to undertake activities such as analysing the customer’s changing preferences and implementing product improvements, pricing strategies, marketing campaigns and operational efficiencies to support the franchise name. However, the entity concludes that these activities do not directly transfer goods or services to the customer because they are part of the entity’s promise to grant a licence and, in effect, change the intellectual property to which the customer has rights.

IE291 The entity determines that it has two promises to transfer goods or services: a promise to grant a licence and a promise to transfer equipment. In addition, the entity concludes that the promise to grant the licence and the promise to transfer the equipment are distinct. This is because the customer can benefit from each promise (ie the promise of the licence and the promise of the equipment) on their own or together with other resources that are readily available (see paragraph 27(a) of IFRS 15). (That is, the customer can benefit from the licence together with the equipment that is delivered before the opening of the franchise and the equipment can be used in the franchise or sold for an amount other than scrap value.) The entity also determines that the franchise licence and equipment are separately identifiable, in accordance with the criterion in paragraph 27(b) of IFRS 15, because none of the factors in paragraph 29 of IFRS 15 are present. Consequently, the entity has two performance obligations:

(a) the franchise licence; and

(b) the equipment.

Allocating the transaction price

IE292 The entity determines that the transaction price includes fixed consideration of CU150,000 and variable consideration (five per cent of customer sales).

IE293 The entity applies paragraph 85 of IFRS 15 to determine whether the variable consideration should be allocated entirely to the performance obligation to transfer the franchise licence. The entity concludes that the variable consideration (ie the sales-based royalty) should be allocated entirely to the franchise licence because the variable consideration relates entirely to the entity’s promise to grant the franchise licence. In addition, the entity observes that allocating CU150,000 to the equipment and the sales-based royalty to the franchise licence would be consistent with an allocation based on the entity’s relative stand-alone selling prices in similar contracts. That is, the stand-alone selling price of the equipment is CU150,000 and the entity regularly licences franchises in exchange for five per cent of customer sales. Consequently, the entity concludes that the variable consideration (ie the sales-based royalty) should be allocated entirely to the performance obligation to grant the franchise licence.
**Application guidance: licensing**

The entity assesses, in accordance with paragraph B58 of IFRS 15, the nature of the entity’s promise to grant the franchise licence. The entity concludes that the criteria in paragraph B58 of IFRS 15 are met and the nature of the entity’s promise is to provide access to the entity’s intellectual property in its current form throughout the licence period. This is because:

(a) the entity concludes that the customer would reasonably expect that the entity will undertake activities that will affect the intellectual property to which the customer has rights. This is on the basis of the entity’s customary business practice to undertake activities such as analysing the customer’s changing preferences and implementing product improvements, pricing strategies, marketing campaigns and operational efficiencies. In addition, the entity observes that because part of its compensation is dependent on the success of the franchisee (as evidenced through the sales-based royalty), the entity has a shared economic interest with the customer that indicates that the customer will expect the entity to undertake those activities to maximise earnings.

(b) the entity also observes that the franchise licence requires the customer to implement any changes that result from those activities and thus exposes the customer to any positive or negative effects of those activities.

(c) the entity also observes that even though the customer may benefit from the activities through the rights granted by the licence, they do not transfer a good or service to the customer as those activities occur.

Because the criteria in paragraph B58 of IFRS 15 are met, the entity concludes that the promise to transfer the licence is a performance obligation satisfied over time in accordance with paragraph 35(a) of IFRS 15.

The entity also concludes that because the consideration is in the form of a sales-based royalty, the entity applies paragraph B63 of IFRS 15 and, after the transfer of the franchise licence, the entity recognises revenue as and when those sales occur.

**Example 58—Access to intellectual property**

An entity, a creator of comic strips, licenses the use of the images and names of its comic strip characters in three of its comic strips to a customer for a four-year term. There are main characters involved in each of the comic strips. However, newly created characters appear regularly and the images of the characters evolve over time. The customer, an operator of cruise ships, can use the entity’s characters in various ways, such as in shows or parades, within reasonable guidelines. The contract requires the customer to use the latest images of the characters.

In exchange for granting the licence, the entity receives a fixed payment of CU1 million in each year of the four-year term.

In accordance with paragraph 27 of IFRS 15, the entity assesses the goods and services promised to the customer to determine which goods and services are
distinct. The entity concludes that it has no other performance obligations other than the promise to grant a licence. That is, the additional activities associated with the licence do not directly transfer a good or service to the customer because they are part of the entity’s promise to grant a licence and, in effect, change the intellectual property to which the customer has rights.

IE300 The entity assesses the nature of the entity’s promise to transfer the licence in accordance with paragraph B58 of IFRS 15. In assessing the criteria the entity considers the following:

(a) the customer reasonably expects (arising from the entity’s customary business practices) that the entity will undertake activities that will affect the intellectual property to which the customer has rights (ie the characters). Those activities include development of the characters and the publishing of a weekly comic strip that includes the characters.

(b) the rights granted by the licence directly expose the customer to any positive or negative effects of the entity’s activities because the contract requires the customer to use the latest characters.

(c) even though the customer may benefit from those activities through the rights granted by the licence, they do not transfer a good or service to the customer as those activities occur.

IE301 Consequently, the entity concludes that the criteria in paragraph B58 of IFRS 15 are met and that the nature of the entity’s promise to transfer the licence is to provide the customer with access to the entity’s intellectual property as it exists throughout the licence period. Consequently, the entity accounts for the promised licence as a performance obligation satisfied over time (ie the criterion in paragraph 35(a) of IFRS 15 is met).

IE302 The entity applies paragraphs 39–45 of IFRS 15 to identify the method that best depicts its performance in the licence. Because the contract provides the customer with unlimited use of the licensed characters for a fixed term, the entity determines that a time-based method would be the most appropriate measure of progress towards complete satisfaction of the performance obligation.

Example 59—Right to use intellectual property

IE303 An entity, a music record label, licenses to a customer a 1975 recording of a classical symphony by a noted orchestra. The customer, a consumer products company, has the right to use the recorded symphony in all commercials, including television, radio and online advertisements for two years in Country A. In exchange for providing the licence, the entity receives fixed consideration of CU10,000 per month. The contract does not include any other goods or services to be provided by the entity. The contract is non-cancellable.

IE304 The entity assesses the goods and services promised to the customer to determine which goods and services are distinct in accordance with paragraph 27 of IFRS 15. The entity concludes that its only performance obligation is to grant the licence.
In accordance with paragraph B58 of IFRS 15, the entity assesses the nature of the entity’s promise to grant the licence. The entity does not have any contractual or implied obligations to change the licensed recording. Thus, the intellectual property to which the customer has rights is static. Consequently, the entity concludes that the nature of its promise in transferring the licence is to provide the customer with a right to use the entity’s intellectual property as it exists at the point in time that it is granted. Therefore, the promise to grant the licence is a performance obligation satisfied at a point in time. The entity recognises all of the revenue at the point in time when the customer can direct the use of, and obtain substantially all of the remaining benefits from, the licensed intellectual property.

Because of the length of time between the entity’s performance (at the beginning of the period) and the customer’s monthly payments over two years (which are non-cancellable), the entity considers the requirements in paragraphs 60–65 of IFRS 15 to determine whether a significant financing component exists.

Example 60—Access to intellectual property

An entity, a movie distribution company, licenses Movie XYZ to a customer. The customer, an operator of cinemas, has the right to show the movie in its cinemas for six weeks. In exchange for providing the licence, the entity will receive a portion of the operator’s ticket sales for Movie XYZ (i.e., variable consideration in the form of a sales-based royalty). The entity concludes that its only performance obligation is the promise to grant the licence.

The entity observes that regardless of whether the promise to grant the licence represents a right to access the entity’s intellectual property, or a right to use the entity’s intellectual property, the entity applies paragraph B63 of IFRS 15 and recognises revenue as and when the ticket sales occur. This is because the consideration for its licence of intellectual property is a sales-based royalty and the entity has already transferred the licence to the movie to which the sales-based royalty relates.

Example 61—Access to intellectual property

An entity, a well-known sports team, licenses the use of its name and logo to a customer. The customer, an apparel designer, has the right to use the sports team’s name and logo on items including t-shirts, caps, mugs and towels for one year. In exchange for providing the licence, the entity will receive fixed consideration of C$2 million and a royalty of five per cent of the sales price of any items using the team name or logo. The customer expects that the entity will continue to play games and provide a competitive team.

The entity assesses the goods and services promised to the customer to determine which goods and services are distinct in accordance with paragraph 27 of IFRS 15. The entity concludes that its only performance obligation is to transfer the licence. That is, the additional activities associated with the licence do not directly transfer a good or service to the customer because they are part of the entity’s promise to grant the licence and, in effect, change the intellectual property to which the customer has rights.
IE311 The entity assesses the nature of the entity’s promise to transfer the licence in accordance with paragraph B58 of IFRS 15. In assessing the criteria the entity considers the following:

(a) the entity concludes that the customer would reasonably expect that the entity will undertake activities that will affect the intellectual property (ie the team name and logo) to which the customer has rights. This is on the basis of the entity’s customary business practice to undertake activities such as continuing to play and providing a competitive team. In addition, the entity observes that because some of its consideration is dependent on the success of the customer (through the sales-based royalty), the entity has a shared economic interest with the customer, which indicates that the customer will expect the entity to undertake those activities to maximise earnings.

(b) the entity observes that the rights granted by the licence (ie the use of the team’s name and logo) directly expose the customer to any positive or negative effects of the entity’s activities.

(c) the entity also observes that even though the customer may benefit from the activities through the rights granted by the licence, they do not transfer a good or service to the customer as those activities occur.

IE312 The entity concludes that the criteria in paragraph B58 of IFRS 15 are met and the nature of the entity’s promise to grant the licence is to provide the customer with access to the entity’s intellectual property as it exists throughout the licence period. Consequently, the entity accounts for the promised licence as a performance obligation satisfied over time (ie the criterion in paragraph 35(a) of IFRS 15 is met).

IE313 The entity then applies paragraphs 39–45 of IFRS 15 to determine a measure of progress that will depict the entity’s performance for the fixed consideration. For the consideration that is in the form of a sales-based royalty, paragraph B63 of IFRS 15 applies; therefore, the entity recognises revenue as and when the sales of items using the team name or logo occur.

Repurchase agreements

IE314 Example 62 illustrates the requirements in paragraphs B64–B76 of IFRS 15 on repurchase agreements.

Example 62—Repurchase agreements

IE315 An entity enters into a contract with a customer for the sale of a tangible asset on 1 January 20X7 for CU1 million.

Case A—Call option: financing

IE316 The contract includes a call option that gives the entity the right to repurchase the asset for CU1.1 million on or before 31 December 20X7.

IE317 Control of the asset does not transfer to the customer on 31 December 20X7 because the entity has a right to repurchase the asset and therefore the customer is limited in its ability to direct the use of, and obtain substantially all of the
remaining benefits from the asset. Consequently, in accordance with paragraph B66(b) of IFRS 15, the entity accounts for the transaction as a financing arrangement, because the exercise price is more than the original selling price. In accordance with paragraph B68 of IFRS 15, the entity does not derecognise the asset and instead recognises the cash received as a financial liability. The entity also recognises interest expense for the difference between the exercise price (CU1.1 million) and the cash received (CU1 million), which increases the liability.

IE318 On 31 December 20X7, the option lapses unexercised; therefore, the entity derecognises the liability and recognises revenue of CU1.1 million.

Case B—Put option: lease

IE319 Instead of having a call option, the contract includes a put option that obliges the entity to repurchase the asset at the customer’s request for CU900,000 on or before 31 December 20X7. The market value is expected to be CU750,000 on 31 December 20X7.

IE320 At the inception of the contract, the entity assesses whether the customer has a significant economic incentive to exercise the put option, to determine the accounting for the transfer of the asset (see paragraphs B70–B76 of IFRS 15). The entity concludes that the customer has a significant economic incentive to exercise the put option because the repurchase price significantly exceeds the expected market value of the asset at the date of repurchase. The entity determines there are no other relevant factors to consider when assessing whether the customer has a significant economic incentive to exercise the put option. Consequently, the entity concludes that control of the asset does not transfer to the customer, because the customer is limited in its ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset.

IE321 In accordance with paragraphs B70–B71 of IFRS 15, the entity accounts for the transaction as a lease in accordance with IAS 17 Leases.

Bill-and-hold arrangements

IE322 Example 63 illustrates the requirements in paragraphs B79–B82 of IFRS 15 on bill-and-hold arrangements.

Example 63—Bill-and-hold arrangement

IE323 An entity enters into a contract with a customer on 1 January 20X8 for the sale of a machine and spare parts. The manufacturing lead time for the machine and spare parts is two years.

IE324 Upon completion of manufacturing, the entity demonstrates that the machine and spare parts meet the agreed-upon specifications in the contract. The promises to transfer the machine and spare parts are distinct and result in two performance obligations that each will be satisfied at a point in time. On 31 December 20X9, the customer pays for the machine and spare parts, but only takes physical possession of the machine. Although the customer inspects and accepts the spare parts, the customer requests that the spare parts be stored at the entity’s warehouse because of its close proximity to the customer’s factory.
The customer has legal title to the spare parts and the parts can be identified as belonging to the customer. Furthermore, the entity stores the spare parts in a separate section of its warehouse and the parts are ready for immediate shipment at the customer’s request. The entity expects to hold the spare parts for two to four years and the entity does not have the ability to use the spare parts or direct them to another customer.

The entity identifies the promise to provide custodial services as a performance obligation because it is a service provided to the customer and it is distinct from the machine and spare parts. Consequently, the entity accounts for three performance obligations in the contract (the promises to provide the machine, the spare parts and the custodial services). The transaction price is allocated to the three performance obligations and revenue is recognised when (or as) control transfers to the customer.

Control of the machine transfers to the customer on 31 December 20X9 when the customer takes physical possession. The entity assesses the indicators in paragraph 38 of IFRS 15 to determine the point in time at which control of the spare parts transfers to the customer, noting that the entity has received payment, the customer has legal title to the spare parts and the customer has inspected and accepted the spare parts. In addition, the entity concludes that all of the criteria in paragraph B81 of IFRS 15 are met, which is necessary for the entity to recognise revenue in a bill-and-hold arrangement. The entity recognises revenue for the spare parts on 31 December 20X9 when control transfers to the customer.

The performance obligation to provide custodial services is satisfied over time as the services are provided. The entity considers whether the payment terms include a significant financing component in accordance with paragraphs 60–65 of IFRS 15.
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 IFRS 15 Revenue from Contracts with Customers

IG17 If an entity has received amounts that do not yet qualify for recognition as revenue in accordance with IAS 18 IFRS 15 (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 adjusted (if appropriate) for a significant financing component in accordance with IFRS 15.

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)

<table>
<thead>
<tr>
<th>Guidance</th>
<th>IFRS 3 (as revised in 2008)</th>
<th>SFAS 141(R)</th>
</tr>
</thead>
<tbody>
<tr>
<td>…</td>
<td>…</td>
<td>…</td>
</tr>
<tr>
<td>Assets and liabilities arising from contingencies</td>
<td><strong>Subsequent measurement</strong>&lt;br&gt;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]</td>
<td><strong>Subsequent measurement</strong>&lt;br&gt;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:&lt;br&gt;&lt;br&gt;(a) a liability is measured at the higher of:&lt;br&gt;(i) its acquisition-date fair value; or&lt;br&gt;(ii) the amount that would be recognised if applying SFAS 5.&lt;br&gt;&lt;br&gt;(b) an asset is measured at the lower of:&lt;br&gt;(i) its acquisition-date fair value; or&lt;br&gt;(ii) the best estimate of its future settlement amount. [paragraphs 62 and 63]</td>
</tr>
</tbody>
</table>
* 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.

<table>
<thead>
<tr>
<th>IG25</th>
<th>IG Example 1 in paragraph IG2 is amended. Deleted text is struck through and new text is underlined.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.18</td>
<td>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 IFRS 15 (recognise when (or as) services are provided, subject to various conditions).</td>
</tr>
</tbody>
</table>

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

**IFRS 9 Financial Instruments (November 2009)**

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**

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 3–10) reflects the fair values for each of the services, which are 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

<table>
<thead>
<tr>
<th>Transaction price allocation (including effect of the significant financing component)</th>
<th>CU</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction services (over two years)(^{(a)})</td>
<td>1,050</td>
</tr>
<tr>
<td>Operation services (over 8 years)(^{(b)})</td>
<td>96</td>
</tr>
<tr>
<td>Road resurfacing services (in year 8)(^{(c)})</td>
<td>110</td>
</tr>
<tr>
<td>Total</td>
<td>1,256</td>
</tr>
<tr>
<td>Implied interest rate(^{(d)})</td>
<td>6.18% per year</td>
</tr>
</tbody>
</table>

\(^{(a)}\) 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**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount due for construction in year 1</td>
<td>525</td>
</tr>
<tr>
<td>Receivable Contract asset at end of year 1**(a)**</td>
<td>525</td>
</tr>
<tr>
<td>Effective interest in year 2 on receivable contract asset at the end of year 1 (6.18% × CU525)</td>
<td>32</td>
</tr>
<tr>
<td>Amount due for construction in year 2</td>
<td>525</td>
</tr>
<tr>
<td>Receivable at end of year 2</td>
<td>1,082</td>
</tr>
<tr>
<td>Effective interest in year 3 on receivable at the end of year 2 (6.18% × CU1,082)</td>
<td>67</td>
</tr>
<tr>
<td>Amount due for operation in year 3 (CU10 × (1 + 20%))</td>
<td>12</td>
</tr>
<tr>
<td>Cash receipts in year 3 (200)</td>
<td>(200)</td>
</tr>
<tr>
<td>Receivable at end of year 3</td>
<td>961</td>
</tr>
</tbody>
</table>

**(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

<table>
<thead>
<tr>
<th></th>
<th>Year</th>
<th>CU&lt;sup&gt;a&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction services</td>
<td>1</td>
<td>500</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>500</td>
</tr>
<tr>
<td>Operation services</td>
<td>3–10</td>
<td>10</td>
</tr>
<tr>
<td>Road resurfacing</td>
<td>8</td>
<td>100</td>
</tr>
</tbody>
</table>

<sup>a</sup> 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, 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, i.e., 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

<table>
<thead>
<tr>
<th></th>
<th>CU</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction services in year 1 (CU500 × (1 + 5%))</td>
<td>525</td>
</tr>
<tr>
<td>Capitalisation of borrowing costs</td>
<td>34</td>
</tr>
<tr>
<td>Construction services in year 2 (CU500 × (1 + 5%))</td>
<td>525</td>
</tr>
<tr>
<td>Intangible asset at end of year 2</td>
<td>1,084</td>
</tr>
</tbody>
</table>

### Construction costs and revenue

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

<table>
<thead>
<tr>
<th>Year</th>
<th>CU(a)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction services</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>2</td>
</tr>
<tr>
<td>Operation services Operating the road (per year)</td>
<td>3–10</td>
</tr>
<tr>
<td>Road resurfacing</td>
<td>8</td>
</tr>
</tbody>
</table>

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

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

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
<th>Financial asset</th>
<th>Intangible asset</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction services in year 1 (CU500 × (1 + 5%))</td>
<td>525</td>
<td>350</td>
<td>175</td>
</tr>
<tr>
<td>Construction services in year 2 (CU500 × (1 + 5%))</td>
<td>525</td>
<td>350</td>
<td>175</td>
</tr>
<tr>
<td>Total construction services</td>
<td>1,050</td>
<td>700</td>
<td>350</td>
</tr>
<tr>
<td>Finance income, at specified rate of 6.18% on receivable (see table 3.3)</td>
<td>22</td>
<td>22</td>
<td>–</td>
</tr>
<tr>
<td>Borrowing costs capitalised (interest paid in years 1 and 2 × 33%) (see table 3.7)</td>
<td>11</td>
<td>–</td>
<td>11</td>
</tr>
<tr>
<td>Total fair value of the operator’s consideration</td>
<td>1,083</td>
<td>722</td>
<td>361</td>
</tr>
</tbody>
</table>

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

Financial asset

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

<table>
<thead>
<tr>
<th>Description</th>
<th>Unit (CU)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction services in year 1 allocated to the financial contract asset</td>
<td>350</td>
</tr>
<tr>
<td>Receivable Contract asset at end of year 1</td>
<td>350</td>
</tr>
<tr>
<td>Construction services in year 2 allocated to the financial contract asset</td>
<td>350</td>
</tr>
<tr>
<td>Interest in year 2 on receivable contract asset at end of year 1 (6.18% × CU350)</td>
<td>22</td>
</tr>
<tr>
<td>Receivable at end of year 2</td>
<td>722</td>
</tr>
<tr>
<td>Interest in year 3 on receivable at end of year 2 (6.18% × CU722)</td>
<td>45</td>
</tr>
<tr>
<td>Cash receipts in year 3 (see table 3.5)</td>
<td>-117</td>
</tr>
<tr>
<td>Receivable at end of year 3</td>
<td>650</td>
</tr>
</tbody>
</table>

Intangible asset

IE31 During the construction phase of the arrangement the portion of the operator’s contract asset that represents its accumulating right to be paid amounts in excess of the guaranteed amount for providing construction services is classified as a right to receive a licence to charge users of the infrastructure. The operator measures 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

<table>
<thead>
<tr>
<th>Description</th>
<th>Unit (CU)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction services in year 1</td>
<td>175</td>
</tr>
<tr>
<td>Construction services in year 2</td>
<td>175</td>
</tr>
<tr>
<td>Intangible asset at the end of year 2</td>
<td>361</td>
</tr>
</tbody>
</table>

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
IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

and intangible asset model, the operator recognizes 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).