This communication contains a general overview of this topic and is current as of December 20, 2016. The application of the principles addressed will depend upon the particular facts and circumstances of each individual case. Accordingly, this publication is not a substitute for professional advice and we recommend that any decisions you take about the application or not of any of the information presented be made in consultation with a qualified professional who can address any variance that may be required to reflect your circumstances. Please contact your local MNP representative for customized assistance with the application of this material. MNP LLP accepts no responsibility or liability for any loss related to any person’s use or reliance upon this material. © MNP LLP 2016. All rights reserved.
Right to Payment for Performance Completed to Date .......................................................... 32
Reasonable Measures of Progress .................................................................................. 32
Methods for Measuring Progress .................................................................................. 33
Performance Obligations Satisfied at a Point in Time .................................................. 35
Contract Costs .................................................................................................................. 35
Incremental Costs of Obtaining a Contract .................................................................... 36
Costs to Fulfill a Contract ............................................................................................... 36
Amortization ..................................................................................................................... 37
Impairment ....................................................................................................................... 37
Additional Application Guidance .................................................................................... 39
Sale with a Right of Return ............................................................................................. 39
Recognition ...................................................................................................................... 39
Warranties ....................................................................................................................... 40
Warranty can be Purchased Separately .......................................................................... 40
Warranty cannot be Purchased Separately .................................................................... 40
Principal vs. Agent .......................................................................................................... 42
Nature of the Entity’s Promise ......................................................................................... 42
Entity is a Principal .......................................................................................................... 42
Entity is an Agent ............................................................................................................ 44
Customer Options for Additional Goods or Services .................................................. 45
Contract Renewals .......................................................................................................... 45
Customer’s Unexercised Rights (Breakage) .................................................................. 47
Determinations of Entitlement to Breakage .................................................................... 47
Non-refundable Upfront Fees ......................................................................................... 48
Licensing .......................................................................................................................... 49
License is not a Distinct Performance Obligation ......................................................... 49
License is a Distinct Performance Obligation ................................................................. 49
Repurchase Agreements ................................................................................................. 52
Bill-and-hold Arrangements ........................................................................................... 54
Consignment Arrangements ........................................................................................... 55
Presentation ...................................................................................................................... 56
Disclosure ......................................................................................................................... 57
Transition Requirements ................................................................................................ 59
Full Retrospective Application ....................................................................................... 59
Introduction

IFRS 15 Revenue from Contracts with Customers and ASC 606 Revenue from Contracts with Customers replace all existing revenue recognition guidance under IFRS and United States’ Generally Accepted Accounting Principles (US GAAP), respectively. Many IFRS users have previously referred to US GAAP in the absence of specific IFRS revenue guidance. The new IFRS 15 and ASC 606 move away from the industry, and transaction, specific requirements previously provided in US GAAP to a more robust and comprehensive framework, applicable to all revenue contracts with customers.

IFRS 15 follows a five-step model that determines when revenue should be recognized and at what amount. The model recognizes revenue when (or as) an entity transfers control of the goods or services to a customer. Revenue is either recorded at a point in time or over time, depending on whether certain criteria are met.

Detailed application guidance is also included in the new standard, covering topics such as warranties and licenses. The standard also provides guidance around topics that are not addressed in other accounting standards such as when to capitalize costs of obtaining or fulfilling contracts.

Furthermore, IFRS 15 enhances disclosure requirements by adding new qualitative and quantitative disclosure requirements. The new disclosures aim to enable financial statement users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts.

IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. For public entities applying US GAAP, ASC 606 is effective for annual periods beginning after December 15, 2017, including interim periods therein. Early application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim periods therein.

The impact of this new standard varies depending on what guidance was used in the past and the industry the business is operating in. Entities must obtain a good understanding of IFRS 15 and its new model before they can determine the impact on their financial records.

This guide summarizes key aspects of IFRS 15 and should be applied in conjunction with the complete IFRS 15 standard.
Key Differences Between IFRS 15 and IAS 18/IAS 11

The key differences between IFRS 15 and IAS 18 Revenue/IAS 11 Construction Contracts are summarized below.

- IFRS 15 introduces a new five-step model to determine when to recognize revenue and at what amount.
- The revenue recognition model has changed from being focused on the transfer of the risks and rewards of ownership (IAS 18) to being based on the transfer of control (IFRS 15).
- IFRS 15 is more prescriptive than the existing revenue guidance and introduces more complexities. IFRS 15 provides application guidance on a number of topics, including:
  - Variable consideration;
  - Warranties;
  - Principal versus agent considerations;
  - Customer options for additional goods or services;
  - Customer’s unexercised rights;
  - Non-refundable upfront fees;
  - Licensing;
  - Repurchase agreements;
  - Significant financing components; and
  - Bill-and-hold arrangements.
- IFRS 15 requires revenue be recognized either over time or at a point in time; this may impact the timing of revenue recognition when applying IFRS 15 versus IAS 18/IAS 11. Entities that currently recognize revenue using the percentage of completion or proportional performance methods will need to re-evaluate whether revenue should be recognized over time or at a point in time. Entities that currently recognize revenue at a point in time may be required to recognize revenue over time when they apply the new criteria.
- IFRS 15 contains more detailed guidance regarding the provision of distinct goods or services. Therefore, goods or services that were previously bundled under IAS 18 may now be distinct and accounted for as separate performance obligations under IFRS 15.
- IFRS 15 provides guidance on when the costs of obtaining a contract, and the costs incurred in fulfilling a contract, may be capitalized.
- IFRS 15 has significantly more disclosure requirements compared to IAS 18/IAS 11.
Key Differences Between IFRS 15 and ASC 606

Although IFRS 15 and ASC 606 are largely converged, there are minor differences in financial reporting between US GAAP and IFRS that could result from the following principal areas:

<table>
<thead>
<tr>
<th></th>
<th>IFRS</th>
<th>US GAAP</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Definition of ‘probable’</strong></td>
<td>Defined as ‘more likely than not’</td>
<td>Defined as ‘likely’</td>
</tr>
<tr>
<td><strong>Contracts that don’t meet Step 1 criteria at inception</strong></td>
<td>No similar guidance</td>
<td>Requires the contract be considered terminated (and, therefore, revenue is recognized for consideration received) once the entity has ceased delivering goods/services.</td>
</tr>
<tr>
<td><strong>Collectability requirement</strong></td>
<td>No similar guidance</td>
<td>Requires collectability be assessed for the goods/services transferred to the customer rather than all promised goods/services.</td>
</tr>
<tr>
<td><strong>Immaterial goods or services</strong></td>
<td>No similar guidance</td>
<td>Does not require the identification of immaterial goods/services under the contract as performance obligations.</td>
</tr>
<tr>
<td><strong>Sales taxes</strong></td>
<td>No similar policy election</td>
<td>US GAAP provides an accounting policy election related to the exclusion of sales and other similar taxes from the measurement of the transaction price.</td>
</tr>
<tr>
<td><strong>Shipping and handling</strong></td>
<td>No similar policy election</td>
<td>US GAAP provides an accounting policy election to treat shipping and handling activities that occur after the customer has obtained control of the related goods as a fulfillment activity.</td>
</tr>
<tr>
<td><strong>Non-cash consideration</strong></td>
<td>Requires judgment to determine the measurement date of non-cash consideration.</td>
<td>Requires non-cash consideration be measured at contract inception.</td>
</tr>
<tr>
<td><strong>Licenses</strong></td>
<td>Guidance on determining the nature of a distinct license significantly differs between the two standards.</td>
<td></td>
</tr>
<tr>
<td><strong>Impairment reversal of contract costs for a change in facts and circumstances</strong></td>
<td>Requires reversal up to the carrying amount (net of amortization) that would have been determined if no impairment loss has been recognized.</td>
<td>Impairment reversals are prohibited.</td>
</tr>
</tbody>
</table>

This communication contains a general overview of this topic and is current as of December 20, 2016. The application of the principles addressed will depend upon the particular facts and circumstances of each individual case. Accordingly, this publication is not a substitute for professional advice and we recommend that any decisions you take about the application or not of any of the information presented be made in consultation with a qualified professional who can address any variance that may be required to reflect your circumstances. Please contact your local MNP representative for customized assistance with the application of this material. MNP LLP accepts no responsibility or liability for any loss related to any person’s use or reliance upon this material. © MNP LLP 2016. All rights reserved.
<table>
<thead>
<tr>
<th><strong>Interim disclosure requirements</strong></th>
<th>Requires disclosure on disaggregated revenue.</th>
<th>Requires disclosure on disaggregated revenue, contract balances, and remaining performance obligations.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Disclosure requirements for ‘other entities’</strong></td>
<td>No similar relief</td>
<td>Provides certain disclosure relief for other than public business entities and certain not-for profit entities.</td>
</tr>
<tr>
<td><strong>Effective date</strong></td>
<td>Annual periods beginning on or after January 1, 2018.</td>
<td>Annual periods beginning after December 15, 2017 for public business entities and certain not-for-profit entities; a one-year deferral is available for all other entities.</td>
</tr>
<tr>
<td><strong>Effective date – early adoption</strong></td>
<td>Early adoption is permitted.</td>
<td>Early adoption is permitted but not prior to annual periods beginning after December 15, 2016.</td>
</tr>
<tr>
<td><strong>Transition – definition of ‘completed contracts’</strong></td>
<td>Defined as ‘a contract for which the entity has transferred all of the goods or services identified in accordance with IAS 11, IAS 18 and related Interpretations’.</td>
<td>Defined as ‘a contract for which all or substantially all of the revenue was recognized under current GAAP’.</td>
</tr>
<tr>
<td><strong>Transition – practical expedients</strong></td>
<td>Date of application for the practical expedient for contract modifications is either the beginning of the earliest period presented or the date of initial application.</td>
<td>Date of application for the practical expedient for contract modifications is the date of initial application.</td>
</tr>
</tbody>
</table>
Purpose and Scope

IFRS 15 establishes the principles that an entity should apply to report useful information to the users of the financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

IFRS 15 applies to contracts to deliver goods or services to a customer, except when the contracts are for:
- Financial instruments and other contractual rights or obligations within the scope of IFRS 9 Financial Instruments (e.g. derivative contracts), IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures
- Non-monetary exchanges between entities in the same line of business that promote sales to customers other than the parties to the exchange
- Leases (IAS 17/IFRS 16\(^1\) Leases)
- Insurance (IFRS 4 Insurance Contracts)

A contract may be partially within the scope of IFRS 15 and partially in the scope of other accounting guidance. If there is specific guidance in the other accounting standard that is relevant, it is applied first and then IFRS 15 is applied for the remainder. For example, if a contract contains lease and service elements, the lease portion would be covered under IAS 17/IFRS 16 and the service element would be covered under IFRS 15.

Note! Oilfield service companies commonly enter into contracts for the hire of drilling and oilfield equipment. These arrangements may contain a lease and therefore the lease portion would fall within the scope of IAS 17/IFRS 16.

Note! It is common in the mining industry for two companies to collaborate in the development and operation of a mine. When these collaborations take the form of a joint venture or joint operation, they will fall in the scope of IFRS 11.

Once it is determined that a contract is within the scope of IFRS 15, the five steps outlined in the next section of this guide would be followed to account for the contract.

\(^1\) IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted if IFRS 15 has also been applied.
Overview of the Five-Step Model

Step 1
Identify the contract(s) with the customer
A contract is an agreement between two or more parties that creates enforceable rights and obligations.

Step 2
Identify the performance obligations in the contract
Performance obligations are promises in a contract to transfer to a customer goods or services that are distinct.

Step 3
Determine the transaction price
The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer.

Step 4
Allocate the transaction price
Typically, the transaction price is allocated to each performance obligation on the basis of the relative stand-alone selling price of each distinct good or service.

Step 5
Recognize revenue when (or as) a performance obligation is satisfied
Revenue would be recognized when (or as) it satisfies a performance obligation by transferring a promised good or service to a customer.
Step 1: Identify the Contract(s) with the Customer

**Contract** - an agreement between two or more parties that creates enforceable (matter of law) rights and obligations.

A contract within the scope of IFRS 15 must meet the following criteria:

- All parties to the contract have approved\(^2\) the contract and are committed to perform their respective obligations;
- Each party’s rights in relation to the goods or services to be transferred can be identified;
- The payment terms can be identified;
- The contract has commercial substance (i.e., the entity expects the risk, timing or amount of the entity’s future cash flows to change as a result of the contract); and
- It is probable (i.e., more likely than not) that the entity will collect the consideration it is entitled to in exchange for the goods or services.

**Note!** An important step in determining whether a contract is valid is making an assessment regarding collectability. In making this assessment, an entity only considers the customer’s ability and intent to pay the amount of consideration to which the entity expects to be entitled.

The amount the entity expects to be entitled to may be less than the price stated in the contract if the consideration is variable due to a price concession offered to the customer.

**Note!** Under IFRSs, the term probable is considered as “more likely than not to occur”.

If the contract does not meet the criteria at inception, the entity is required to reassess the contract at each reporting period to determine if it meets the criteria subsequently.

If the contract does not meet the criteria and consideration is received from the customer, the entity should only recognize the consideration received as revenue when either of the following occurs:

- The entity has no remaining performance obligations and all, or substantially all, of the promised consideration has been received and is non-refundable; or
- The contract is terminated and consideration received is non-refundable.

Until one of the events described above occurs, or until the criteria are met, the consideration received must be recognized as a liability.

**Combination of Contracts**

Contracts entered into at, or near, the same time with the same customer should be combined and accounted for as a single contract if one or more of the following criteria are met:

- The contracts have a single commercial objective and are negotiated as a package;
- The consideration to be paid in one contract depends on the price or performance of the other contract; or
- The goods or services promised in the contracts constitute a single performance obligation.

---

\(^2\) The contract may be approved in writing, orally, or in accordance with other customary business practices.
**Contract Modifications**

Contract modifications (also referred to as a change order, a variation, or an amendment) arise from a change in the scope or price, or both, of a contract. Modifications are subject to approval by the parties to the contract, and usually do not take effect until such approval is obtained. This may be in writing, oral, or implied by normal business practices.

**Note!** Generally, credit unions will not be impacted by the contract modifications guidance in IFRS 15 as the contracts entered into by credit unions relate to financial instruments (e.g. loan agreements) and are outside the scope of IFRS 15.

The following diagram outlines situations in which a modification may exist even though approval may not have been obtained:

- **Parties are in disagreement regarding the scope or price, or both, of a contract modification**
  - All relevant facts and circumstances should be considered to determine if the modifications are enforceable.

- **Parties have approved the scope of the changes, but have not yet agreed upon the price**
  - The change to the transaction price may be estimated in accordance with the guidance on variable consideration under Step 3 of the revenue model.

Contract modifications can be accounted for as either:

1) An entirely separate contract;
2) The termination of the original contract and creation of a new contract;
3) Modification of the existing contract; or
4) A combination of 2) and 3) above.
Separate Contract
A modification is accounted for as a separate contract when both of the following conditions exist:
- The scope of the contract increases because of the addition of goods or services that are distinct; and
- The price of the contract increases by the entity’s stand-alone prices of the additional goods or services, including any appropriate adjustments to the price to reflect the relevant circumstances of the modification.

The new separate contract is accounted for using the five-step revenue model prospectively. The original contract continues to be accounted for under the five-step revenue model.

Note! The stand-alone selling price is the price that a good or service would be sold at separately. The best evidence of the stand-alone price is the price observable when an entity sells the good or service separately in similar circumstances and to similar customers. A contractually stated or list price may be, but is not presumed to be the stand-alone selling price.

Termination and Replacement of an Existing Contract
The modification is treated as a termination and replacement of the existing contract if the remaining goods or services to be delivered under the existing contract are distinct from those delivered prior to the contract modification date.

In this case, the modified consideration is the sum of:
- The remaining consideration promised by the customer under the existing contract; and
- The additional consideration promised by the customer for the modification.

Similarly, the modified consideration is allocated proportionately to the sum of:
- The remaining goods or services promised to the customer under the existing contract; and
- The additional goods or services promised to the customer per the modification.

The accounting for the new contract is done prospectively.

Modification of an Existing Performance Obligation
A modification of the existing performance obligation under the existing contract arises when the remaining goods or services to be delivered under the existing contract are not distinct from the goods or services delivered prior to the contract modification date. In effect, the original performance obligation is only partially satisfied at the date of the modification.

This modification may result in an adjustment to the entity’s measure of contract completeness. As such, the modified consideration is recognized as an adjustment to revenue at the date of the contract modification.

The accounting for the modification is done retrospectively, with the adjustment to revenue being made on a cumulative catch-up basis.

Combined Approach
Contract modifications may contain a mix of distinct and non-distinct remaining goods or services. In such cases, the modification must be treated using a combination of the Termination and Replacement of an Existing Contract and the Modification of an Existing Performance Obligation approaches.
The following flowchart summarizes the process for determining the appropriate accounting approach for contract modifications:

1. **Is the contract modification approved?**
   - **NO**
     - **Contract modification does not exist**
   - **YES**
     - **YES’**
       - **Termination and replacement of an existing contract**
     - **NO**
       - **Are the goods or services to be delivered under the existing contract distinct from the goods or services delivered prior to the contract modification date?**
         - **YES**
           - **Termination and replacement of an existing contract**
         - **NO**
           - **Modification of an existing performance obligation**

2. **Does the scope of the contract increase because of the addition of goods or services that are distinct?**
   - **YES**
     - **Separate contract**
   - **NO**

3. **Does the price of the contract increase by the entity’s stand-alone prices of the additional goods or services?**
   - **YES**
     - **Termination and replacement of an existing contract**
   - **NO**

---

* A modification may still exist, even if the parties are in disagreement regarding the scope or price (or both) of a contract modification, or if the parties have approved the scope of the changes, but have not yet reached an agreement regarding the price.

** Contract modifications may contain a mix of distinct and non-distinct remaining goods or services. In such cases, the modification may be treated using a combination of the ‘termination and replacement of an existing contract’ and the ‘modification of an existing performance obligation’ approaches.
### Examples of Contract Modifications

#### Example 1. Separate Contract

GoGo Transit Systems Corp. ("GoGo"), a public entity, manufactures light rail transit trams. It has executed a sale agreement with PrairieTrans Inc. ("PTI") to manufacture and deliver 12 light rail transit trams over the next 12 months, for a total consideration of $24 million ($2 million per tram). After the 6th tram was delivered to PTI’s yard, the agreement was modified to deliver an additional 6 trams to PTI for $11.1 million ($1.85 million per tram – the stand-alone price is lower because GoGo does not incur some of the selling expenses it incurred upon signing of the original contract with PTI). The additional 6 trams were not included in the original agreement. GoGo transfers control of each tram upon delivery (i.e., at a point in time). The delivery of each tram is a separate performance obligation.

**Assessment:** In this situation, the modification is treated as a separate contract because both of the following conditions are met:

1. **The scope of the contract increases because of the addition of goods or services that are distinct.**
   GoGo’s promise to transfer the additional individual trams increases the scope of the contract because of the addition of promised goods or services that are distinct. Each tram is a separate performance obligation because they are distinct* – i.e., the trams are capable of being distinct, are distinct in the context of the contract as GoGo’s promise to transfer each tram is separately identifiable from other promises in the contract, and the customer can benefit from, or use, each individual tram as it is delivered.

2. **The price of the contract increases by the entity’s stand-alone prices of the additional goods or services.**
   The pricing for the additional trams reflects the stand-alone selling price of the trams at the time of the contract modification. The adjustment for the discount is appropriate as it reflects the circumstances of this particular contract.

Since the two contracts are separate, each is individually accounted for using the five-step revenue model in accordance with IFRS 15.20. Note that this accounting treatment is applied prospectively (i.e., no adjustments are required for the revenue recognized for the first 6 trams delivered).

* Detailed guidance regarding the determination of whether a good or service is distinct is discussed in the next section of the guide.

#### Example 2. Modification of Original Contract

Active Power Systems Group Ltd. ("APSG") develops customized power generation stations for remote off-grid locations. Milestones for these development projects comprise of customized plan development, fabrication, deployment, and installation of the stations, which usually takes about 18 months to complete. During this time, the customer specifications for the contract may be modified.

APSG has entered into a contract with Mobius North Power Ltd. ("MNP") to build a new power generation station, with an expected project completion timeframe of 20 months. The contract is for a fixed fee of $35 million with a total cost for APSG of $30 million, and APSG has determined this deliverable to be a single performance obligation.

After 13 months, APSG and MNP decided to amend the contract to include two additional inverters, as MNP expects power demand to be higher than originally expected. At this time, APSG had already recognized 60% of its
Examples of Contract Modifications (Continued from previous page)

performance obligation. APSG has decided it will charge MNP $5 million for the two additional inverters, while APSG’s cost will be $2 million to design and install these.

These changes are not considered separate performance obligations as they are not distinct* in the context of the contract to deliver a complete and operational power generation station. Therefore, the modification is accounted for as part of the original contract.

* Detailed guidance regarding the determination of whether a good or service is distinct is discussed in the next section of the guide.

Assessment: Since the modification is accounted for as part of the original contract, the cumulative catch-up adjustment required with respect to the modification of the contract is determined as follows:

<table>
<thead>
<tr>
<th></th>
<th>Original</th>
<th>Modified</th>
<th>Adjustment Required</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract value</td>
<td>$35 million</td>
<td>$40 million</td>
<td></td>
</tr>
<tr>
<td>Costs incurred to date</td>
<td>$18 million</td>
<td>$18 million</td>
<td></td>
</tr>
<tr>
<td>Total expected cost</td>
<td>$30 million</td>
<td>$32 million</td>
<td></td>
</tr>
<tr>
<td>% estimate completed</td>
<td>60%</td>
<td>56%</td>
<td></td>
</tr>
<tr>
<td>Revenue recognized</td>
<td>$21 million</td>
<td>$22.5 million</td>
<td>$1.5 million</td>
</tr>
</tbody>
</table>

The costs incurred to date now represent approximately 56% of the total expected cost of the project after the contract modification [$18M / $32M = 56%]. Therefore, APSG must now recognize 56% of the modified total contract value, resulting in an adjustment of $1.5M to revenue.
Step 2: Identify the Performance Obligations in the Contract

**Performance obligations** – promises in a contract with a customer to transfer either a distinct good or service or a series of distinct goods or services.

A contract generally states the goods or services that an entity promises to transfer to its customer. However, a performance obligation identified in a contract may not be limited to the goods or services that are stated explicitly in the contract. Promises arising from implications by the entity’s customary business practices, published policies or specific statements that, at the time of entering into the contract, create a valid expectation by the customer that the entity will transfer a good or service, would be considered performance obligations.

In identifying performance obligations at contract inception, an entity must determine whether:

- The good or service (or a bundle of goods or services) is distinct; or
- The goods or services form part of a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

A good or service is distinct when:

- The customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer; and
- The entity’s promise to transfer the goods or services to the customer is separately identifiable from the other promises in the contract.

The first criterion requires that the good or service is capable of being distinct. The second criterion requires that the promise to transfer the good or service is distinct in the context of the contract.

A good and service that is not distinct from other goods and services (i.e., it does not meet the two required criteria) in the contract must be combined with other promised goods or services until a bundle of goods or services is distinct. This could result in an entity accounting for all the goods or services promised in a contract as a single performance obligation.

**When can a Customer Benefit from a Good or Service?**

If the good or service can be used, consumed, sold for an amount exceeding scrap value or held in a manner that generates economic benefits.

The benefit from a good or service may arise from the good or service on its own or only in conjunction with other readily available resources. A readily available resource is a good or service that is either:

- Sold separately by an entity or another entity.
- A resource that the customer has already obtained from the entity or from other transactions or events.

**When is an Entity’s Promise to Transfer the Goods or Services to the Customer Separately Identifiable?**

If the nature of the entity’s promise, within the context of the contract, is to transfer the goods or services individually, then the goods or services are separately identifiable. Conversely, if the nature of the entity’s promise, within the context of the contract, is to transfer a combined item(s) for which the promised goods or services are inputs, then the goods or services are not separately identifiable.
Factors that may suggest two or more promises to transfer goods or services are not separately identifiable include, but are not limited to:

- The entity is using the goods or services as inputs in the delivery of a combined output to the customer (i.e., the entity provides a significant integration service).
- One or more of the goods or services significantly modify/customize, or is modified/customized by, other goods or services promised in the contract.
- The goods or services are highly interdependent or highly interrelated.

**Example of Identifying Performance Obligations in the Contract**

ABC Construction Ltd. (“ABC”) enters into a contract to build a hospital for a customer. ABC 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. ABC frequently sells each of these types of services separately to other customers.

**Assessment:** The promised goods and services are capable of being distinct. 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 ABC regularly sells many of these goods and services separately to other customers.

However, the promise to transfer the goods and services is not distinct within the context of the contract, as ABC’s promise to transfer the goods and services is not separately identifiable from other promises in the contract. This is evidenced by the fact that ABC provides a significant service of integrating the goods and services (the inputs) into the construction of the hospital (the combined output) for which the customer has contracted. Therefore, ABC accounts for all of the goods and services in the contract as a single performance obligation.
Step 3: Determine the Transaction Price

**Transaction price** - the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

The terms of a contract and customary business practices should be considered when determining the transaction price, which may include fixed amounts, variable amounts, or both.

The estimated transaction price is affected by the nature, timing and amount of promised consideration. Therefore, when determining the transaction price, the entity considers the effects of:

- Variable consideration, including constraining estimates of variable consideration;
- The existence of a significant financing component;
- Non-cash consideration; and
- Consideration payable to the customer.

When determining the transaction price, it must be assumed that the existing contract will not be cancelled, renewed or modified.

**Variable Consideration**

If the consideration promised in a contract includes a variable amount, the amount of the consideration the entity will be entitled to should be estimated. Such variable consideration could be caused by:
Variability in consideration may be explicitly stated in a contract or may be implied. If either of the following situations exist, in addition to the terms of the contract, the consideration promised is variable:

- Customary business practices, published policies or specific statements have created a valid expectation that the entity will offer a price concession.
- Other facts and circumstances indicate that it is the entity’s intent to offer a price concession when entering into the contract with the customer.

**Variable Consideration Estimation Methods**

To estimate the variable consideration, the method expected to better predict the amount of consideration to which the entity will be entitled should be applied from the following two choices:

<table>
<thead>
<tr>
<th>Expected Value</th>
<th>Most Likely Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>The sum of probability-weighted amounts in a range of possible consideration amounts (e.g. when an entity has a large number of contracts with similar characteristics).</td>
<td>The single most likely amount in a range of possible consideration amounts. This method may be appropriate if the contract has only two possible outcomes (e.g. an entity either achieves a performance bonus or does not).</td>
</tr>
</tbody>
</table>

When estimating the effect of an uncertainty on an amount of variable consideration an entity should apply one method consistently throughout the contract.

**Examples of Variable Consideration Estimation Methods**

**Example 1. Expected Value**

Speedy Rig Repairs Ltd. (“Speedy”) enters into an arrangement that provides the entity with a performance bonus depending on the amount of downtime for a rig it is servicing. The arrangement is similar to past and current contracts with customers. Based on past performance, Speedy has estimated the probabilities for each level of bonus as follows:

<table>
<thead>
<tr>
<th>Bonus amount</th>
<th>Probability</th>
</tr>
</thead>
<tbody>
<tr>
<td>$30,000</td>
<td>15%</td>
</tr>
<tr>
<td>$25,000</td>
<td>35%</td>
</tr>
<tr>
<td>$20,000</td>
<td>30%</td>
</tr>
<tr>
<td>$15,000</td>
<td>20%</td>
</tr>
</tbody>
</table>

**Assessment:** As Speedy believes there is not one amount that is more likely than not to be received, it determines that the expected value approach is more appropriate. Using this approach, $22,250 (($30,000 x 15%) + ($25,000 x 35%) + ($20,000 x 30%) + ($15,000 x 20%)) of the bonus would be included in the transaction price.
Examples of Variable Consideration Estimation Methods (Continued from previous page)

Example 2. Most Likely Amount

Speedy Rig Repairs Ltd. (“Speedy”) enters into an arrangement that provides the entity with a performance bonus of $25,000 if the amount of downtime for a rig it is servicing is below 2 hours. Speedy determined that it has a 75% likelihood to receive the entire bonus.

Assessment: There are two outcomes in this case – i.e., Speedy will either earn the bonus or won’t. Therefore, the most likely amount approach would better predict the bonus to be included in the transaction price. Since there is a 75% likelihood that Speedy will receive the bonus, the full $25,000 would be included.

Constraining Estimates of Variable Consideration

Estimated variable consideration should only be included in the transaction price to the extent that it is highly probable that its inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration has been subsequently resolved. In making the assessment regarding the probability as to whether a significant reversal will occur or not, an entity must consider both the likelihood and magnitude of the revenue reversal.

Certain factors that may increase this likelihood or magnitude include:

a) The consideration amount is highly influenced by factors beyond the entity’s control (e.g. volatility in a market, judgment or actions by third parties, etc.).
b) The uncertainty pertaining to the consideration amount is not expected to be resolved for a long period of time.
c) Entity has limited experience with similar types of contracts or its past experience is not predictive.
d) Entity has a practice of changing the payment terms and conditions of similar contracts or of offering a broad range of price concessions in similar circumstances.
e) There is a large number and broad range of possible consideration amounts in the contract.

Refund Liabilities

When an entity receives consideration from a customer and expects to refund some, or all, of that consideration, a refund liability is recognized. Refund liabilities are measured at the amount of consideration received or receivable for which the entity does not expect to be entitled (i.e., amounts excluded from the transaction price). For further guidance on sales with a right of return, refer to that section under the Additional Application Guidance section of this guide.

Reassessment of Variable Consideration

To faithfully recognize circumstances present at the end of a reporting period, and any changes in circumstances during the reporting period, an entity is required to update the estimated transaction price (including any refund liabilities) at the end of each reporting period.
Significant Financing Component

A contract with a customer contains a significant financing component if the timing of the payments provides a significant benefit of financing to either the customer or the entity. A financing component may be explicitly stated in the contract or implied via the payment terms agreed to by all parties to the contract. The following diagram provides an example of when a financing benefit may be attained by either the customer or entity:

**Benefit to the Customer**
- The customer may defer or delay payment for goods or services received at an earlier point in time. This provides the customer with the ability to pay consideration over a period of time, or a point in time in the future.

**Benefit to the Entity**
- The customer may pay a lower price when the contract is signed and wait a period of time for delivery/performance of goods/services. This provides the entity with up-front consideration.

All facts and circumstances relating to a contract must be considered to determine whether a significant financing component exists, including:
- Any difference between the promised consideration and the cash selling price of the promised goods or services.
- The combined effects of both of the following:
  - The timing difference between when the entity transfers the promised goods or services to the customer and when the customer pays; and
  - The prevailing interest rates in the applicable market.

Any of the following circumstances indicate that a significant financing component does not exist and, therefore, should not be recognized as part of a contract:

- If the customer pays for the goods or services in advance and decides, at its sole discretion, when the transfer of those goods or services occurs.
- A large portion of the consideration promised by the customer is variable, and its amount or timing varies based on the occurrence or non-occurrence of a future event outside the control of either the customer or entity.
- The difference between the promised consideration and the cash selling price is due to reasons other than a financing benefit, such as compensation to one party for protection against a potential breach of contract by the other party.
### Examples of a Significant Financing Component

**Example 1.** Significant Financing Component does not Exist

Big Builders Construction Co. ("BBC") enters into a contract for the construction of a building which is expected to take place over three years. Over the construction period, the customer is required to make milestone payments that match BBC’s expected progress toward completion. The terms of the contract specify that a holdback equal to 5% of each milestone payment is to be withheld by the customer in the event there are deficiencies in the building’s construction. The holdback will be paid to BBC once the building is complete if no deficiencies are found.

**Assessment:** In accordance with IFRS 15.62(c), BBC concludes a significant financing component does not exist. The mismatch between contract performance and payment arises for reasons other than the provision of financing to either the customer or BBC (i.e., the holdback of 5% is intended to protect the customer from the event that BBC fails to adequately complete the construction of the building).

**Example 2.** Significant Financing Component does not Exist

Simple Health Ltd. ("Simple") provides gym memberships for customers, allowing them access to multiple recreational and fitness options within its facilities. The annual membership fee is $1,099, which allows the member with 24/7 access to the gym, and is paid by the customer in advance.

**Assessment:** In accordance with IFRS 15.62(a), the customer pays for the gym service in advance while also retaining the ability to determine when they would like to utilize the services. As such, a significant financial component does not exist.

**Example 3.** Significant Financing Component Exists

Rockstar HVAC Systems Ltd. ("Rockstar") provides HVAC systems to residential and commercial customers in Ontario. In order to attract customers, Rockstar has launched a marketing campaign under which new customers can have an HVAC system installed, and do not have to pay until 2019, with a zero percent interest on the price of the HVAC system until 2019.

**Assessment:** Rockstar must assess both criteria under IFRS 15.61. In accordance with IFRS 15.61(a), there is no difference between the promised consideration and the cash selling price of the HVAC system since no interest is charged to the customer. However, per IFRS 15.61(b), the customer is receiving a significant financing benefit because they are able to pay for the HVAC system over time with zero interest – i.e., it is unlikely that the customer would receive an interest-free loan had they approached an arm’s length market lender. Therefore, the arrangement contains a significant financing component.

When a significant financing component exists, the transaction price should be adjusted to reflect the effects of time value of money in accordance with Step 3 of the revenue model. This adjustment results in the entity recognizing revenue at the price that the customer would have paid if they had paid cash for the goods or services when (or as) they transfer to the customer (i.e., the “cash selling price”).
The discount rate used should mimic the rate that would exist in a distinct financing transaction between the entity and the customer at contract inception. It should encompass the credit characteristics of the party receiving financing in the contract as well as any collateral or security provided by the customer or the entity and any assets transferred in the contract.

The rate that discounts the nominal amount of the promised consideration to the price that the customer would pay in cash as the goods or services are transferred to the customer may be used in determining the discount rate.

**Example of the Determination of a Discount Rate (Adapted from IFRS 15:IE146 – IE147)**

TriStar Furniture Ltd. (“TriStar”) provides a financing option for its customers when they enter into a contract to purchase new furniture. Control of the furniture transfers to the customer when the sale agreement is signed. The price stated in the contract is $699, plus a 6% contractual rate of interest, payable in 18 monthly blended payments of $41. A separate financing transaction between TriStar and the customer at contract inception would use a 12% interest rate.

What discount rate should TriStar use to record this financing component?

**Assessment:** TriStar’s 6% contractual rate of interest is **significantly** lower than the 12% interest rate that would be used in a separate financing transaction between TriStar and its customer at contract inception. This 6% contractual rate of interest does not reflect the credit characteristics of the customer. Therefore, in accordance with IFRS 15.64, TriStar must adjust the consideration price and record the financing component using the 12% interest rate.

After the contract has been executed by all parties subject to the financing component, the discount rate is locked and must not be changed.

**Note!** After contract inception, the discount rate is not adjusted to reflect subsequent changes in economic factors (e.g. market interest rates) or the customer’s credit characteristics.

The effects of financing (i.e., interest revenue or interest expense) should be disclosed separately from the revenue derived from the contract with the customer. Further, interest revenue or interest expense is recognized only to the extent that a contract asset (or receivable) or a contract liability is recognized with respect to the contract with the customer.
IFRS 15 Revenue from Contracts with Customers Guide

Contract Assets and Liabilities
A contract asset is an entity’s right to consideration in exchange for goods or services the entity has already transferred to a customer, which is conditional on an event other than the passage of time (such as the performance of another obligation).

For example, if an entity has completed all its performance obligations and is awaiting unconditional receipt of payment from the customer (i.e., passage of time), it is considered a receivable, and not a contract asset. Conversely, if the entity has yet to perform remaining obligations (i.e., passage of time is not the only conditional event), the expected payment is a contract asset.

A contract liability represents the value of the contract obligations yet to be performed subsequent to receipt of payment from the customer. For example, a pre-payment made by a customer prior to the entity's performance of an obligation per the contract would be a contract liability for the entity, until the obligation is performed.

If the expected length of time between when the entity transfers the promised goods or services to the customer and when the customer pays for those goods or services is one year or less, the entity may choose to leave the promised consideration amount unadjusted.

Note! If the above practical expedient is used, it must be applied consistently to all contracts with similar characteristics within all reporting periods presented. Further, the entity must disclose the use of the expedient.

Non-cash Consideration
When determining the transaction price of a contract that includes consideration in a form other than cash (i.e., non-cash consideration), any non-cash consideration is measured at fair value. If its fair value is not reasonably measurable, the entity is required to measure the consideration by reference to the stand-alone selling price of the goods or services promised to the customer in exchange for the consideration.

The fair value of non-cash consideration promised by a customer may vary because of the form of the consideration. For example, changes in the price of shares promised as consideration in a contract may vary based on the share price. When the fair value of the non-cash consideration varies for reasons other than the form of the consideration, the entity must apply the guidance under the Constraining Estimates of Variable Consideration section of this guide.

When a customer transfers goods or services (e.g., materials, equipment or labour) in order to fulfill the contract, the entity must assess whether it obtains control of those goods or services. Where the entity obtains control, it must account for the contributed goods or services as non-cash consideration.
Step 4: Allocate the Transaction Price to Each Performance Obligation

The transaction price must be allocated to each performance obligation in a way that represents the amount of consideration to which the entity expects to be entitled, in exchange for transferring the promised goods or services. This objective is achieved by allocating the transaction price to each performance obligation on a relative stand-alone selling price basis with the exception of discounts and variable consideration.

The standard provides additional guidance for the allocation of discounts and the allocation of consideration that includes variable amounts, which is discussed later within this section of the guide.

Allocation Based on Stand-Alone Selling Prices

The entity determines the stand-alone selling price at contract inception for each distinct good or service underlying each performance obligation and allocates the transaction price to each performance obligation in proportion to those stand-alone selling prices.

If a stand-alone selling price is not directly observable, suitable methods for estimating it include, but are not limited to:

- Adjusted market assessment approach – the market in which the goods or services are sold could be evaluated to estimate the price that a customer in that market would be willing to pay.

**Note!** The use of the adjusted market assessment approach may include consideration of the entity’s competitors’ prices for similar goods or services with adjustments to those prices to reflect the entity’s costs and margins.

- Expected cost plus a margin approach – A forecast of the expected cost of satisfying the performance obligation plus an appropriate margin for that good or service.
- Residual approach – Deduct the observable stand-alone selling price of other goods or services in the contract from the total transaction price and apply the residual value to the remaining goods or services.

**Note!** An entity may only apply the residual approach to estimate the stand-alone selling price of a good or service if one of the following criteria is met:

- The selling price of the performance obligation is highly variable because the entity sells the same good or service for a broad range of amounts; or
- A price for the good or service has not been established by the entity and the good or service has not previously been sold on a stand-alone basis.

In making an estimate, the entity must maximize the use of observable inputs and apply estimation methods consistently in similar circumstances. A combination of methods may be required to estimate stand-alone selling prices if two or more of the promised goods or services in a contract have highly variable or uncertain stand-alone selling prices.
Examples of Allocation Methods

Example 1. Expected Cost Plus a Margin and Adjusted Market Assessment Approaches

Equipment Expert Inc. entered into a contract to sell a piece of equipment to YC Inc. for $250,000. The installation of the equipment is part of the contract. Equipment Expert Inc. sells the equipment on a stand-alone basis without the installation for $200,000. The installation service is rarely sold on its own; however, other entities will install similar equipment for $40,000 to $50,000. The entity estimates that it would cost them approximately $36,000 to install the equipment with a 25% margin.

Assessment: Since the equipment is sold on a regular basis on its own, there is evidence of its stand-alone price ($200,000). Equipment Expert Inc. estimates the installation fee at $45,000 ($36,000 x 1.25) using the expected cost plus a margin approach. This is within the range of what other entities charge for such a service in accordance with the adjusted market assessment approach. Therefore, $45,000 would be a reasonable estimate for the installation service’s stand-alone price.

Revenue would be allocated to each separate performance obligation using the relative stand-alone selling price method as follows:

- **Equipment:** $204,082 (($200,000/$245,000) * $250,000)
- **Installation:** $45,918 (($45,000/$245,000) * $250,000)

Equipment Expert Inc. would need to determine when the performance obligations are satisfied in order to determine the timing of revenue recognition.

Example 2. Residual Approach

Software Inc. sells the use of its accounting software and consulting services on how to use the software and basic accounting assistance. The software and the consulting services are sold as a package most of the time, but prices vary widely from contract to contract depending on the agreement that was reached with the customer. The use of the software is sold as a stand-alone unit on a regular basis for $500/month. The consulting services offered are consistent from contract to contract but are never sold on its own and Software Inc. determines that the variability of the bundle pricing is solely attributable to the consulting services offered in the package.

Software Inc. enters in an agreement to provide the use of its software to a customer for 5 years along with consulting services for $50,000.

Assessment: In this situation we know that the stand-alone selling price of the software can be determined as the software is sold on its own on a regular basis. However, there is significant variability in the pricing for the consulting services. Therefore, the residual value approach would be most appropriate for assigning a stand-alone selling price to the consulting services obligation in this agreement.

If the software was sold on its own, Software Inc. would have received $30,000 (12 months x $500/month x 5 years) over the next five years. Therefore, using the residual value approach, the selling price of the consulting services would be $20,000 ($50,000 - $30,000).
The following flowchart summarizes the process for determining the stand-alone selling prices:

### Allocation of a Discount

A discount is received by a customer if the sum of the stand-alone selling prices of the goods or services in the contract exceeds the promised consideration. Except as noted below, an entity must allocate the discount proportionally to all performance obligations in the contract.

The entity should allocate the entire discount to only one or more, but not all, performance obligations if all of the following criteria are met:

- The entity regularly sells each distinct good or service (or each bundle of distinct goods and services) in the contract on a stand-alone basis;
- The entity also regularly sells on a stand-alone basis a bundle(s) of some of those distinct goods or services at a discount to the stand-alone selling prices of the goods or services in each bundle; and
- The discount attributable to each bundle of goods or services (referred to directly above) is substantially the same as the discount in the contract and an analysis of the goods or services in each bundle provides observable evidence of the performance obligation to which the entire discount in the contract belongs.
The allocation of a discount to one or more, but not all, performance obligations should be completed prior to applying the residual approach to estimate the stand-alone selling price of a good or service.

**Example of the Allocation of a Discount**

Company Y enters into a contract to construct an office building and an adjacent parkade. The contract price of the project is $200 million. Normally Company Y offers construction services for a building and parkade as individual services; the company has no history of offering these construction services as a bundle. On average, an office building and parkade of this magnitude have a contract price of $120 million and $100 million, respectively. As the services were offered as a bundle, Company Y provided a discount of $20 million.

How would the contract price be allocated to the services?

**Assessment:** A stand-alone selling price has to be determined for the parkade and office building to determine the allocation of the contract price. As stated above, the stand-alone selling prices are as follows:

- Office building: $120 million
- Parkade: $100 million

The contract price would be allocated using the relative allocation model as follows:

- Office building: $109 million ($200 million * ($120 million/$220 million))
- Parkade: $ 91 million ($200 million * ($100 million/$220 million))

**Allocation of Variable Consideration**

Variable consideration can be attributable to the entire contract or to a specific part of the contract. It could relate to one or more, but not all, performance obligations in the contract or one or more, but not all, distinct goods or services promised in a series of distinct goods or services that forms part of a single performance obligation.

A variable amount of consideration (and any subsequent changes to this amount) should be allocated entirely to a performance obligation or a distinct good or service that forms part of a single performance obligation when both of the following criteria are met:

- The terms of the variable payment relate specifically to the effort to satisfy the performance obligation or transfer the distinct good or service; and
- Allocating the variable amount of consideration entirely to the performance obligation or the distinct good or service is consistent with the transaction price allocation objective when considering all of the performance obligations and payment terms in the contract.

Any remaining transaction price is allocated by applying the allocation requirements for stand-alone selling prices and discounts, as discussed above.
Changes in the Transaction Price
As previously discussed, the allocation of the transaction price to each performance obligation is based on the stand-alone selling prices at contract inception for each distinct good or service underlying each performance obligation. The transaction price can change after contract inception for a variety of reasons. Any change in the transaction price should be allocated to the performance obligations in the contract based on the stand-alone selling prices that existed at contract inception. In other words, any changes in the total transaction price must be allocated to the individual performance obligations on the same basis as the initial allocation. Amounts that have been allocated to a satisfied performance obligation must be recognized as revenue, or a reduction thereof, in the period that the transaction price changes.

Alternatively, the change in transaction price should be applied to one or more, but not all, performance obligations or distinct goods or services that form part of a single performance obligation if the criteria on the allocation of variable consideration are met (refer to the above section of this guide).

Changes in the transaction price that arise from contract modifications are accounted for by applying the guidance in IFRS 15 pertaining to contract modifications, as discussed under the Step 1: Identify the Contract(s) with the Customer section of this guide.

If a change in transaction price occurs after a contract modification, the entity shall allocate the change in transaction price to the performance obligations under the modified contract if the modification was not accounted for as a separate contract. However, when the change is attributable to an amount of variable consideration promised before the modification, and the modification was accounted for as a termination and replacement of an existing contract, the change in transaction price is allocated to the performance obligations identified in the contract before the modification.
Step 5: Recognize Revenue when a Performance Obligation is Satisfied

Revenue should be recognized when (or as) the entity satisfies a performance obligation by transferring a promised good or service (i.e., an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset.

Control - the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset or prevent other entities from doing so. The benefits of an asset are the potential cash flows that can be obtained either directly or indirectly from the asset, such as by:

- Employing the asset to:
  - Create goods or provide services.
  - Increase the value of other assets.
  - Discharge liabilities or cut costs.
- Selling or exchanging the asset.
- Pledging the asset as collateral against liabilities.
- Holding the asset.

An entity must determine, at contract inception, whether a performance obligation is satisfied over time or at a point in time. Performance obligations that are not satisfied over time are satisfied at a point in time.

Note! Typically, a transfer of goods would be satisfied at a point in time while a transfer of services would be satisfied over time.

Performance Obligations Satisfied over Time

One or more of the following criteria must be met for performance obligations to be satisfied over time:

- The customer simultaneously receives and consumes the benefit provided by the entity’s performance as the entity performs;
- The entity’s performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- The entity’s performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

Simultaneous Receipt and Consumption of the Benefits Provided by the Entity’s Performance

For certain performance obligations, it is straightforward to assess whether the customer simultaneously receives and consumes the benefits as the entity performs (e.g. routine or recurring services).

For other performance obligations it may not be as simple to identify. In those cases, a customer is considered to simultaneously receive and consume benefits of a performance obligation if another entity would not need to substantially re-perform the work already completed in order to satisfy the outstanding portion of the performance obligation.

Customer Controls the Asset as it is Created or Enhanced

In assessing whether a customer controls an asset as it is created or enhanced, the entity must assess whether the definition of control, as described above, has been met. The asset created or enhanced can be either a tangible or intangible asset.
**Entity’s Performance does not Create an Asset with an Alternative Use**

The effects of any contractual restrictions or practical limitations shall be considered in determining whether they prevent the entity from having an alternative use of the asset (e.g., restriction on selling asset to another customer). This can result from the following:

- A customer’s contractual enforceable right to prevent the entity from directing the asset for an alternative use (i.e., asset cannot be interchangeable with other assets).
- Significant economic losses would be incurred to direct the asset for an alternative use on account of costs to rework, unique design specifications, remote locations, etc.

**Note!** The assessment of whether the entity may have an alternative use for the asset must be made at inception of the contract. Changes are only made to this assessment in the event of a contract modification.

**Right to Payment for Performance Completed to Date**

Such a right exists when an entity is entitled to compensation for its performance completed to date if the customer terminates a contract, unless the entity fails to perform as promised. Compensation for performance completed to date should approximately equal the selling price of the goods or services transferred to date.

The entity should be entitled to compensation for:

- A proportion of the expected profit margin that reflects the entity’s performance under the contract before it was terminated by the customer; or
- A reasonable return on the entity’s cost of capital.

Consider the contractual terms, any relevant legislation or legal precedent and/or the entity’s customary business practices (i.e., has the entity historically enforced their right to payment) to assess the existence and enforceability of an entity’s right to payment for performance completed to date.

**Note!** Some contracts preclude the customer from terminating the contract or provide the customer with a right to terminate the contract only at specified times during the life of the contract. If a customer terminates a contract without having the right to terminate at that point in time, the contract may require that both the entity and customer continue to satisfy their performance obligations (i.e., the entity to continue the transfer of goods/services and the customer to pay the consideration promised in exchange for those goods/services).

**Note!** A payment schedule specified in a contract does not always correspond to the entity’s enforceable right to payment for performance completed to date. For example, the contract could state that consideration received from the customer is refundable for reasons other than the entity failing to perform as promised in the contract.

**Reasonable Measures of Progress**

Revenue for a performance obligation satisfied over time should only be recognized if the progress towards complete satisfaction of the performance obligation can be reasonably measured. If reliable information is lacking, progress cannot be measured reasonably.
It may not always be possible to reasonably measure the outcome of a performance obligation (e.g. in the early stages of the contract) but recovery of the costs incurred in satisfying the performance obligation is expected. In such circumstances, revenue should only be recognized to the extent of costs incurred until the outcome of the performance obligation can reasonably be measured.

**Methods for Measuring Progress**

An entity should apply a single method of measuring progress for each performance obligation satisfied over time and it should apply the method consistently to all similar performance obligations and in similar circumstances. At the end of each reporting period, the progress towards satisfaction of the performance obligation satisfied over time should be remeasured.

When determining the appropriate method for measuring progress, the nature of the good or service that is promised to be transferred should be considered. As circumstances change over time, the measure of progress must be updated to reflect any changes in the outcome of the performance obligation. Such changes must be accounted for as a change in accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*

**Output Methods**

These methods recognize revenue on a basis relating the value of goods or services transferred to date to the remaining goods or services promised to that customer under the contract. Examples include:

- Surveys of performance completed to date
- Appraisals of results achieved
- Units delivered
- Units produced
- Milestones reached
- Time elapsed
- Output Methods
- The output method chosen should faithfully depict the entity’s performance toward satisfying the performance obligation. IFRS 15 offers a practical expedient whereby the entity may recognize revenue equal to the amount the entity has a right to invoice. The practical expedient may be applied only if the entity has a right to consideration from a customer that equals the value to the customer of the entity’s performance completed to date (e.g. a service contract whereby the entity bills a fixed hourly rate).
Input Methods
These methods recognize revenue on a basis relating the inputs to the satisfaction of a performance obligation to date to the total expected inputs to satisfy the performance obligation. Examples include:

Example of Satisfying a Performance Obligation over Time
Equipment Inc. entered into a contract to construct state of the art waste recycling equipment. The contract includes the following terms:
- Physical possession and title of the equipment does not pass until completion of the contract.
- The total contract price is $100 million and the construction is expected to take 6 months.
- Interim payments of $10 million/month are required with a final payment of $40 million on the day of completion. The payments are non-refundable.
- The waste recycling equipment is highly customized for this customer and changes to the specifications are expected throughout the contract.
- There is no alternative customer or use for this equipment.
- The customer can exit the contract at any time if payments are up to date.
- Any work in progress is the property of the customer and, therefore, if the contract is terminated someone else could finish the equipment.

There are no other services associated with this contract and it is considered to be a single performance obligation.

Assessment: Based on the set up of the contract, it can be concluded that the performance creates an asset that the customer controls and is being transferred over time. The customer owns the work in progress and payments toward the equipment are made on a monthly basis. Furthermore, Equipment Inc. has no alternative use for this equipment because the design specifications customize the equipment for this specific customer. An input or output method will have to be used to measure the progress toward satisfying the obligation. Depending on the progress over the contract, it is likely Equipment Inc. will either record a contract liability or a contract asset, depending on whether the progress is faster or slower than the collection of the money.
Performance Obligations Satisfied at a Point in Time
When a performance obligation is not satisfied over time it is satisfied at a point in time. To determine the point in time at which control is transferred to the customer and the performance obligation is satisfied, the entity must consider the requirements for control (refer to the definition of control as discussed under the Step 5: Recognize Revenue when a Performance Obligation is Satisfied section of the guide)

In addition, indicators of the transfer of control at a point in time may include; but are not limited to:
- The entity has a present right to payment or the asset;
- The customer has legal title to the asset;
- The entity has transferred physical possession of the asset;
- The customer has significant risks and rewards of ownership of the asset; and
- The customer has accepted the asset.

**Note!** The existence of one, some or all of these indicators doesn’t necessarily signify that control has been transferred. For example, an entity may hold legal title of the asset as protection against non-payment by the customer; however, this doesn’t prevent the customer from obtaining control. In addition, some sales arrangements such as repurchase agreements, consignment arrangements and bill-and-hold arrangements may imply that one party has control due to physical possession of the asset when they, in fact, do not. The accounting for difference sales arrangements is discussed further under the Additional Application Guidance section of this guide.

Contract Costs
The standard provides guidance on two key aspects with respect to contract costs. These are:

**Note!** Generally, credit unions will not be impacted by the contract costs guidance in IFRS 15 as their revenue earned relates to contracts for financial instruments (e.g. loan agreements) and are outside the scope of IFRS 15.
Incremental Costs of Obtaining a Contract

Incremental costs are costs that are directly attributable to obtaining a contract with a customer and would not have been incurred by the entity if the contract had not been obtained (e.g. a sales commission). If the entity expects to recover these costs via completion of the contract, they should be recognized as an asset. If the costs would have been incurred regardless of whether the contract was obtained (e.g. sales manager’s salary), they must be expensed when incurred unless they are to be billed to the customer. Any capitalization must be prospective (i.e., costs that have been previously expensed cannot be capitalized at a subsequent date).

The standard provides a practical expedient stating that if the amortization period of the contract cost asset is less than one year, then the incremental costs may be expensed.

Note! If the practical expedient is used, it must be applied consistently to all contracts with similar characteristics within all reporting periods presented.

Example of Contract Costs

Nero Defense Solutions Inc. (“Nero”), a public entity, develops advanced air-to-air defense system technologies. It recently won a bid with the Canadian government to develop 15 special defense projects. Nero incurred the following costs to obtain the defense contract:

- $45,000 for external transaction advisory services for due diligence
- $12,000 for travel costs to deliver the bid
- $565,000 for the purchase of specialized software to develop the systems in accordance with the Department of National Defence’s criteria
- $1,388,000 for bonuses to executives for a successful bid

Assessment: The cost of the specialized software and the bonuses to executives may be capitalized in accordance with IFRS 15.92 since they would not have been incurred had the contract not been awarded and the development of the systems not begun. Per IFRS 15.93, Nero must expense the external transaction advisory service fees and travel costs since they would have been incurred regardless of whether the contract with the Canadian government was obtained. Further, consistent with a typical bidding process, it would not be expected that Nero would bill the Canadian government for costs it incurred to determine whether it can, or should, pursue a contract. Note that if these costs are within the scope of another standard, the relevant provisions of that standard apply.

Costs to Fulfill a Contract

Costs to fulfill a contract may be within the scope of other standards (e.g. IAS 2 Inventories, IAS 16 Property, Plant, and Equipment, or IAS 38 Intangible Assets) which outline the appropriate accounting for costs incurred in fulfilling contracts with customers. The guidance in these standards must be applied first.
Fulfillment costs not within the scope of another standard are recognized as an asset under IFRS 15 only when all the following criteria are met:

- The costs directly relate to a contract or an identifiable anticipated contract. Such costs may include:
  - Direct labour and materials
  - Allocations of costs (such as overhead) that relate directly to the contract
  - Costs explicitly chargeable to the customer per the contract
  - Costs incurred as a result of entering into the contract
- The costs must generate or enhance a resource of the entity that will be used to satisfy performance obligations in the future.
- The entity expects to recover the costs.

The following costs are expensed as incurred:

- General and administrative costs, unless explicitly chargeable to the customer per the contract
- Costs of wasted materials, labour or other resources not reflected in the contract price
- Costs that relate to past performance
- Costs for which an entity cannot distinguish whether the costs relate to an unsatisfied or satisfied performance obligation

**Amortization**

Once recognized, the contract costs assets are amortized on a systematic basis consistent with the transfer of goods and services to which the asset relates. The amortization of the asset should be updated to reflect any significant changes to the timing of the transfer of the goods and services and accounted for as a change in accounting estimate in accordance with IAS 8.

**Note!** If the asset relates to fulfillment costs of an identifiable anticipated contract, amortization should not commence until that contract is won and consistent with the transfer of goods and services. If the anticipated contract is not won, the fulfillment costs should be expensed immediately.

**Impairment**

An impairment loss should be recognized to the extent that the total costs capitalized for a specific contract are greater than the remaining consideration to be received less any estimated costs that directly relate to completing the contract, which have not yet been expensed.
An impairment analysis of contract cost assets must be performed in the following order:

1. **Recognize impairment loss for assets related to the contract in accordance with other standards (e.g. IAS 2, IAS 16, IAS 38)**
2. **Recognize impairment loss on carrying amount of asset determined above**
3. **Include resulting carrying amount in cash generating unit (CGU) to apply IAS 36 Impairment of Assets on the CGU**

Upon the reversal of impairment, some or all of a previously recognized impairment loss may be reversed in profit and loss. However, the net carrying amount after reversal should not exceed the amount that would have been determined (net of amortization) if the asset was not previously impaired.
Additional Application Guidance

Sale with a Right of Return
An entity may choose to provide its customers with a right to return goods, or the right to receive some type of reimbursement for services provided by the entity, for various reasons. This may result in the entity providing the customer with any combination of the following:

- A full or partial refund of the contract consideration
- A credit against a future transaction between the entity and the customer
- A product exchange

Note! A product exchange between two products with the same type, quality, condition, and price are not considered returns for the purposes of IFRS 15. Only exchanges of products with differing characteristics would be within the scope of IFRS 15.

A product exchange of a defective product for a functioning one is accounted for under warranties, as discussed in the Warranties section of this guide.

Recognition
For those contracts with a right to return, the entity recognizes:

Revenue exclusively for those items for which the entity does not expect to provide a refund

- This recognition must be made in accordance with Steps 1-5 in the revenue model.
- The assessment of revenue the entity is entitled to must be updated for revised expectations at the end of each reporting period.
- A corresponding change to the transaction price and the amount of revenue recognized (i.e., revenue or reductions of revenue) must be made for any changes in expectations.

A refund liability for those items for which the entity expects to provide a refund

- This recognition may be made based on historical rates of refund for the good or service.
- The assessment of potential refunds must be updated for revised expectations at the end of each reporting period.
- A corresponding adjustment to revenue must be made for any changes in expectations.

An asset and a corresponding adjustment to cost of sales for its right to recover products from customers on settling the refund liability

- The asset must be measured by reference to the former carrying amount of the product (e.g., inventory) less any expected costs to recover those products from the customer and less any impairment of the returnable products.
- The measurement of the asset must be updated for revised expectations of potential refunds at the end of each reporting period.
- The asset must be presented separately from the refund liability.

Note! An entity’s promise to willingly accept a returned product during the refund period is not a separate obligation from the obligation to provide a refund. As such, only one liability should be recorded.
Warranties

Warranties provided by an entity may take a variety of forms depending on the industry, common business practices, or legal requirements. Therefore, the assessment of the type of warranty provided by the entity is subject to an adequate understanding of the entity’s environment and the contract terms.

The standard outlines two types of warranties:

- **Assurance-type**
  Provides the customer with the assurance that the product will function in compliance with agreed-upon specifications.

- **Service-type**
  Provides the customer with a service in addition to the assurance that the product will function in compliance with agreed-upon specifications.

The type of warranty and its associated accounting treatment is determined by whether the customer has the option to purchase the warranty separately.

**Warranty can be Purchased Separately**

This is a service-type warranty since it is a distinct service provided to the customer in addition to the assurance that the product will function in compliance with agreed-upon specifications.

These types of warranties are separate performance obligations and are evaluated in accordance with Step 2 of the revenue model. Additionally, a portion of the transaction price is allocated to this separate performance obligation in accordance with Step 4 of the revenue model.

**Warranty cannot be Purchased Separately**

Generally, this is an assurance-type warranty since it does not provide a distinct service to the customer in addition to the assurance that the product will function in compliance with agreed-upon specifications.

However, the standard still requires an assessment to determine whether any part of the warranty constitutes an additional service, in addition to the assurance that the product will function in compliance with agreed-upon specifications. The entity should consider:

- Whether the warranty is required by law. If required by law, the warranty is not a performance obligation.

**Note!** A warranty based on a law that requires the entity to pay for damages or harm caused by its products, or one that indemnifies the customer for copyright, patent, trademark, or other such infringements, are expressly prohibited from being recognized as a performance obligation.

- The length of the warranty coverage period. Generally, the longer the coverage period, the more likely it is a performance obligation.
The nature of the tasks that the entity promises to perform. If the tasks help provide assurance that the product conforms to specifications, the warranty is likely not a performance obligation.

If this additional assessment results in the identification of a separate performance obligation, it is recorded in accordance with Step 2 of the revenue model. Additionally, a portion of the transaction price is allocated to this separate performance obligation in accordance with Step 4 of the revenue model.

If this additional assessment does not result in the identification of a separate performance obligation, the warranty is recorded in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

Note! If an entity provides both an assurance-type and service-type warranty, and cannot reasonably account for them separately, both warranties should be combined and accounted for as a single performance obligation.

Example of a Warranty

Electra Power Inc. (“Electra”), a public entity, operates a manufacturing plant that produces high voltage electric solar panels for sale across Canada. The panels have a 30 years lifespan under normal usage. Electra includes a general warranty on its products which stipulates that Electra will replace any photovoltaic cells with a workmanship defect up to a period of 2 years from the date of purchase. This general warranty specifically excludes damages to the cells due to customer negligence or environmental damages.

Assessment: In accordance with IFRS 15.B30, Electra’s obligation is an assurance-type warranty since it is included as a general provision, and it does not appear that the customer can opt-out or purchase this warranty separately. Further, it does not provide a distinct service to the customer beyond the assurance that the solar panels will function in compliance with the specifications agreed upon at the time of the purchase. This conclusion is further confirmed per IFRS 15.B31 because:

- The warranty appears to be standard practice and is not required by law.
- The length of the warranty coverage period is relatively short (2 years) when compared to the life of the product (30 years).
- The nature of Electra’s obligation is only to replace a defective product with a functioning one, which provides assurance that the product conforms to specifications.
Principal vs. Agent
Generally, the involvement of another party in providing goods or services to a customer indicates a need to assess whether the entity is acting as a principal or agent with respect to the performance obligation.

Note! A contract with a customer may contain multiple separately identifiable goods or services, and the entity may be the principal for some, and an agent for others.

Nature of the Entity’s Promise
When another party is involved in providing goods or services to a customer, the entity must assess the nature of the entity's promise. If the performance obligation is to:

- Provide the specified goods or services itself, the entity may be the principal in the contract.
- Arrange for the other party to provide those goods or services, the entity may be acting as an agent.

This determination may not always be clear; therefore, careful scrutiny of the terms of the contract, and professional judgment, may be required. To determine the nature of the promise:

- Identify the specific goods or services to be provided to the customer; and
- Assess whether the entity controls each specific good or service before it is transferred to the customer (refer to the definition of control under the Step 5: Recognize Revenue when a Performance Obligation is Satisfied section of this guide).

Entity is a Principal
The entity is a principal if it controls the specific good or service before transfer to the customer. However, if legal title is obtained by the entity only momentarily before transfer to the customer, this is not conclusive evidence that the entity is acting as principal.

When acting as a principal, an entity may satisfy part, or all, of its performance obligation to provide a specified good or service itself, or it may engage another party (e.g. subcontractor) to do so on its behalf. When two or more parties are involved in providing the specific goods or services to the customer, an entity that is a principal obtains control of any one of the following:

- The third party’s good, or another asset, which the entity then transfers to the customer.
The right to a service, as performed by a third party, that gives the entity the ability to direct the other party to provide the service on its behalf.

### Example of a Principal Relationship

A bakery (the entity) has been contracted to provide a cake for an event by the customer. The cake will feature a lighting element as part of the decoration. To produce the final product, the bakery provides a lighting supplier (the other party) with instructions, in accordance with which, the supplier will custom-build the lighting. The bakery then proceeds to bake the cake and incorporate this custom made lighting (the combined specified goods per the contract), and delivers the final product to the customer’s event.

**Assessment:** In this situation, the entity first obtained control of the third party’s input to the specified combined good (i.e., the lighting) and then directed its use to create the combined specified good per the contract (i.e., the cake with the lighting element).
Additional indicators that an entity controls the specified good or service before transfer to the customer, and is the principal, include but are not limited to:

- The entity is mainly responsible for providing the specified good or service (i.e., ensuring that the good or service meets the customer’s specifications);
- The entity is exposed to inventory risk at any point during the fulfillment of the contract (i.e., either before or after the goods have been transferred to the customer, if the customer has a right of return); and
- The entity establishes the prices and therefore, the resulting amount of benefit, for the goods or services.

**Note!** An agent may also have some influence, or flexibility, in determining the prices. For example, an agent may exercise its price setting discretion in order to generate additional revenue from its service of arranging for goods or services to be provided by other parties to customers.

Not all indicators may always be present for a given contract, and some may be more persuasive in certain circumstances. As such, careful scrutiny of the terms of the contract, and some professional judgment, may be required.

When the entity is a principal in the contract, revenue is recognized at the gross amount, in accordance with Step 5 of the revenue model. This gross amount represents the full amount of the consideration to which the entity expects to be entitled.

**Entity is an Agent**
The entity is an agent if it does not control the good or service before transfer to the customer but rather has a performance obligation to arrange for another party to provide the good or service to the customer.

Revenue is recognized when (or as) the entity satisfies its performance obligation. This amount is any fee or commission associated with the entity’s agent role that the entity expects to be entitled to. Depending on the contract stipulations, the entity’s fee or commission might be the net amount of consideration that the entity retains after paying the other party the consideration received in exchange for the goods or services provided to the customer.

**Example of an Agent Relationship**
Allen and Allen LLP (“A&A”) is a law firm providing escrow services in Palm Beach, Newfoundland. It solely holds funds and properties for parties in acquisition transactions (i.e., in trust), and charges a flat commission of 5% based on the final transaction amount of the property or funds put in escrow. This fee is paid 100% upfront.

**Assessment:** A&A is acting as an agent. Indicators that support A&A being an agent for escrow arrangements include:

- The transacting parties are primarily responsible for fulfilling the transaction giving rise to the escrow arrangement (i.e., A&A’s responsibility is limited to releasing the escrow funds once the transacting parties have fulfilled their responsibilities to the contract);
- A&A is not exposed to inventory risk at any point during the fulfillment of the contract (i.e., either before or after the transaction); and
- A&A facilitates the acquisition transactions in exchange for a 5% commission but never controls the assets being acquired.
Customer Options for Additional Goods or Services

Note! The guidance in this section of the standard expands on and supersedes IFRIC 13 Customer Loyalty Programmes.

Contracts may provide an option for customers to acquire additional goods or services for free, or at a discount, in addition to the original good or service promised in the contract. These arrangements may take a variety of forms, including sales incentives, customer award credits (or points), contract renewal options, or other discounts on future goods or services.

A performance obligation is only created if the customer option provides a material right to the customer that it would not otherwise receive if the customer had not entered into the original contract. In this case, the customer is effectively paying for future goods or services beforehand and so the entity only recognizes revenue when those future goods or services are transferred (or when the option expires).

The customer option does not provide a material right to the customer if the additional goods or services would be acquired at their stand-alone selling price, even if the option can only be exercised by entering into a previous contract. The entity accounts for such options under IFRS 15 only when the customer exercises its option to acquire additional goods or services.

Note! This standard introduces the concept of ‘material rights’ to distinguish between genuine additional customer options vs. marketing or promotional offers. In determining whether a ‘material right’ is granted via the existence of the option, the following should be considered, whether qualitatively or quantitatively:

- Whether the options provide ‘significant’ or ‘incremental’ value.
- The past and expected future transactions with the customer.
- The facts and circumstances that exist outside of the transaction in question with the customer.

The performance obligation created by a customer option providing a material right is accounted for when the contract is initially recognized. Next, consistent with Steps 2 and 3 of the revenue model, the transaction price is allocated to any performance obligation created based on the relative stand-alone selling price for a customer’s option to acquire additional goods or services. If the option’s price is not directly observable, it must be estimated. This estimation reflects the discount the customer would receive when they exercise the option, while taking into account the following adjustments:

- Any discount the customer receives without exercising the option; and
- The likelihood that the option will be exercised.

Contract Renewals

An entity may allocate the transaction price to the optional goods or services by reference to the expected consideration to be provided for the original goods or services in the contract, if both conditions exist:

- A material right is granted to the customer to acquire future goods or services; and
- The additional goods or services are similar to the items promised in the original contract, and are provided in accordance with the terms of the original contract.
The revenue recognition period would also extend beyond the initial contractual period if the option to renew a contract provides the customer with a material right.

**Example of Customer Options for Additional Goods**

House Depot ("HD") enters into a contract for the sale of a heating, ventilation, and air conditioning ("HVAC") system to a customer for $1,500. As part of the contract, HD gives the customer a 30% discount coupon for future purchases up to $1,000 in the next 60 days.

Given the time of year, HD also currently has a seasonal promotion, which offers a 10% discount on all sales in the next 60 days. This 10% discount cannot be used in addition to the 30% discount voucher.

**Assessment:** Since all customers receive a 10% discount on purchases made during the next 60 days, the only discount that provides the HVAC customer with a material right is the incremental 20% discount. As such, HD must account for the promise to provide the incremental discount as a performance obligation in the contract for the sale of the HVAC system.

In accordance with IFRS 15.B42, HD must estimate the stand-alone selling price of the discount coupon. HD estimates an 80% likelihood that a customer will redeem the voucher, and performs a historical sales analysis to determine that a customer spends $750 on additional products, on average.

Consequently, the stand-alone selling prices of the HVAC system and the discount coupon (as estimated by HD) are as follows:

<table>
<thead>
<tr>
<th>Performance Obligation</th>
<th>Stand-alone Selling Price</th>
<th>Sales price per contract</th>
</tr>
</thead>
<tbody>
<tr>
<td>HVAC system</td>
<td>$1,500</td>
<td>$750 average purchase price of additional products × 20% incremental discount × 80% likelihood of coupon use</td>
</tr>
<tr>
<td>Discount coupon</td>
<td>$120</td>
<td>$120 / $1,620 × $1,500</td>
</tr>
<tr>
<td>Total</td>
<td>$1,620</td>
<td></td>
</tr>
</tbody>
</table>

The resulting allocation of the $1,500 transaction price is as follows:

<table>
<thead>
<tr>
<th>Performance Obligation</th>
<th>Allocated Transaction Price</th>
<th>((1,500 / 1,620) \times 1,500)</th>
</tr>
</thead>
<tbody>
<tr>
<td>HVAC system</td>
<td>$1,389</td>
<td>((1,500 / 1,620) \times 1,500)</td>
</tr>
<tr>
<td>Discount coupon</td>
<td>$111</td>
<td>((120 / 1,620) \times 1,500)</td>
</tr>
<tr>
<td>Total</td>
<td>$1,500</td>
<td></td>
</tr>
</tbody>
</table>

As such, HD allocates $1,389 to the HVAC system and recognizes the revenue when control of the system transfers. HD also allocates $111 to the discount coupon and recognizes revenue when the customer redeems it for additional goods, or when it expires.
Customer’s Unexercised Rights (Breakage)

A customer’s unexercised rights, or breakage, refers to those contractual rights to receive future goods or services which have not been exercised, but for which the customer has made a non-refundable prepayment.

For example, a retail store may sell gift cards to customers. Based on historical information tracked by the store, only 95% of the value of gift cards are ultimately redeemed by customers. The remaining 5% of gift card balances represent the customer’s unexercised rights, or breakage.

The accounting depends upon the entity’s expectations of being entitled to a breakage amount in a contract liability, as outlined in the following diagram, and in accordance with Step 3 of the revenue model.

### Determination of Entitlement to Breakage

To determine entitlement to a breakage amount, the entity must make an assessment of the likelihood of the customer subsequently exercising their contractual rights. This assessment should take into account the pattern of rights exercised by the customer, as follows:

- If this likelihood is remote, the entity can recognize the expected breakage amount as revenue.
- If this likelihood is not remote, the entity shall only recognize the expected breakage amount as revenue when the likelihood of the customer exercising its remaining rights becomes remote.

Factors impacting this assessment may include, but are not limited to:

- Events outside of both the entity’s and the customer’s influence, which may restrict the customer’s ability to exercise their contractual rights.
- Time to resolution.
- Limitations on the entity’s experience with similar types of contracts, or the entity’s experience has limited predictive value.
- Existence of conditions, or certain events, the non-occurrence of which may restrict the customer’s ability to exercise their contractual rights.

**Note!** If the entity is not entitled to, and is required to remit the breakage amount to another party (for example, to the government), then it must record a liability for the amount (i.e., no revenue is recognized).
Non-refundable Upfront Fees
A contract between an entity and a customer may require the customer to pay a non-refundable upfront fee for the provision of goods or services in the future. Common examples of such arrangements include:

- Joining fees in health club membership contracts;
- Activation fees in telecommunication contracts;
- Setup fees in some service contracts; and
- Initial fees in some supply contracts.

To identify any inherent performance obligations in such contracts, the entity must evaluate whether the fee specifically relates to the transfer of a promised good or service. If the non-refundable fee does not result in the transfer of a promised good or service, the fee represents an advance payment for future goods and services, and as such, is recognized when the goods and services are provided in the future. For example, a service provider may be required to perform certain administrative tasks to set up a contract. The performance of these tasks do not result in the provision of any goods or services to the customer and, as such, cannot be considered a fulfillment of a performance obligation.

Whether the non-refundable fee creates a performance obligation directs the accounting treatment, as shown below:

Does the fee relate to the transfer of a promised good or service?

**NO**
- Fee relates to an activity that does not transfer a good or service and forms part of the total transaction price to be allocated
- Total transaction price allocated based on Step 4 of revenue model
- Assess whether costs associated with any up-front activity can be recognized as an asset*

**YES**
- Does the promised good or service relate to a separate performance obligation (i.e., a distinct good or service) in accordance with Step 2 of the revenue model?
  - **YES**
    - Apply the remaining steps of the five-step model
  - **NO**
    - Combine with other promised goods or services until the bundle of goods or services is distinct and apply the remaining steps of the five-step model

* Refer to the Costs to Fulfill a Contract section of this guide.
Licensing

Note! This section of the standard provides detailed guidance on the accounting for licenses. There is no comparable detailed guidance on this topic under existing IFRSs. Because of the changes outlined, there may be a widespread impact on the accounting for such arrangements.

Licenses provide a customer with the rights to the intellectual property of an entity. Common examples of intellectual property that can be licensed are:
- Software and technology
- Motion pictures, music, and other forms of media and entertainment
- Franchises
- Patents, trademarks, and copyrights

The entity must first determine whether the promise to grant a license to a customer is distinct from any other promised goods or services in the contract (i.e., the existence of a separate performance obligation). Such an assessment should be done in accordance with Step 2 of the revenue model.

Note! Remember, a good or service is distinct when both of the following are true:
- The customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (i.e., is capable of being distinct).
- The entity’s promise to transfer the goods or services to the customer is separately identifiable from other promises in the contract (i.e., is distinct within the context of the contract).

License is not a Distinct Performance Obligation
A license may not be distinct from other goods or services promised in the contract, such as:
- A license that forms a component of a tangible good and is integral to its functionality (e.g. software that is customized to allow proper operation of a specific piece of equipment).
- A license that the customer benefits from only in conjunction with obtaining a certain related service (e.g. an online service with content accessible only with the purchase of a license).

If no distinct performance obligation exists for the license, the license grant and the additional goods or services combination is accounted for as a single performance obligation. The entity must then determine whether the performance obligation is satisfied over time, or at a point in time, in accordance with Step 5 of the revenue model.

License is a Distinct Performance Obligation
If a distinct performance obligation exists for the license, the entity must determine whether the performance obligation is satisfied over time, or at a point in time. In applying Step 5 of the revenue model, the entity must consider whether the license provides the customer with either:
- A right to access the entity’s intellectual property; or
- A right to use the entity’s intellectual property.
Right to Access
A right to access the entity’s intellectual property exists when all of the following three criteria are met:
- The contract requires, or the customer reasonably expects, that the activities undertaken by the entity will significantly affect the intellectual property the customer has rights to.

Note! Intellectual property is significantly affected when either:
- Its form (e.g. the design or content) or functionality (e.g. the ability to perform a function or task) is significantly changed by the entity’s activity.
- The customer’s ability to obtain benefit from the intellectual property is substantially derived from, or dependent upon, the entity’s activities (e.g. benefit from an entity’s brand name is tied to the entity’s ability to maintain a positive image).

Intellectual property with significant stand-alone functionality (e.g. software, biological compounds, drug formulas, completed media content such as films, television shows and music recordings, etc.) would not be significantly affected by the entity’s activities unless those activities significantly change its form or functionality.

- The rights granted by the license expose the customer to any negative or positive effects of the activities.
- The activities do not result in the transfer of a good or service as they occur.

The performance obligation of providing a right to access is satisfied over time because the customer will simultaneously receive and consume the benefit provided from the access to the license. For long-term contracts, the progress towards contract completion should be measured in accordance with Step 5 of the revenue model.

Right to Use
A license provides a right to use the entity’s intellectual property only when the criteria for the right to access are not met.

The performance obligation of providing a right to use is satisfied at a point in time because the customer can direct the use of, and obtain benefits from, the license at the point in time the license transfers. Revenue cannot be recognized prior to this point in time. For example, if a software license period begins before the entity supplies the customer with a code that provides it access to, and the ability to use, the software, the entity would not recognize revenue before that code has been provided. The point in time should be determined in accordance with Step 5 of the revenue model by considering the indicators of the transfer of control (refer to the Step 5: Recognize Revenue when a Performance Obligation is Satisfied section of the guide).

Exceptions
The following factors should not form part of the right to access or right to use assessment:
- Restrictions on the time, geographical region, or use of the license, as these are part of the license’s attributes.
- Guarantees by the entity about the validity of the patent and the entity’s commitment to defend the patent from unauthorized use. Such a guarantee is not considered a separate performance obligation as it is meant to protect the value of the intellectual property and provide assurance to the customer that the license transferred meets the specifications promised in the contract.
The following flowchart summarizes the process for determining the appropriate accounting approach for licenses:

- **Are other goods or services promised in conjunction with the license?**
  - **YES**
    - **Is the license distinct?**
      - **YES**
        - The license transfers at a point in time
          - Right to access
      - **NO**
        - The license and other goods or services form a single performance obligation
          - Refer to IFRS 15 guidance to determine if performance obligation is satisfied over time or at a point in time
  - **NO**
    - The license transfers over time
      - Right to use

This communication contains a general overview of this topic and is current as of December 20, 2016. The application of the principles addressed will depend upon the particular facts and circumstances of each individual case. Accordingly, this publication is not a substitute for professional advice and we recommend that any decisions you take about the application or not of any of the information presented be made in consultation with a qualified professional who can address any variance that may be required to reflect your circumstances. Please contact your local MNP representative for customized assistance with the application of this material. MNP LLP accepts no responsibility or liability for any loss related to any person’s use or reliance upon this material. © MNP LLP 2016. All rights reserved.
Repurchase Agreements
A repurchase agreement exists when an entity either promises, or has the option, to repurchase an asset after it is sold to a customer. The repurchase obligation or right may be part of the original sales contract or outlined in a separate contract. The repurchased asset may be the exact asset sold, another asset which is substantially the same as the original asset sold, or another asset of which the asset sold is a component.

There are three common forms of repurchase agreements:
- The entity is obligated to repurchase the asset (a “forward”).
- The entity has a right to repurchase the asset (a “call option”).
- The entity is obligated to repurchase the asset at the customer’s request (a “put option”).

The accounting treatment for repurchase agreements varies depending on:
- The form of the repurchase agreement (i.e., whether it is a forward, call option, or put option);
- The value of the repurchase price compared to the original selling price; and
- The value of the repurchase price compared to the expected market value (for put options only).

The following flowcharts summarize the process for determining the appropriate accounting approach for repurchase agreements:

---

1 The time value of money must be considered when comparing the repurchase price and selling price.
2 If the repurchase agreement is part of a sale and leaseback transaction, the entity continues to recognize the asset and recognizes a financial liability for the customer consideration received.
3 IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted if IFRS 15 has also been applied.
4 When the repurchase agreement is a financing arrangement, the entity continues to recognize the asset and recognizes a financial liability for the customer consideration received. The difference between the consideration received from the customer and the consideration to be paid to the customer is recognized as interest and, if applicable, processing or holding costs.
Decision Tree for Put Options under a Repurchase Agreement

**Put Option**

Entity’s obligation to repurchase at customer’s request

- **Repurchase price** \(^1\) < Original selling price
- **Repurchase price** \(^1\) ≥ Original selling price

**Repurchase price** ≤ expected market value

**Repurchase price** > expected market value

Does customer have a significant economic incentive\(^2\) to exercise right?

**YES**
- Lease transaction\(^3\) (apply IAS 17/IFRS 16)\(^4\)

**NO**
- Sale of product with right of return\(^5\)
- Financing arrangement\(^6\) (recognize asset and financial liability)

---

1. The time value of money must be considered when comparing the repurchase price and selling price.
2. When determining whether a customer has a significant economic incentive to exercise its right, the entity considers various factors including the time until the right expires and the relationship of the repurchase price to the expected market value of the asset at the date of the repurchase.
3. If the repurchase agreement is part of a sale and leaseback transaction, the entity continues to recognize the asset and recognizes a financial liability for the customer consideration received.
4. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted if IFRS 15 has also been applied.
5. Refer to the Sale with a Right of Return section of this guide.
6. When the repurchase agreement is a financing arrangement, the entity continues to recognize the asset and recognizes a financial liability for the customer consideration received. The difference between the consideration received from the customer and the consideration to be paid to the customer is recognized as interest and, if applicable, processing or holding costs.
Bill-and-hold Arrangements

Note! This section of the standard provides guidance on the accounting for bill-and-hold arrangements. Under IAS 18, guidance pertaining to bill-and-hold arrangements was contained within the Illustrative Examples. IFRS 15 provides further guidance on this topic, notably with differences in the recognition criteria.

A bill-and-hold arrangement is a contract whereby an entity bills the customer for a product but the entity retains physical possession of the product until it is transferred to the customer at a future date.

Based on the contract terms (i.e., delivery and shipping terms), the entity must evaluate when the entity has fulfilled its performance obligation and has transferred control to the customer. Control may have transferred even though the entity retains physical possession, in which case the entity essentially provides custodial services to the customer over the product. Alternatively, control may only transfer when the product reaches the customer’s premises or at the time of shipment.

Note! While physical possession of an asset is an indicator of control, it is not a definitive factor.

For the customer to obtain control of a product in a bill-and-hold arrangement, all of the following criteria, in addition to the transfer of control indicators under Step 5 of the revenue model (refer to the Performance Obligations Satisfied at a Point in Time section of this guide), must be met:

- There must be a substantive reason for the bill-and-hold arrangement, such as the customer specifically requesting such an arrangement;
- The product must be separately identified as the customer’s product;
- The product must currently be ready for physical transfer to the customer; and
- The entity must not have the ability to use the product or transfer the product to another customer.

If the contract meets the criteria for a bill-and-hold arrangement, the entity may recognize the revenue. However, an entity should assess whether a remaining performance obligation exists associated with holding the product for the customer for a specified period of time. In that case, the entity must allocate a portion of the consideration to custodial services and recognize the revenue over time. The portion of the transaction price attributable to the remaining performance obligation must be allocated in accordance with Step 4 of the revenue model.
Consignment Arrangements

A consignment arrangement exists if the entity delivers a product to another party for subsequent sale to an end-customer, but this other party does not obtain control of the product at that point in time.

Therefore, the entity must determine whether the other party obtains control of the product at the point in time at which the transfer of goods occurs. Indicators of a consignment arrangement include:

- The product remains under the control of the entity until a future specified event occurs, such as the sale of the product to an end-customer or a specified period expires.
- The entity can demand the return of the product or the transfer of the product to another party.
- The other party does not have an unconditional obligation to pay for the product.

In accordance with Step 5 of the revenue model, the entity cannot recognize revenue upon delivery of the product to another party if the product is held under a consignment arrangement. This is because control has not transferred to the party holding the product under consignment even though they physically possess the product.

Example of Consignment Arrangements

A clothing retailer (consignee) enters into a contract to sell seasonal clothing on consignment from a large clothing manufacturer (consignor). Under this contract, the manufacturer will deliver clothing to the retailer’s store and will allow the marketing and sale of the clothing in the retailer’s store. However, the manufacturer will not relinquish control of the consignment inventory until the inventory is sold to the end-consumer. Further, the retailer does not have any obligation to pay for the inventory, other than to pay the consignor the agreed-upon portion of the sale price once they sell the product to the end-consumer.

Assessment: The manufacturer would not recognize revenue for these items under consignment when the clothing is delivered to the retailer’s store because control has not yet transferred (i.e., the performance obligation to deliver the goods to the end-customer has not yet been satisfied).
Presentation

When either party to a contract has performed, an entity must either present a contract asset or contract liability in the statement of financial position. This will depend on the relationship between the entity’s performance and the customer’s payment. Unconditional rights to consideration should be presented separately as a receivable.

### Contract Liability

An entity shall present the contract as a contract liability when the customer has made a payment or a payment is due (whichever is earlier), before the entity transfers a good or service to the customer.

### Contract Asset

An entity shall present the contract as a contract asset (excluding any amounts presented as a receivable) when the entity performs by transferring a good or service to a customer, before the customer pays consideration or before payment is due. Contract assets are assessed for impairment in accordance with IFRS 9.

### Receivable

An entity’s unconditional right to consideration. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due. Receivables are assessed for impairment in accordance with IFRS 9.

**Note!** The right to the consideration for a contract asset is conditional on an event other than the passage of time (e.g. the performance of another obligation).

**Note!** An entity can use other appropriately descriptive terms in lieu of “contract liability” and “contract asset”. In the situation that an alternative title is used for “contract asset”, sufficient information should be included in the entity’s financial statements to differentiate that financial statement item from a receivable.
Disclosure

One of IFRS 15’s objectives is for entities to disclose sufficient information to enable the users of the financial statements to understand the nature, timing, amount and uncertainty of revenue and cash flows arising from contracts with customers.

Qualitative and quantitative information about the following should be disclosed:
- Contracts with customers;
- Significant judgments and changes in judgments made while applying IFRS 15 to the contracts; and
- Any assets recognized from the costs to fulfill or obtain a contract.

The following table summarizes IFRS 15’s disclosure requirements.

| Contracts with customers | The following amounts should be disclosed for the reporting period unless they are presented separately in the statement of comprehensive income in accordance with other standards:
- Revenue recognized from contracts with customers should be separately disclosed from other sources of revenue (e.g., interest revenue earned on financing arrangements);
- Impairment losses on contract assets or receivables arising from contracts with customers should be separately disclosed from impairment losses from other contracts. |
| Disaggregation of revenue | An entity is required to disaggregate revenue into categories that represent how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. For entities that apply IFRS 8 Operating Segments, sufficient information must be disclosed to enable users to understand the relationship between the disaggregated revenue and revenue disclosed for each reportable segment. |
| Contract balances | These disclosure requirements ensure the users understand the relationship between the revenue recognized and changes in the overall balances of the entity’s receivables, contract assets and contract liabilities during the reporting period. |
| Performance obligations | Separate disclosure of performance obligations is required to help users understand when the entity typically satisfies its performance obligations, the significant payment terms and the nature of the goods or services that the entity has promised to transfer. Disclosure of obligations for returns and refunds, as well as the type of warranties offered is also required. The disclosure of the transaction price allocated to the remaining performance obligations and an explanation of when the entity expects to recognize the amount is also required. |
| **Significant judgments and changes in judgments made while applying IFRS 15 to the contracts** | IFRS 15 requires disclosure about the significant judgments (and changes in judgments) made in determining when performance obligations are satisfied, how the transaction price is determined and how amounts are allocated to performance obligations.  

**Determining when Performance Obligations are Satisfied**  
The following information is required to be disclosed for performance obligations that are satisfied over time:  
- The methods used to recognize revenue.  
- An explanation of why the methods used provide a faithful representation of the transfer of goods or services.  

For performance obligations that are satisfied at a point in time, an entity is required to disclose significant judgments made in determining when a customer obtains control of promised goods or services.  

**Determining the Transaction Price and the Amounts Allocated to Performance Obligations**  
Qualitative information about the methods, inputs and assumptions used in:  
- Determining the transaction price;  
- Assessing whether any estimate of variable consideration is constrained;  
- Allocating the transaction price; and  
- Measuring obligations, such as those for refunds and returns. |
| **Asset recognized from the costs to obtain or fulfill a contract** | An entity is required to disclose the closing balance of assets recognized from the costs incurred to obtain or fulfill a contract with a customer, by main category of asset (e.g., costs to obtain contracts with customers, pre-contract costs and setup costs). The disclosures should also include the amount of amortization and any impairment losses recognized in the reporting period.  

The disclosures should include a description of the following:  
- Judgments made in determining the amount of costs incurred to obtain or fulfill a contract; and  
- The method the entity used to determine the amortization for each reporting period. |
| **Practical expedients** | Entities are required to disclose their use of the practical expedients available with respect to significant financing components or the incremental costs of obtaining a contract. |
| **Transition** | Entities that early apply IFRS 15 are required to disclose that fact. |
Transition Requirements

IFRS 15 provides two options to transition to the new standard:

- Full retrospective application; and
- Modified retrospective application.

The date of initial application is the start of the reporting period in which an entity first applies IFRS 15 (i.e., January 1, 2018 for all entities with calendar year-ends).

**Note!** Both transition options provide some relief on the application of IFRS 15 on completed contracts. A completed contract is one for which the entity has transferred all goods and services to the customer in accordance with IAS 11 and IAS 18 and related interpretations (i.e., the standards in effect before the initial date of application of IFRS 15).

**Full Retrospective Application**

Under this approach, an entity must apply this standard retrospectively to each prior reporting period presented in accordance with IAS 8. This includes restatement of all contracts, except for those subject to the practical expedients as discussed below.

IFRS 15 provides relief from the IAS 8.28(f) requirement to disclose the effect of initial application on each affected financial statement line item, and basic and diluted earnings per share (if applicable), in the current period and all prior periods presented. Instead, the entity is only required to present the quantitative information required under IAS 8.28(f) for the immediately preceding period. The entity may still choose to present this disclosure information for the current period, or for earlier comparative periods, but is not required to do so.

**Practical Expedients**

**Note!** On April 15, 2016, the International Accounting Standards Board (IASB) issued narrow-scope amendments to IFRS 15 to expand the number of practical expedients available on application of this standard. The changes provide relief for certain contract modifications applicable to contracts entered into before the beginning of the earliest period presented. These amendments have the same effective date as the standard (i.e., for annual periods beginning on or after January 1, 2018, with earlier application permitted).

To ease the transition, and to potentially reduce the economic impact of adopting IFRS 15, the standard provides the following practical expedients under the full retrospective application method. An entity may choose to use one or more of these optional practical expedients:

1) For completed contracts, no restatements required for contracts that:
   - Begin and end within the same annual reporting period; or
   - Are completed at the beginning of the earliest period presented.
2) For completed contracts with variable consideration, the transaction price at the date the contract was completed may be used rather than estimating variable consideration amounts in the comparative reporting periods.

3) An entity need not retrospectively restate contracts for any contract modifications that occurred before the beginning of the earliest period presented. Instead, an entity should reflect the aggregate effect of all of the modifications that occurred before the beginning of the earliest period presented when:
   - Identifying the satisfied and unsatisfied performance obligations;
   - Determining the transaction price; and
   - Allocating the transaction price to the satisfied and unsatisfied performance obligations.

4) For all reporting periods presented before the date of the initial application (i.e., prior period, and before), disclosure of the transaction price allocated to the remaining performance obligation and an explanation of when the entity expects to recognize that amount as revenue is not required.

Any practical expedients used must be applied consistently to all contracts with similar characteristics within all reporting periods presented. The entity must also disclose:
- The practical expedients used; and
- A qualitative assessment of the projected effect of applying each expedient, to the extent reasonably possible.

**Modified Retrospective Application**
Under this approach, an entity must apply this standard retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application. Under the modified retrospective application method, an entity may elect to apply the standard retrospectively only to contracts not yet completed at the date of initial application.

For reporting periods that include the date of initial application (i.e., the current year), both the following additional disclosures are required:
- The amount by which each financial statement line item is affected in the current reporting period by the application of the standard; and
- An explanation of the reasons for significant changes identified above.

The cumulative effect of initially applying the standard is recognized as an adjustment to opening retained earnings (or other component of equity, as appropriate) of the current year (i.e., the annual reporting period that includes the date of initial application).

**Practical Expedients**
To ease the transition, and to potentially reduce the economic impact of adopting IFRS 15, the standard provides the following practical expedient under the modified retrospective application method. An entity may choose to use this optional practical expedient:

1) An entity need not retrospectively restate contracts for any contract modifications that occurred before the beginning of the earliest period presented or before the date of initial application. Instead, an entity should reflect the aggregate effect of all of the modifications that occurred before the beginning of the earliest period presented when:
   - Identifying the satisfied and unsatisfied performance obligations;
   - Determining the transaction price; and
   - Allocating the transaction price to the satisfied and unsatisfied performance obligations.
If an entity uses this practical expedient, the expedient must be applied consistently to all contracts. The entity must also disclose:

- The practical expedients used; and
- A qualitative assessment of the projected effect of applying each expedient, to the extent reasonably possible.

### Differences Between the Full and Modified Retrospective Application Methods

The following table summarizes the significant differences under each approach.

<table>
<thead>
<tr>
<th>Topic</th>
<th>Full Retrospective Application</th>
<th>Modified Retrospective Application</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Comparability</strong></td>
<td>Provides additional comparability for financial statement users as both current period and prior period information is reported under IFRS 15.</td>
<td>May not provide sufficient comparability as the current period is reported under IFRS 15, but the prior period will be reported under the previous revenue standards. Therefore, users may not be able to make meaningful comparisons between fiscal years.</td>
</tr>
<tr>
<td><strong>Information from legacy systems</strong></td>
<td>A significant amount of information may have to be obtained from legacy systems to account for comparative information under IFRS 15.</td>
<td>The use of information from legacy systems to apply to the requirements of the new standard, may be limited.</td>
</tr>
<tr>
<td><strong>Contract restatement</strong></td>
<td>All contracts not completed at the date of initial application, as well as prior period contracts, will be restated, except for those where practical expedients are applied.</td>
<td>An entity may elect to only adjust contracts not yet complete at the date of initial application. Therefore, if an entity makes this election, there will be less contracts to analyze and adjust.</td>
</tr>
</tbody>
</table>
| **Disclosures**                    | Relief from the IAS 8.28(f) requirement to disclose the effect of initial application on each affected financial statement line item, and basic and diluted earnings per share if applicable, in the current period and all prior periods presented. | Additional disclosures must be provided:
  - Amount by which each financial statement line item is affected in the current period as a result of applying IFRS 15.
  - Qualitative explanation of significant changes identified above.
  
To obtain the required information for providing these disclosures, entities may have to effectively account for transactions under both the old and new standards (i.e., IAS 18/11 and IFRS 15). |
Timelines for the Approaches
The following timelines summarize the transition requirements under each approach for an entity that applies IFRS 15 and presents one comparative period in its financial statements. For the purposes of the diagrams below, assume the entity has a calendar year-end of December 31, 2018, therefore, the date of initial application of IFRS 15 is January 1, 2018.

<table>
<thead>
<tr>
<th>Approach</th>
<th>January 1, 2017</th>
<th>December 31, 2017</th>
<th>December 31, 2018</th>
<th>Disclosure</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Full Retrospective Application</strong></td>
<td>(earliest prior period presented)</td>
<td>(PY1)</td>
<td>(CY)</td>
<td>Disclose all expedients used and qualitative assessment of estimated effect, to the extent reasonably possible</td>
</tr>
<tr>
<td></td>
<td>Full Retrospective Application</td>
<td>Cumulative effect adjusted in PY opening equity (i.e., 1/1/2017)</td>
<td>Apply the standard retrospectively and restate all contracts, except for those subject to the practical expedients</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Approach</th>
<th>December 31, 2017</th>
<th>December 31, 2018</th>
<th>Disclosure</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Modified Retrospective Application</strong></td>
<td>(PY1)</td>
<td>(CY)</td>
<td>Disclose impact of IFRS 15 compared to IAS 11 and IAS 18</td>
</tr>
<tr>
<td></td>
<td>Modified Retrospective Application</td>
<td>Comparative balances not restated to comply to the standard</td>
<td>Cumulative effect adjusted in CY opening equity (i.e., 1/1/2018)</td>
</tr>
</tbody>
</table>

This communication contains a general overview of this topic and is current as of December 20, 2016. The application of the principles addressed will depend upon the particular facts and circumstances of each individual case. Accordingly, this publication is not a substitute for professional advice and we recommend that any decisions you take about the application or not of any of the information presented be made in consultation with a qualified professional who can address any variance that may be required to reflect your circumstances. Please contact your local MNP representative for customized assistance with the application of this material. MNP LLP accepts no responsibility or liability for any loss related to any person’s use or reliance upon this material. © MNP LLP 2016. All rights reserved.
Audit & Other Business Considerations

The adoption of IFRS 15 may significantly impact other areas of business, including the following:

- On adoption of IFRS 15, the timing of revenue recognition may be deferred or accelerated, particularly with respect to contracts with multiple elements, variable consideration and licenses. The deferral, or acceleration, of revenue recognition may impact the calculation of certain key financial ratios, which may in turn impact loan covenants. Therefore, it is important that entities identify any potential risk of non-compliance with loan covenants and hold discussions with their lenders to mitigate these risks as soon as possible.
- Changes in the timing of revenue recognition can also impact compensation arrangements (e.g. bonus structures and incentive plans). Therefore, entities will need to assess whether any amendments to such structures and plans are required.
- In order to apply the new revenue guidance, including the disclosure requirements, entities may need to obtain and track new information (e.g. an entity may need determine stand-alone selling prices). Entities must consider whether their existing accounting systems and processes are capable of producing this information or if new systems and processes need to be implemented.
- Entities need to review their current contract terms and determine whether any terms require amendment in order for the entity to keep or attain a specific revenue profile.
- The increased disclosure requirements require that entities review and determine their accounting policies and note disclosures under IFRS 15. This is particularly important with respect to the judgments and estimates required in applying IFRS 15 and entities may need to update their internal control processes in order to effectively capture information required to make and support judgments.
- Entities must consider whether they will apply any, or all, of the practical expedients offered by IFRS 15 and which transition method they will adopt.
- Entities must be prepared to provide information required by auditors. Documentation requested by auditors may include, but is not limited to:
  - Original and amended customer contracts;
  - Management’s assessment of the application of the five-step revenue model on all significant contracts;
  - Correspondence between the entity and customer(s) supporting any contract modifications;
  - Invoice(s) issued to the customer;
  - Receipt of payment;
  - Management’s calculations of variable consideration, discount allocations, allocation of the transaction price, contract costs and amortization charges; and
  - Quantification of any impact on debt covenants and other key ratios/metrics.
External Resources

- IFRS 15 can be found in Part I of the CPA Canada Handbook - Accounting.
- More information about IFRS 15 and project background can be found on the project page for the standard.

Other MNP Technical Guidance

- IFRS Snapshot: IFRS 15 Revenue from Contracts with Customers
- IFRS 15 Revenue from Contracts with Customers Quick Guide
ABOUT MNP
MNP is one of the largest chartered accountancy and business consulting firms in Canada, with offices in urban and rural centres across the country positioned to serve you better. Working with local team members, you have access to our national network of professionals as well as strategic local insight to help you meet the challenges you face every day and realize what’s possible.

Praxity AISBL is a global alliance of independent firms. Organised as an international not-for-profit entity under Belgium law, Praxity has its administrative office in London. As an alliance, Praxity does not practice the profession of public accountancy or provide audit, tax, consulting or other professional services of any type to third parties. The alliance does not constitute a joint venture, partnership or network between participating firms. Because the alliance firms are independent, Praxity does not guarantee the services or the quality of services provided by participating firms.