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What are the new IFRS 15 disclosure requirements?

The new IFRS 15 ‘Revenue from contracts with customers’ standard became applicable for the 2018 year, and so all companies should be applying the new recognition and measurement criteria for revenue in their December 2018 financial statements and complying with the new disclosure requirements.

For many entities the impact on recognition and measurement of revenue may not be significant and there may be no retrospective adjustments required on implementation as at 1 January 2018. For other entities, material adjustments may be required to existing recognition and measurement policies, with a consequential requirement to either restate comparatives with the retrospective impact or, more likely, apply the modified retrospective approach by adjusting opening retained earnings.

However, for all companies, existing accounting policies in the financial statements will need to be modified and there are some significant new disclosure requirements.

Disclosure requirements

As existing accounting policies for revenue generally refer to the transfer of risks and rewards, these will all be required to be revised to reflect the new transfer of control criteria and the judgments made in applying those criteria for each significant revenue stream. The new revenue standard also now requires a number of disclosures intended to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and the related cash flows. The disclosures include qualitative and quantitative information about contracts with customers, significant judgements made in applying the revenue guidance, and assets recognised from the costs to obtain or fulfil a contract. The disclosures, which are summarised below, are required for each period a statement of comprehensive income is presented and as of each period a statement of financial position is presented.

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Disclosure objectives

An entity shall disclose qualitative and quantitative information about all of the following:

- its contracts with customers
- the significant judgements, and changes in the judgements, made in applying IFRS 15 to those contracts; and
- any assets recognised from the costs to obtain or fulfil a contract with a customer.

An entity shall consider the level of detail necessary to satisfy the disclosure objectives and how much emphasis to place on each of the various requirements. An entity shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have substantially different characteristics.

An entity shall disclose all of the following amounts for the reporting period unless those amounts are presented separately in the statement of comprehensive income in accordance with other Standards:

1) revenue recognised from contracts with customers, which the entity shall disclose separately from its other sources of revenue; and
2) any impairment losses recognised (in accordance with IFRS 9) on any receivables or contract assets arising from an entity's contracts with customers, which the entity shall disclose separately from impairment losses from other contracts.

Disaggregation of revenue

Entities must disaggregate revenue from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. It will depend on the specific circumstances of each entity as to how much detail is disclosed. For listed entities which are required to provide segment information, a disaggregation of revenue by these existing segments and the timing of the transfer of goods or services (at a point in time vs over time) may be adequate for its circumstances. However, this is a judgement and will not necessarily be appropriate for all entities.

Other categories that could be used as basis for disaggregation include:

(a) type of good or service (e.g. major product lines)
(b) geographical regions
(c) market or type of customer
(d) type of contract (e.g. fixed price vs time-and-materials contracts)
(e) contract duration (short-term vs long-term contracts), or
(f) sales channels (directly to customers vs wholesale).

When selecting categories for the disaggregation of revenue, entities should also consider how their revenue is presented for other purposes, e.g. in earnings releases, annual reports or investors presentation and what information is regularly reviewed by the chief operating decision makers. Where revenue is disaggregated on a basis other than reportable segments, the entity must disclose sufficient information so users of their financial statements can understand the relationship between the disaggregated revenue and the revenue information that is disclosed for each reportable segment.

Performance obligations

Disclose information about performance obligations, including:

- When performance obligations are typically satisfied.
- Significant payment terms.
- Nature of the goods or services promised to be transferred.
- Obligations for returns, refunds, or other similar obligations.
- Types of warranties and related obligations.

Remaining performance obligations

- Disclose the amount of the transaction price allocated to any remaining performance obligations not subject to significant revenue reversal.
- Disclose when the entity expects to recognise revenue associated with the transaction price allocated to the remaining performance obligations.
- Qualitatively describe any significant contract renewal and variable consideration not included within the transaction price.

Reconciliation of contract balances

Contract assets, contract liabilities and receivables do not have to be referred to as such and do not need to be presented separately in the balance sheet, as long as the entity provides sufficient information so users of financial statements can distinguish them from other items.

- Disclose opening and closing balances of contract assets and liabilities and provide a qualitative and quantitative description of significant changes in these amounts.
- Disclose the amount of revenue recognised that was included in the contract liability balance at the beginning of the period.
- Disclose the amount of revenue recognised in the current period relating to performance obligations satisfied in a prior period (such as from contracts with variable consideration).
- Disclose how the timing of the satisfaction of a performance obligation relates to the timing of payment. Discuss the effect on the contract asset and liability balances related to any timing difference.

Costs to obtain or fulfil contracts

- Disclose the closing balances, by main category of asset, of capitalised costs to obtain and fulfil a contract and the amount of amortisation in the period.
- Disclose the method used to determine the amount of costs incurred and the amortisation for each reporting period.

Other qualitative disclosures

- Disclose significant judgements and changes in judgements that affect the amount and timing of revenue, including:
  - timing of satisfaction of performance obligations; and
  - transaction price and amount allocated to performance obligations.

- For performance obligations satisfied over time disclose:
  - methods used to recognise revenue (output or input method used and how applied); and
  - why method used faithfully depicts transfer of goods or services.
- For performance obligations satisfied at a point in time disclose significant judgements made in evaluating when customer obtains control.
- Disclose information about the inputs, methods, and assumptions used to determine the transaction price, assess whether variable consideration is constrained, allocate transaction price, and determine the stand-alone selling price.
- Disclose how management determines the minimum amount of revenue not subject to the variable consideration constraint.
- Describe the practical expedients, including those for transition, used in an entity's revenue accounting policies.

Transitional implementation disclosures

- If an entity elects to apply IFRS 15 using the modified retrospective method, the entity recognises the cumulative effect of initially applying the Standard as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) of the annual reporting period that includes the date of initial application. Under this transition method, an entity applies IFRS 15 retrospectively only to contracts that are not completed contracts at the date of initial application.
- For reporting periods that include the date of initial application, an entity shall provide both of the following additional disclosures if IFRS 15 is implemented using the modified retrospective method:
  - the amount by which each financial statement line item is affected in the current reporting period by the application of IFRS 9 as compared to IAS 11, IAS 18 and related Interpretations that were in effect before the change; and
  - an explanation of the reasons for significant changes identified above.

For further help on IFRS 15 implementation, other IFRS technical issues, accounting advice or training needs, please contact our Accounting Technical Support Team or your Assurance Partner:

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