

# **Explanatory Statement**

## **Accounting Standard AASB 15** *Revenue from Contracts with Customers*

**December 2014**



**Australian Government**

**Australian Accounting  
Standards Board**

# EXPLANATORY STATEMENT

## Reasons for Issuing AASB 15

The International Accounting Standards Board (IASB) has issued IFRS 15 *Revenue from Contracts with Customers* to apply to annual reporting periods beginning on or after 1 January 2017, with earlier application permitted. The AASB is issuing AASB 15 *Revenue from Contracts with Customers* to enable Australian reporting entities to continue to be compliant with International Financial Reporting Standards in relation to accounting for revenue from contracts with customers.

## Main Features of AASB 15

### Main Requirements

AASB 15 *Revenue from Contracts with Customers* establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In accordance with this principle, an entity recognises revenue by applying the following steps:

- (a) **Step 1: Identify the contract(s) with a customer**—a contract is an agreement between two or more parties that creates enforceable rights and obligations. The requirements of AASB 15 apply to each contract that has been agreed upon with a customer and meets specified criteria. In some cases, AASB 15 requires an entity to combine contracts and account for them as one contract. AASB 15 also provides requirements for the accounting for contract modifications.
- (b) **Step 2: Identify the performance obligations in the contract**—a contract includes promises to transfer goods or services to a customer. If those goods or services are distinct, the promises are performance obligations and are accounted for separately. A good or service is distinct if the customer can benefit from the good or service on its own or together with other resources that are readily available to the customer and the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract.
- (c) **Step 3: Determine the transaction price**—the transaction price is the amount of consideration in a contract to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer. The transaction price can be a fixed amount of customer consideration, but it may sometimes include variable consideration or consideration in a form other than cash. The transaction price is also adjusted for the effects of the time value of money if the contract includes a significant financing component and for any consideration payable to the customer. If the consideration is variable, an entity estimates the amount of consideration to which it will be entitled in exchange for the promised goods or services. The estimated amount of variable consideration will be included in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.
- (d) **Step 4: Allocate the transaction price to the performance obligations in the contract**—an entity typically allocates the transaction price to each performance obligation on the basis of the relative stand-alone selling prices of each distinct good or service promised in the contract. If a stand-alone selling price is not observable, an entity estimates it. Sometimes, the transaction price includes a discount or a variable amount of consideration that relates entirely to a part of the contract. The requirements specify when an entity allocates the discount or variable consideration to one or more, but not all, performance obligations (or distinct goods or services) in the contract.
- (e) **Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation**—an entity recognises revenue when (or as) it satisfies a performance obligation by transferring a promised good or service to a customer (which is when the customer obtains control of that good or service). The amount of revenue recognised is the amount allocated to the satisfied performance obligation. A performance obligation may be satisfied at a point in time (typically for promises to transfer goods to a customer) or over time (typically for promises to transfer services to a customer). For performance obligations satisfied over time, an entity recognises revenue over time by selecting an appropriate method for measuring the entity's progress towards complete satisfaction of that performance obligation.

AASB 15 also includes a cohesive set of disclosure requirements that provide users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. Specifically, AASB 15 requires an entity to provide information about:

- (a) revenue recognised from contracts with customers, including the disaggregation of revenue into appropriate categories;
- (b) contract balances, including the opening and closing balances of receivables, contract assets and contract liabilities;

- (c) performance obligations, including when the entity typically satisfies its performance obligations and the transaction price that is allocated to the remaining performance obligations in a contract;
- (d) significant judgements, and changes in judgements, made in applying the requirements to those contracts; and
- (e) assets recognised from the costs to obtain or fulfil a contract with a customer.

### **Reduced Disclosure Requirements**

AASB 1053 *Application of Tiers of Australian Accounting Standards* establishes a differential reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements.

Tier 2 requirements comprise the recognition and measurement requirements of Tier 1 but substantially reduced disclosure requirements in comparison with Tier 1.

Accordingly, AASB 15 incorporates reduced disclosure requirements for Tier 2 entities adopting Australian Accounting Standards – Reduced Disclosure Requirements.

### **Application Date**

AASB 15 applies to annual reporting periods beginning on or after 1 January 2017. Earlier application is permitted for annual reporting periods beginning on or after 1 January 2005 but before 1 January 2017.

### **Consultation Prior to Issuing this Standard**

In the process of developing AASB 15, the AASB:

- (a) issued for public comment Invitation to Comment 18 *Request for Comment on IASB Discussion Paper Preliminary Views on Revenue Recognition in Contracts with Customers* and conducted roundtable discussions on the proposals in Melbourne and Sydney;
- (b) issued for public comment Exposure Draft 198 *Revenue from Contracts with Customers*, which incorporated IASB ED/2010/6 *Revenue from Contracts with Customers* (published by the IASB in June 2010); and
- (c) issued for public comment Exposure Draft 222 *Revenue from Contracts with Customers*, which incorporated the IASB's revised ED/2011/6 *Revenue from Contracts with Customers* (published by the IASB in November 2011).

The AASB received 30 comment letters on the invitation to comment and exposure drafts. These letters were received from a wide range of stakeholders, including representative bodies. More than 40 stakeholders also attended the two roundtable discussions conducted by the AASB in connection with the revenue proposals. In addition to those formal consultative processes, a range of stakeholders, including corporate entities, accounting firms, and professional accounting bodies were consulted throughout the project.

Many Australian stakeholders provided specific feedback on parts of the model where they thought that the principles should be refined or clarified and other parts of the model that they thought were practically difficult to apply. Furthermore, some of those stakeholders also identified parts of the model where they disagreed with the effect of its application. Even though Australian stakeholders did not necessarily agree with each individual proposal in the draft revenue standard, most Australian stakeholders (and most of their peers internationally) indicated support for the revenue project generally and the overall objective of a single revenue model that can be applied across industries and transactions. In particular, no Australian stakeholders indicated that they would prefer that Australia lose its status as an 'IFRS compliant jurisdiction' rather than adopt IFRS 15 in Australia. In other words, no stakeholders raised alternative options for making improvements to revenue recognition requirements that would result in the abandonment of ongoing IFRS adoption in Australia. Consequently, based on that feedback, the AASB's focus was to encourage and influence the IASB in improving specific proposals in the draft standard to address the concerns raised during consultations.

The AASB issued Tier 2 Supplement Exposure Drafts to ED 198 and ED 222 to identify the proposed disclosure requirements in those exposure drafts that the AASB proposed would not need to be applied by Tier 2 entities. A total of ten submissions were received by the AASB in respect of those proposed Reduced Disclosure Requirements. The feedback received was generally supportive of the proposed Reduce Disclosure Requirements, although some respondents also indicated that the AASB should consider the Reduced Disclosure Requirements for Tier 2 entities once the disclosure requirements in the forthcoming revenue standard have been finalised.

Consequently, following the issuance of IFRS 15 by the IASB, the AASB issued adverse-comment Exposure Draft ED 251 *Revenue from Contracts with Customers – Tier 2 proposals* in August 2014. ED 251 proposed further disclosure relief for Tier 2 entities as a result of the IASB finalising the disclosure requirements in IFRS 15 *Revenue from Contracts with Customers*. No adverse comments were received by the AASB in respect of the proposals in ED 251 and no concerns were raised by other entities consulted on the Reduced Disclosure Requirements.

# Statement of Compatibility with Human Rights

Prepared in accordance with Part 3 of the  
*Human Rights (Parliamentary Scrutiny) Act 2011*

## **Accounting Standard AASB 15** *Revenue from Contracts with Customers*

### **Overview of the Accounting Standard**

AASB 15 *Revenue from Contracts with Customers* establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

AASB 15 also includes a cohesive set of disclosure requirements that would result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

### **Human Rights Implications**

This Standard is issued by the AASB in furtherance of the objective of facilitating the Australian economy. It does not diminish or limit any of the applicable human rights or freedoms, and thus does not raise any human rights issues.

### **Conclusion**

This Standard is compatible with the human rights and freedoms recognised or declared in the international instruments listed in section 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*.