



NEED TO KNOW

IFRS 15 *Revenue from Contracts with Customers* –
IFRS – US GAAP Differences

In May 2014 the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) achieved their goal of reaching the same conclusions on all requirements for the accounting for revenue from contracts with customers, with some minor differences. Subsequent to the issuance of the new revenue standards both boards have issued clarifications to the standard. The IASB's Clarifications to IFRS 15 *Revenue from Contracts with Customers* differ in certain respects from the amendments to Topic 606 issued by the FASB and, as a result, certain differences now exist.

Awareness of these issues is important for many reasons, but notably for:

- Individuals comparing financial statements prepared in accordance with IFRS and those prepared in accordance with US GAAP.
- Multi-national companies with subsidiaries that report in accordance with both US GAAP and IFRS.
- Foreign private issuers preparing IFRS financial statements being filed with the US Securities and Exchange Commission (SEC).

Areas where differences in outcomes may arise include:

- The scope of the standards differ which could result in differences in the extent of an entity's contracts that are within the scope of the new revenue standards. These differences are related to insurance contracts, guarantees, credit card fees and gaming transactions.
- Shipping and handling.
- Sales Taxes.
- The measurement date of non-cash consideration.
- Various issues related to licences, including the accounting for intellectual property and the treatment of licences renewals.
- Reversal of impairment on contract costs.
- Extent of disclosures, especially in interim statements.
- The practical expedients available on transition.

In some of these areas an entity could choose particular accounting approaches such that differences in outcomes would be avoided. For entities with subsidiaries that report in both US GAAP and IFRS and those with US SEC reporting requirements, choices to minimise GAAP differences may be warranted.

The following table summarises the IFRS – US GAAP differences.

Topic	IFRS – US GAAP Difference	Expected Outcomes
Illustrative examples	<p>The illustrative examples are part of Topic 606 and are therefore considered authoritative.</p> <p>The illustrative examples accompany, but are not part of, IFRS 15 and are therefore not authoritative.</p>	Differences in outcomes are not expected as a result of the level of authority of the illustrative examples.
Scope – Insurance contracts	<p>Topic 606 excludes from its scope insurance contracts for entities that apply current US insurance industry guidance. However it does not exclude insurance contracts issued by entities that do not follow the insurance industry guidance.</p> <p>IFRS 15 excludes from its scope all insurance contracts within the scope of IFRS 4 <i>Insurance Contracts</i>.</p>	<p>Differences in outcomes are expected as a result of the difference in scope.</p> <p>Topic 606 may apply more broadly than IFRS 15.</p>
Scope – Guarantees	<p>Topic 606 excludes guarantees from its scope.</p> <p>IFRS 15 does not specifically exclude guarantees from its scope, however it does exclude financial instruments and insurance contracts within the scope of IFRS 4, which would include financial guarantee contracts.</p>	<p>Differences in outcomes may arise as a result of this difference in scope.</p> <p>Certain non-financial guarantees may fall within the scope of IFRS 15 that would not fall within the scope of Topic 606.</p>
Scope – Credit card fees	<p>US GAAP has specific guidance on the accounting for credit card fees, which was not superseded by Topic 606.</p> <p>Under IFRS an entity would first determine if the fees were in the scope of IFRS 9 <i>Financial Instruments</i>. If not in the scope of IFRS 9, then the fees would be accounted for in accordance with IFRS 15.</p>	Differences in outcomes may arise as a result of this difference in scope.
Scope – Gaming transactions	<p>Under IFRS fixed-odds wagering, such as sports betting contracts, are considered to be financial instruments (derivative contracts). As a result they are not in the scope of IFRS 15.</p> <p>Under US GAAP industry specific guidance exists. Topic 606 does not supersede the industry specific guidance.</p>	Differences in outcomes will arise. These differences exist under current standards.

Topic	IFRS – US GAAP Difference	Expected Outcomes
Revenue recognition for contracts with customers that do not meet the Step 1 criteria	<p>Topic 606 requires an entity to recognise any consideration received as revenue when:</p> <ul style="list-style-type: none"> (i) The entity has transferred control of the goods or services to which the consideration received relates; (ii) The entity has stopped transferring additional goods or services and has no obligation to transfer additional goods or services; and (iii) The consideration received from the customer is non-refundable. <p>The criteria in IFRS 15 are subtly different, notably (ii) above is not included in the IFRS 15 guidance.</p>	The additional guidance in Topic 606 should not result in a significant difference in outcomes.
Promised goods or services that are immaterial within the context of the contract	<p>Topic 606 states that an entity is not required to assess whether promised goods or services are performance obligations if they are immaterial within the context of the contract with the customer.</p> <p>IFRS 15 does not contain similar guidance.</p>	The additional guidance in Topic 606 should not result in a significant difference in outcomes.
Shipping and handling activities	<p>Topic 606 provides for an accounting policy choice to account for shipping and handling activities that occur after the customer has obtained control of a good as fulfilment activities.</p> <p>IFRS 15 does not provide a similar accounting policy choice.</p>	<p>Differences in outcomes will arise as a result of the accounting policy choice in Topic 606.</p> <p>Under IFRS 15 an entity will be required to assess if shipping and handling that occurs after the customer has obtained control is a distinct performance obligation.</p> <p>The policy choice permitted under Topic 606, allows entities to avoid assessing if the shipping and handling activities are a distinct performance obligation.</p>

Topic	IFRS – US GAAP Difference	Expected Outcomes
Presentation of sales taxes	<p>Topic 606 provides for an accounting policy choice to exclude from the measurement of the transaction price all taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction and collected from customers (for example: sales taxes, use taxes, VAT etc.).</p> <p>IFRS 15 does not provide a similar accounting policy choice.</p>	<p>Differences in outcome will arise as a result of the accounting policy choice in Topic 606.</p> <p>Under IFRS 15 an entity will have to assess whether it is the principal or agent with regards to sales taxes collected.</p> <p>The policy choice permitted under Topic 606, allows entities to avoid this assessment.</p>
Non-cash consideration	<p>Topic 606 requires non-cash consideration to be measured at its fair value at contract inception. It also specifies that the constraint on variable consideration applies only to variability in the fair value of the non-cash consideration that arises for reasons other than the form of the consideration.</p> <p>IFRS 15 does not contain similar guidance.</p>	<p>Differences in outcomes will arise as a result of the additional guidance in Topic 606.</p> <p>The lack of similar guidance in IFRS 15 will require the application of judgement in measuring non-cash consideration. A date other than contract inception cannot be precluded under IFRS 15.</p>

Topic	IFRS – US GAAP Difference	Expected Outcomes
Determining the nature of the entity's promise in granting a licence of intellectual property	<p>The criteria in Topic 606 to determine the nature of a licence requires an entity to classify the intellectual property underlying the licence as functional or symbolic based on whether the intellectual property has significant stand-alone functionality. A licence to functional intellectual property is considered a right to use, unless the functionality of the intellectual property is expected to substantively change during the licence period. A licence to symbolic intellectual property is considered a right to access the underlying intellectual property.</p> <p>The criteria in IFRS 15 does not distinguish between functional and symbolic intellectual property. A licence provides a right to access if all of the following criteria are met:</p> <ul style="list-style-type: none"> (a) The entity will undertake activities that significantly affect the intellectual property; (b) The rights granted by the licence directly expose the customer to any positive or negative effects of the entity's activities; and (c) Those activities do not result in the transfer of a good or a service to the customer as those activities occur. 	<p>Differences in outcome will arise as a result of the different criteria for determining the nature of the licence for certain symbolic intellectual property.</p> <p>The timing of revenue recognition for licences of symbolic intellectual property will always be over time under Topic 606. Under IFRS it will be recognised over time if the 'right to access' criteria have been met.</p> <p>Although most licences to symbolic intellectual property would be recognised over time under IFRS 15, revenue may be recognised at a point in time in those cases in which the entity will undertake no activities that significantly affect the ability of the customer to obtain benefit from the intellectual property during the licence period. Under Topic 606, revenue for all licences to symbolic intellectual property is recognised over time.</p>
Contractual restrictions in a licence and the identification of performance obligations	<p>Topic 606 states that the requirements about contractual restrictions, which are attributes of the contract (restrictions in time, geography or use) does not replace the requirement for the entity to identify the number of licences promised in the contract.</p> <p>IFRS 15 does not contain similar guidance.</p>	<p>The additional guidance in Topic 606 should not result in a significant difference in outcomes.</p>

Topic	IFRS – US GAAP Difference	Expected Outcomes
Renewals of licences of intellectual property	<p>Topic 606 includes an additional example that specifies that an entity would not generally recognise revenue from the transfer of a licence renewal until the beginning of the licence renewal period.</p> <p>IFRS 15 does not contain similar guidance.</p>	<p>Differences in outcomes may arise as a result of the additional guidance in Topic 606.</p> <p>The recognition of revenue on renewal of licences which grant a right to use may be later under Topic 606 than under IFRS 15.</p>
When to consider the nature of an entity's promise in granting a licence	<p>Topic 606 explicitly states that an entity considers the nature of its promise in granting a licence when applying the general revenue recognition model to a single performance obligation that includes a licence and other goods or services.</p> <p>IFRS 15 does not contain similar guidance.</p>	<p>Differences in outcomes may arise as a result of the additional guidance in Topic 606.</p> <p>When a licence is not the predominant item of a single performance obligation, this may result in an entity that applies Topic 606 considering the nature of its promise in granting a licence in a greater number of circumstances than an entity applying IFRS 15.</p>
In-substance sales of intellectual property	<p>The exception for sales and usage based royalties does not apply to outright sales of intellectual property.</p> <p>The basis to conclusions to Topic 606 states that an entity should not determine whether a license to intellectual property is an 'in substance sale' of that intellectual property in deciding whether or not the royalties exception applies.</p> <p>The wording in the basis for conclusions of IFRS 15 is not as explicit.</p>	<p>Differences in outcomes may arise as a result of the differences in the basis to conclusions.</p> <p>The sales and usage royalty exception may be applied more broadly under Topic 606.</p>
Impairment loss reversal	<p>Under both Topic 606 and IFRS 15 contract costs are subject to impairment testing.</p> <p>US GAAP prohibits the reversal of impairments. IFRS requires reversal of impairment when the conditions that lead to the impairment no longer exist or have improved.</p>	<p>Differences in outcomes will arise as impairment reversals have to be assessed under IFRS 15.</p>

Topic	IFRS – US GAAP Difference	Expected Outcomes
Interim disclosure requirements	<p>US GAAP requires disclosure of disaggregated revenue, contract balances and remaining performance obligations in interim financial statements.</p> <p>IFRS requires disclosure of disaggregated revenue in condensed interim financial statements.</p>	<p>Differences in outcomes will arise.</p> <p>Disclosure in the interim financial statements will be more extensive under US GAAP.</p>
Non-public entity requirements	<p>Topic 606 provides relief from certain disclosure requirements for non-public business entities and not for profit organisations.</p> <p>IFRS 15 does not provide any relief. All entities following IFRS are expected to comply with all the disclosure requirements.</p>	<p>Differences in outcomes will arise.</p> <p>Disclosures in the financial statements of non-public entities will be more extensive under IFRS.</p>
Effective date	<p>Topic 606 is applicable for annual periods beginning after 15 December 2017, with a one year deferral for non-public entities.</p> <p>IFRS 15 is applicable for periods beginning on or after 1 January 2018.</p>	<p>Differences in outcomes will arise for non-public entities.</p>
Transition – Definition of completed contracts	<p>Topic 606 defines a completed contract as a contract for which all (or substantially all) of the revenue was recognised in accordance with the previous revenue standards.</p> <p>IFRS 15 defines a completed contract as a contract for which the entity has transferred all of the goods or services identified in accordance with IAS 11 <i>Construction Contracts</i>, IAS 18 <i>Revenue</i> and related Interpretations.</p>	<p>Differences in outcomes will arise as a result of the different definitions of completed contracts.</p> <p>The transitional practical expedients related to completed contracts will be applicable to more contracts under IFRS 15 than under Topic 606.</p>
Transition – Completed contracts at the beginning of the earliest year presented	<p>IFRS 15 includes a practical expedient to allow an entity applying IFRS 15 retrospectively not to restate contracts that are completed contracts at the beginning of the earliest period presented.</p> <p>Topic 606 does not provide this practical expedient.</p>	<p>Differences in outcomes will arise as a result of the additional practical expedient in IFRS 15.</p> <p>The transitional practical expedients related to completed contracts will be applicable to more contracts under IFRS 15 than under Topic 606.</p>

Topic	IFRS – US GAAP Difference	Expected Outcomes
Transition – Date of application of the contract modifications practical expedient	<p data-bbox="555 320 1018 472">For entities applying the new revenue standards using the cumulative effect method, a practical expedient for contract modifications exists.</p> <p data-bbox="555 483 1018 750">Under Topic 606 the practical expedient is applied at the date of initial application. Under IFRS 15 the practical expedient may be applied either at the beginning of the earliest period presented, or at the date of initial application.</p>	<p data-bbox="1034 320 1495 551">Differences in outcomes will arise as a result of IFRS 15 allowing this practical expedient to be applied at either the beginning of the earliest period presented, or the date of initial application.</p>

CONTACT

For further information about how BDO can assist you and your organisation, please get in touch with one of our key contacts listed below. Alternatively, please visit www.bdo.global/en-gb/services/audit-assurance/ifrs/ifrs-country-leaders where you can find full lists of regional and country contacts.

EUROPE

Anne Catherine Farlay	France	annecatherine.farlay@bdo.fr
Jens Freiberg	Germany	jens.freiberg@bdo.de
Teresa Morahan	Ireland	tmorahan@bdo.ie
Ehud Greenberg	Israel	ehudg@bdo.co.il
Ruud Vergoossen	Netherlands	ruud.vergoossen@bdo.nl
Reidar Jensen	Norway	reidar.jensen@bdo.no
Maria Sukonkina	Russia	m.sukonkina@bdo.ru
René Krügel	Switzerland	rene.kruegel@bdo.ch
Brian Creighton	United Kingdom	brian.creighton@bdo.co.uk

ASIA PACIFIC

Wayne Basford	Australia	wayne.basford@bdo.com.au
Zheng Xian Hong	China	zheng.xianhong@bdo.com.cn
Fanny Hsiang	Hong Kong	fannyhsiang@bdo.com.hk
Khoon Yeow Tan	Malaysia	tanky@bdo.my

LATIN AMERICA

María Eugenia Segura	Argentina	msegura@bdoargentina.com
Luis Pierrend	Peru	lpierrend@bdo.com.pe
Ernesto Bartesaghi	Uruguay	ebartesaghi@bdo.com.uy

NORTH AMERICA & CARIBBEAN

Armand Capisciolto	Canada	acapisciolto@bdo.ca
Wendy Hambleton	USA	whambleton@bdo.com

MIDDLE EAST

Arshad Gadit	Bahrain	arshad.gadit@bdo.bh
Antoine Gholam	Lebanon	agholam@bdo-lb.com

SUB SAHARAN AFRICA

Nigel Griffith	South Africa	ngriffith@bdo.co.za
----------------	--------------	---------------------

This publication has been carefully prepared, but it has been written in general terms and should be seen as broad guidance only. The publication cannot be relied upon to cover specific situations and you should not act, or refrain from acting, upon the information contained therein without obtaining specific professional advice. Please contact your respective BDO member firm to discuss these matters in the context of your particular circumstances. Neither BDO IFR Advisory Limited, Brussels Worldwide Services BVBA, BDO International Limited and/or BDO member firms, nor their respective partners, employees and/or agents accept or assume any liability or duty of care for any loss arising from any action taken or not taken by anyone in reliance on the information in this publication or for any decision based on it.

Service provision within the international BDO network of independent member firms ('the BDO network') in connection with IFRS (comprising International Financial Reporting Standards, International Accounting Standards, and Interpretations developed by the IFRS Interpretations Committee and the former Standing Interpretations Committee), and other documents, as issued by the International Accounting Standards Board, is provided by BDO IFR Advisory Limited, a UK registered company limited by guarantee. Service provision within the BDO network is co-ordinated by Brussels Worldwide Services BVBA, a limited liability company incorporated in Belgium with its statutory seat in Zaventem.

Each of BDO International Limited (the governing entity of the BDO network), Brussels Worldwide Services BVBA, BDO IFR Advisory Limited and the member firms is a separate legal entity and has no liability for another such entity's acts or omissions. Nothing in the arrangements or rules of the BDO network shall constitute or imply an agency relationship or a partnership between BDO International Limited, Brussels Worldwide Services BVBA, BDO IFR Advisory Limited and/or the member firms of the BDO network.

BDO is the brand name for the BDO network and for each of the BDO member firms.

© 2016 BDO IFR Advisory Limited, a UK registered company limited by guarantee. All rights reserved.

www.bdo.global

1612-01