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ANNEX

Clarifications to IFRS 15
Revenue from Contracts with Customers

Amendments to IFRS 15 *Revenue from Contracts with Customers*

Paragraphs 26, 27 and 29 are amended. Paragraphs 28 and 30 have not been amended but have been included for ease of reference.

Distinct goods or services

- 26 Depending on the contract, promised goods or services may include, but are not limited to, the following:
- (a) sale of goods produced by an entity (for example, inventory of a manufacturer);
 - (b) resale of goods purchased by an entity (for example, merchandise of a retailer);
 - (c) resale of rights to goods or services purchased by an entity (for example, a ticket resold by an entity acting as a principal, as described in paragraphs B34–B38);
 - (d) performing a contractually agreed-upon task (or tasks) for a customer;
 - (e) providing a service of standing ready to provide goods or services (for example, unspecified updates to software that are provided on a when-and-if-available basis) or of making goods or services available for a customer to use as and when the customer decides;
 - (f) providing a service of arranging for another party to transfer goods or services to a customer (for example, acting as an agent of another party, as described in paragraphs B34–B38);
 - (g) granting rights to goods or services to be provided in the future that a customer can resell or provide to its customer (for example, an entity selling a product to a retailer promises to transfer an additional good or service to an individual who purchases the product from the retailer);
 - (h) constructing, manufacturing or developing an asset on behalf of a customer;
 - (i) granting licences (see paragraphs B52–B63B); and
 - (j) granting options to purchase additional goods or services (when those options provide a customer with a material right, as described in paragraphs B39–B43).
- 27 A good or service that is promised to a customer is distinct if both of the following criteria are met:
- (a) 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 (ie the good or service is capable of being distinct); and
 - (b) the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (ie the promise to transfer the good or service is distinct within the context of the contract).
- 28 A customer can benefit from a good or service in accordance with paragraph 27(a) if the good or service could be used, consumed, sold for an amount that is greater than scrap value or otherwise held in a way that generates economic benefits. For some goods or services, a customer may be able to benefit from a good or service on its own. For other goods or services, a customer may be able to benefit from the good or service only in conjunction with other readily available resources. A readily available resource is a good or service that is sold separately (by the entity or another entity) or a resource that the customer has already obtained from the entity (including goods or services that the entity will have already transferred to the customer under the contract) or from other transactions or events. Various factors may provide evidence that the customer can benefit from a good or service either on its own or in conjunction with other readily available resources. For example, the fact that the entity regularly sells a good or service separately would indicate that a customer can benefit from the good or service on its own or with other readily available resources.
- 29 In assessing whether an entity's promises to transfer goods or services to the customer are separately identifiable in accordance with paragraph 27(b), the objective is to determine whether the nature of the promise, within the context of the contract, is to transfer each of those goods or services individually or, instead, to transfer a combined item or items to which the promised goods or services are inputs. Factors

that indicate that two or more promises to transfer goods or services to a customer are not separately identifiable include, but are not limited to, the following:

- (a) the entity provides a significant service of integrating the goods or services with other goods or services promised in the contract into a bundle of goods or services that represent the combined output or outputs for which the customer has contracted. In other words, the entity is using the goods or services as inputs to produce or deliver the combined output or outputs specified by the customer. A combined output or outputs might include more than one phase, element or unit.
- (b) one or more of the goods or services significantly modifies or customises, or are significantly modified or customised by, one or more of the other goods or services promised in the contract.
- (c) the goods or services are highly interdependent or highly interrelated. In other words, each of the goods or services is significantly affected by one or more of the other goods or services in the contract. For example, in some cases, two or more goods or services are significantly affected by each other because the entity would not be able to fulfil its promise by transferring each of the goods or services independently.

30 If a promised good or service is not distinct, an entity shall combine that good or service with other promised goods or services until it identifies a bundle of goods or services that is distinct. In some cases, that would result in the entity accounting for all the goods or services promised in a contract as a single performance obligation.

In Appendix B, paragraphs B1, B34–B38, B52–B53 and B58 are amended and paragraphs B34A, B35A, B35B, B37A, B59A, B63A and B63B are added. Paragraph B57 is deleted. Paragraphs B54–B56, B59 and B60–B63 have not been amended but have been included for ease of reference.

Appendix B Application Guidance

...

B1 This application guidance is organised into the following categories:

- (a) ...
- (i) licensing (paragraphs B52–B63B);
- (j) ...

Principal versus agent considerations

B34 When another party is involved in providing goods or services to a customer, the entity shall determine whether the nature of its promise is a performance obligation to provide the specified goods or services itself (ie the entity is a principal) or to arrange for those goods or services to be provided by the other party (ie the entity is an agent). An entity determines whether it is a principal or an agent for each specified good or service promised to the customer. A specified good or service is a distinct good or service (or a distinct bundle of goods or services) to be provided to the customer (see paragraphs 27–30). If a contract with a customer includes more than one specified good or service, an entity could be a principal for some specified goods or services and an agent for others.

B34A To determine the nature of its promise (as described in paragraph B34), the entity shall:

- (a) identify the specified goods or services to be provided to the customer (which, for example, could be a right to a good or service to be provided by another party (see paragraph 26)); and
- (b) assess whether it controls (as described in paragraph 33) each specified good or service before that good or service is transferred to the customer.

B35 An entity is a principal if it controls the specified good or service before that good or service is transferred to a customer. However, an entity does not necessarily control a specified good if the entity obtains legal title to that good only momentarily before legal title is transferred to a customer. An entity that is a principal may satisfy its performance obligation to provide the specified good or service itself or it may engage

another party (for example, a subcontractor) to satisfy some or all of the performance obligation on its behalf.

B35A When another party is involved in providing goods or services to a customer, an entity that is a principal obtains control of any one of the following:

- (a) a good or another asset from the other party that it then transfers to the customer.
- (b) a right to a service to be performed by the other party, which gives the entity the ability to direct that party to provide the service to the customer on the entity's behalf.
- (c) a good or service from the other party that it then combines with other goods or services in providing the specified good or service to the customer. For example, if an entity provides a significant service of integrating goods or services (see paragraph 29(a)) provided by another party into the specified good or service for which the customer has contracted, the entity controls the specified good or service before that good or service is transferred to the customer. This is because the entity first obtains control of the inputs to the specified good or service (which includes goods or services from other parties) and directs their use to create the combined output that is the specified good or service.

B35B When (or as) an entity that is a principal satisfies a performance obligation, the entity recognises revenue in the gross amount of consideration to which it expects to be entitled in exchange for the specified good or service transferred.

B36 An entity is an agent if the entity's performance obligation is to arrange for the provision of the specified good or service by another party. An entity that is an agent does not control the specified good or service provided by another party before that good or service is transferred to the customer. When (or as) an entity that is an agent satisfies a performance obligation, the entity recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party. An 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 to be provided by that party.

B37 Indicators that an entity controls the specified good or service before it is transferred to the customer (and is therefore a principal (see paragraph B35)) include, but are not limited to, the following:

- (a) the entity is primarily responsible for fulfilling the promise to provide the specified good or service. This typically includes responsibility for the acceptability of the specified good or service (for example, primary responsibility for the good or service meeting customer specifications). If the entity is primarily responsible for fulfilling the promise to provide the specified good or service, this may indicate that the other party involved in providing the specified good or service is acting on the entity's behalf.
- (b) the entity has inventory risk before the specified good or service has been transferred to a customer or after transfer of control to the customer (for example, if the customer has a right of return). For example, if the entity obtains, or commits itself to obtain, the specified good or service before obtaining a contract with a customer, that may indicate that the entity has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the good or service before it is transferred to the customer.
- (c) the entity has discretion in establishing the price for the specified good or service. Establishing the price that the customer pays for the specified good or service may indicate that the entity has the ability to direct the use of that good or service and obtain substantially all of the remaining benefits. However, an agent can have discretion in establishing prices in some cases. For example, an agent may have some flexibility in setting prices in order to generate additional revenue from its service of arranging for goods or services to be provided by other parties to customers.

B37A The indicators in paragraph B37 may be more or less relevant to the assessment of control depending on the nature of the specified good or service and the terms and conditions of the contract. In addition, different indicators may provide more persuasive evidence in different contracts.

B38 If another entity assumes the entity's performance obligations and contractual rights in the contract so that the entity is no longer obliged to satisfy the performance obligation to transfer the specified good or service to the customer (ie the entity is no longer acting as the principal), the entity shall not recognise revenue for that performance obligation. Instead, the entity shall evaluate whether to recognise revenue for satisfying a performance obligation to obtain a contract for the other party (ie whether the entity is acting as an agent).

...

Licensing

- B52 A licence establishes a customer's rights to the intellectual property of an entity. Licences of intellectual property may include, but are not limited to, licences of any of the following:
- (a) software and technology;
 - (b) motion pictures, music and other forms of media and entertainment;
 - (c) franchises; and
 - (d) patents, trademarks and copyrights.
- B53 In addition to a promise to grant a licence (or licences) to a customer, an entity may also promise to transfer other goods or services to the customer. Those promises may be explicitly stated in the contract or implied by an entity's customary business practices, published policies or specific statements (see paragraph 24). As with other types of contracts, when a contract with a customer includes a promise to grant a licence (or licences) in addition to other promised goods or services, an entity applies paragraphs 22–30 to identify each of the performance obligations in the contract.
- B54 If the promise to grant a licence is not distinct from other promised goods or services in the contract in accordance with paragraphs 26–30, an entity shall account for the promise to grant a licence and those other promised goods or services together as a single performance obligation. Examples of licences that are not distinct from other goods or services promised in the contract include the following:
- (a) a licence that forms a component of a tangible good and that is integral to the functionality of the good; and
 - (b) a licence that the customer can benefit from only in conjunction with a related service (such as an online service provided by the entity that enables, by granting a licence, the customer to access content).
- B55 If the licence is not distinct, an entity shall apply paragraphs 31–38 to determine whether the performance obligation (which includes the promised licence) is a performance obligation that is satisfied over time or satisfied at a point in time.
- B56 If the promise to grant the licence is distinct from the other promised goods or services in the contract and, therefore, the promise to grant the licence is a separate performance obligation, an entity shall determine whether the licence transfers to a customer either at a point in time or over time. In making this determination, an entity shall consider whether the nature of the entity's promise in granting the licence to a customer is to provide the customer with either:
- (a) a right to access the entity's intellectual property as it exists throughout the licence period; or
 - (b) a right to use the entity's intellectual property as it exists at the point in time at which the licence is granted.

Determining the nature of the entity's promise

- B57 [Deleted]
- B58 The nature of an entity's promise in granting a licence is a promise to provide a right to access the entity's intellectual property if all of the following criteria are met:
- (a) the contract requires, or the customer reasonably expects, that the entity will undertake activities that significantly affect the intellectual property to which the customer has rights (see paragraphs B59 and B59A);
 - (b) the rights granted by the licence directly expose the customer to any positive or negative effects of the entity's activities identified in paragraph B58(a); and
 - (c) those activities do not result in the transfer of a good or a service to the customer as those activities occur (see paragraph 25).
- B59 Factors that may indicate that a customer could reasonably expect that an entity will undertake activities that significantly affect the intellectual property include the entity's customary business practices, published policies or specific statements. Although not determinative, the existence of a shared economic interest (for example, a sales-based royalty) between the entity and the customer related to the intellectual property to which the customer has rights may also indicate that the customer could reasonably expect that the entity will undertake such activities.

B59A An entity's activities significantly affect the intellectual property to which the customer has rights when either:

- (a) those activities are expected to significantly change the form (for example, the design or content) or the functionality (for example, the ability to perform a function or task) of the intellectual property; or
- (b) the ability of the customer to obtain benefit from the intellectual property is substantially derived from, or dependent upon, those activities. For example, the benefit from a brand is often derived from, or dependent upon, the entity's ongoing activities that support or maintain the value of the intellectual property.

Accordingly, if the intellectual property to which the customer has rights has significant stand-alone functionality, a substantial portion of the benefit of that intellectual property is derived from that functionality. Consequently, the ability of the customer to obtain benefit from that intellectual property would not be significantly affected by the entity's activities unless those activities significantly change its form or functionality. Types of intellectual property that often have significant stand-alone functionality include software, biological compounds or drug formulas, and completed media content (for example, films, television shows and music recordings).

B60 If the criteria in paragraph B58 are met, an entity shall account for the promise to grant a licence as a performance obligation satisfied over time because the customer will simultaneously receive and consume the benefit from the entity's performance of providing access to its intellectual property as the performance occurs (see paragraph 35(a)). An entity shall apply paragraphs 39–45 to select an appropriate method to measure its progress towards complete satisfaction of that performance obligation to provide access.

B61 If the criteria in paragraph B58 are not met, the nature of an entity's promise is to provide a right to use the entity's intellectual property as that intellectual property exists (in terms of form and functionality) at the point in time at which the licence is granted to the customer. This means that the customer can direct the use of, and obtain substantially all of the remaining benefits from, the licence at the point in time at which the licence transfers. An entity shall account for the promise to provide a right to use the entity's intellectual property as a performance obligation satisfied at a point in time. An entity shall apply paragraph 38 to determine the point in time at which the licence transfers to the customer. However, revenue cannot be recognised for a licence that provides a right to use the entity's intellectual property before the beginning of the period during which the customer is able to use and benefit from the licence. For example, if a software licence period begins before an entity provides (or otherwise makes available) to the customer a code that enables the customer to immediately use the software, the entity would not recognise revenue before that code has been provided (or otherwise made available).

B62 An entity shall disregard the following factors when determining whether a licence provides a right to access the entity's intellectual property or a right to use the entity's intellectual property:

- (a) Restrictions of time, geographical region or use—those restrictions define the attributes of the promised licence, rather than define whether the entity satisfies its performance obligation at a point in time or over time.
- (b) Guarantees provided by the entity that it has a valid patent to intellectual property and that it will defend that patent from unauthorised use—a promise to defend a patent right is not a performance obligation because the act of defending a patent protects the value of the entity's intellectual property assets and provides assurance to the customer that the licence transferred meets the specifications of the licence promised in the contract.

Sales-based or usage-based royalties

B63 Notwithstanding the requirements in paragraphs 56–59, an entity shall recognise revenue for a sales-based or usage-based royalty promised in exchange for a licence of intellectual property only when (or as) the later of the following events occurs:

- (a) the subsequent sale or usage occurs; and
- (b) the performance obligation to which some or all of the sales-based or usage-based royalty has been allocated has been satisfied (or partially satisfied).

B63A The requirement for a sales-based or usage-based royalty in paragraph B63 applies when the royalty relates only to a licence of intellectual property or when a licence of intellectual property is the predominant item to which the royalty relates (for example, the licence of intellectual property may be the predominant item to which the royalty relates when the entity has a reasonable expectation that the customer would ascribe significantly more value to the licence than to the other goods or services to which the royalty relates).

- B63B When the requirement in paragraph B63A is met, revenue from a sales-based or usage-based royalty shall be recognised wholly in accordance with paragraph B63. When the requirement in paragraph B63A is not met, the requirements on variable consideration in paragraphs 50–59 apply to the sales-based or usage-based royalty.

In Appendix C, paragraphs C2, C5 and C7 are amended and paragraphs C1B, C7A and C8A are added. Paragraphs C3 and C6 have not been amended but have been included for ease of reference.

Effective date

- ...
- C1B *Clarifications to IFRS 15 Revenue from Contracts with Customers*, issued in April 2016, amended paragraphs 26, 27, 29, B1, B34–B38, B52–B53, B58, C2, C5 and C7, deleted paragraph B57 and added paragraphs B34A, B35A, B35B, B37A, B59A, B63A, B63B, C7A and C8A. An entity shall apply those amendments for annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.

Transition

- C2 For the purposes of the transition requirements in paragraphs C3–C8A:
- (a) the date of initial application is the start of the reporting period in which an entity first applies this Standard; and
 - (b) a completed contract is a contract for which the entity has transferred all of the goods or services identified in accordance with IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related Interpretations.
- C3 An entity shall apply this Standard using one of the following two methods:
- (a) retrospectively to each prior reporting period presented in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, subject to the expedients in paragraph C5; or
 - (b) retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application in accordance with paragraphs C7–C8.
- ...
- C5 An entity may use one or more of the following practical expedients when applying this Standard retrospectively in accordance with paragraph C3(a):
- (a) for completed contracts, an entity need not restate contracts that:
 - (i) begin and end within the same annual reporting period; or
 - (ii) are completed contracts at the beginning of the earliest period presented.
 - (b) for completed contracts that have variable consideration, an entity may use the transaction price at the date the contract was completed rather than estimating variable consideration amounts in the comparative reporting periods.
 - (c) for contracts that were modified before the beginning of the earliest period presented, an entity need not retrospectively restate the contract for those contract modifications in accordance with paragraphs 20–21. Instead, an entity shall reflect the aggregate effect of all of the modifications that occur before the beginning of the earliest period presented when:
 - (i) identifying the satisfied and unsatisfied performance obligations;
 - (ii) determining the transaction price; and
 - (iii) allocating the transaction price to the satisfied and unsatisfied performance obligations.
 - (d) for all reporting periods presented before the date of initial application, an entity need not disclose the amount of the transaction price allocated to the remaining performance obligations and an explanation of when the entity expects to recognise that amount as revenue (see paragraph 120).

- C6 For any of the practical expedients in paragraph C5 that an entity uses, the entity shall apply that expedient consistently to all contracts within all reporting periods presented. In addition, the entity shall disclose all of the following information:
- (a) the expedients that have been used; and
 - (b) to the extent reasonably possible, a qualitative assessment of the estimated effect of applying each of those expedients.
- C7 If an entity elects to apply this Standard retrospectively in accordance with paragraph C3(b), the entity shall recognise the cumulative effect of initially applying this 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 may elect to apply this Standard retrospectively only to contracts that are not completed contracts at the date of initial application (for example, 1 January 2018 for an entity with a 31 December year-end).
- C7A An entity applying this Standard retrospectively in accordance with paragraph C3(b) may also use the practical expedient described in paragraph C5(c), either:
- (a) for all contract modifications that occur before the beginning of the earliest period presented; or
 - (b) for all contract modifications that occur before the date of initial application.
- If an entity uses this practical expedient, the entity shall apply the expedient consistently to all contracts and disclose the information required by paragraph C6.
- ...
- C8A An entity shall apply *Clarifications to IFRS 15* (see paragraph C1B) retrospectively in accordance with IAS 8. In applying the amendments retrospectively, an entity shall apply the amendments as if they had been included in IFRS 15 at the date of initial application. Consequently, an entity does not apply the amendments to reporting periods or to contracts to which the requirements of IFRS 15 are not applied in accordance with paragraphs C2–C8. For example, if an entity applies IFRS 15 in accordance with paragraph C3(b) only to contracts that are not completed contracts at the date of initial application, the entity does not restate the completed contracts at the date of initial application of IFRS 15 for the effects of these amendments.