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IFRS 15: 'Revenue from contracts with customers'

Effective for accounting periods beginning on or after 1 January 2018

December 2017

IFRS 15: 'Revenue from contracts with customers'

The IASB published the new IFRS 15 Revenue from contracts with customer's standard, in order to create a single model for revenue recognition for contracts. IFRS 15 will promote greater consistency and comparability across industries and capital markets. The actual impact on each company's top line will depend on their specific customer contracts and how they have applied existing accounting standards.

- effective for accounting periods beginning on or after 1 January 2018;
- provide a single accounting model for Revenue from contracts with customers;
- greater consistency and comparability across industries and capital markets.

Scope IFRS 15

IFRS 15 applies to all entities that enter into contracts with customers to provide goods, services or intellectual property, except the following:

- lease contracts within the scope of IAS 17;
- insurance contracts within the scope of IFRS 4;
- financing arrangements within the scope of IAS 39;
- financial instruments within the scope of IFRS 9;
- guarantees other than product warranties;
- non-monetary exchange between entities in the same line of business to facilitate sales to third-party customers;
- contracts that are not with customers (e.g. risk-sharing contracts).

Definition of a customer

IFRS 15 defines a customer "as a party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration[1]." In transactions involving multiple parties, it could be less clear which counterparties are customers of the entity. For some arrangements, multiple parties could all be considered customers of the entity. Depending on the specific facts and circumstances, the customer can be identified.

In certain transactions, a counterparty may not always be a 'customer' of the entity but a collaborator or partner that shares in the risks and benefits of developing a product to be marketed. This is common in the pharmaceutical, bio-technology, oil and gas, and health care industries. However, depending on the facts and circumstances, these arrangements may also contain a vendor-customer relationship component. Such contracts could still be within the scope of IFRS 15, at least partially, if the collaborator or partner meets the definition of a customer for some, or all, aspects of the arrangement. Entities will need to use judgement to determine whether transactions are between partners acting in their capacity as collaborators or reflect a vendor-customer relationship.

1. IFRS 15 Appendix A

Exhibit A

Under IFRS 15 it can be difficult to identify the customer in transactions involving multiple parties. Entities will need to use judgement to identify the customer and to determine whether transactions are between partners acting in their capacity as collaborator or reflect a vendor-customer relationship.

Changes from current IAS 18 standard

Under the current IAS 18 standard, revenue transactions often must be separated into components that are accounted for under different revenue standards. For example a transaction involving the sale of goods and a customer loyalty programme. Under the new IFRS 15 standard, this separation of components will not be required.

IAS 18 currently specified the accounting treatment for the recognition and measurement of interest and dividends. Interest and dividend income are excluded form the scope of IFRS 15.

Exhibit B

The new IFRS 15 standard does not contain a separation of the revenue transactions into components. IFRS 15 provides a one single accounting model, separation is not needed since the treatment under IFRS 15 is the same.
Interest and dividends are excluded from the scope of IFRS 15.

The five step model

The IASB provided a five step model in order to recognise revenue form contracts with customers.

- **Identify the contract(s) with a customer** — 1
- **Identify the performance obligations** — 2
- **Determine the transaction price** — 3
- **Allocate the transaction price to the performance obligations** — 4
- **Recognise revenue when or as an entity satisfies performance obligations** — 5

Step 1: Identify the contract(s) with a customer

IFRS 15 defines a contract as "an agreement between two or more parties that creates enforceable rights and obligations. A contract can be written, oral or implied by an entity's customer business practices. For purposes of IFRS 15, a contract does not exist if each party has an enforceable right to terminate a wholly unperformed contract without compensating the other party.

IFRS 15 model applies only when:

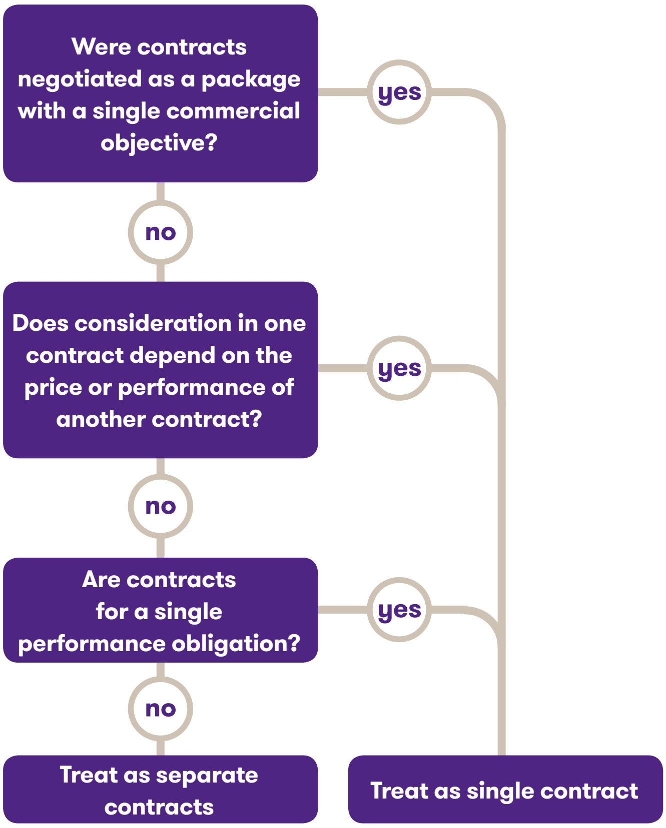
- a contract that fits the definition of a contract within the scope of IFRS 15 can be identified;
- the contract has commercial substance;
- the parties have approved the contract;
- the entity can identify;
  - each party's rights,
  - the payment terms for the good and services to be transferred.
- it is probable the entity will collect the consideration.

If a customer contract does not meet these criteria, revenue is recognised only when either:

- the entity's performance is complete and substantially all

of the consideration in the arrangement has been collected and is non-refundable;
- the contract has been terminated and the consideration received is non-refundable.

Entities can also combine two or more contracts and account for them as a single contract if they are entered into at or near the same time. There are serval criteria in order to combine contracts.



Contract renewal can occur if the parties to a contract approve to revision that creates or changes existing new enforceable rights and obligations. A contract can be written, oral or implied by an entity's customer business practices. The legal entity must process a contract as a separate contract if both of the following conditions are present:

- the scope of the contract extends due to the addition of promised goods or services that are distinct; and
- the price of the contract increases with a compensation which, in order to express the circumstances of that particular contract, expresses the selling price of the entity's additional promised goods or services and any appropriate adjustments of that price.

If a contract review is not processed as a separate contract, the legal entity must process the promised goods or services that have not yet been transferred (i.e., the remaining goods or services) at the date of the contract review, using one of the following applicable methods:

- The legal entity must process the contract as a termination of the existing contract and the creation of a new contract if the remaining goods or services are distinguished from the goods or services transferred on or before the date of the contract review.
- The legal entity must process the contract as part of the existing contract if the remaining goods and services are not indistinguishable and therefore part of a single performance obligation partially completed on the date of the contract review.

Step 2: Identify the performance obligations

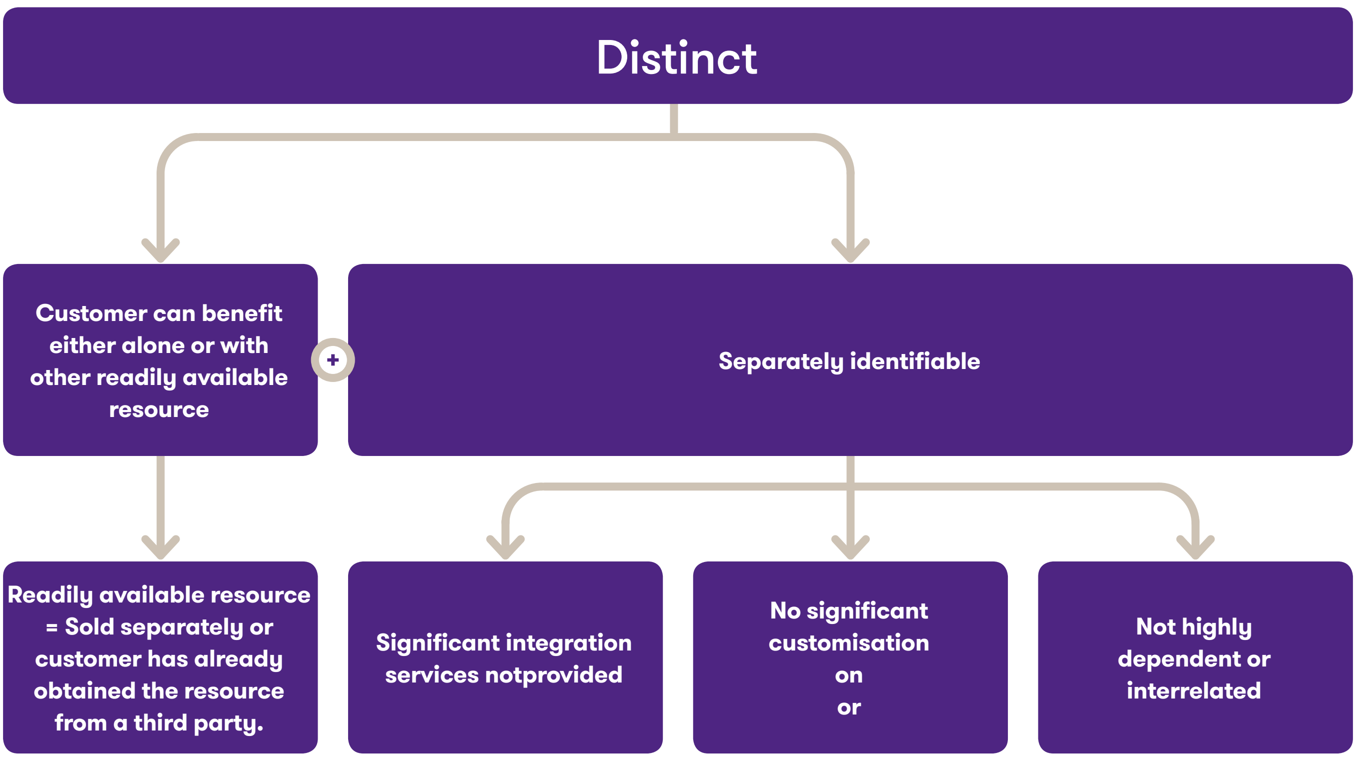
After identifying the contract, the entity has to identify the performance obligations within that identified contract. A performance obligation is an agreement settled in a contract to transfer (1) a good or service, or a bundle of goods or services that is 'distinct' or (2) a series of distinct goods or services that are substantially the same and meet certain criteria.

A promised good or service is 'distinct' if both of the following criteria are met:

- the customer can benefit from the good or service either on its own or with other resources readily available to them. A readily available resource is a good or service that is sold separately (by the entity or by another entity) or that the customer has already obtained;
- it is separately identifiable from other promises in the contract (i.e. the good or service is distinct within the context of the contract).

Indicators that an entity's promises to transfer goods or services are not separately identifiable include:

- significant integration services are provided (i.e. the entity is using the goods or services merely as inputs to produce the specific output called for in the contract);
- the goods or services significantly modify or customise other promised goods or services in the contract (or are modified by them);
- the goods or services are highly dependent on, or interrelated with, other promised goods or services in the contract.



Step 3: Determine the transaction price

IFRS 15 defines the transaction price as the amount of consideration an entity expects to be entitled to in exchange for the goods or services promised under a contract excluding any amounts collected on behalf of third parties (for example sales taxes). Entities should consider the following effects when determining the transaction price:

1. variable consideration;
2. the constraint on variable consideration;
3. time value of money;
4. non-cash consideration;
5. consideration payable to the customer.

1. Variable consideration

If a contract includes a variable consideration, the transaction price has to be estimated. There are two methods in order to estimate the transaction price:
1. the expected value or
2. the most likely amount of consideration to be received.
Entities will need to use judgement to identify the best method to estimate the transaction price. The entity should use the same method to estimate the transaction price throughout the life of a contract. If the entity expects to refund a portion of the consideration to the customer, a liability should be recognised for the amount of consideration it reasonably expects to refund.

Exhibit C

An exception to the general principles on variable consideration applies to revenue from a sales-based or usage based royalty promised in exchange for a licence of intellectual property where the licence is the only or predominant item in the contract to which the royalty relates.

2. Constraint on variable consideration

If the consideration in a customer contract includes an amount that is variable, an entity is required to evaluate whether the amount of variable consideration included in the transaction price need to be constrained. Entities have to do this in order to ensure that an entity recognises revenue only to the extent it is highly probable there will not be a significant reversal of revenue when the related uncertainty resolves.

3. Time value of money

IFRS 15 entities are required to reflect the time value of money in it estimate of the transaction price if the contract includes a significant financing component. In order to determine whether a financing component is significant, an entity must include:

- the difference between the promised consideration and the cash price;
- the combined effect of:
  - the expected length of time between delivery of the goods or services and receipt of payment;
  - the prevailing interest rates in the relevant market.

A contract may not have a significant financing component if:

- advance payments have been made but the transfer of the good or service is at the customer's discretion;
- the consideration is variable based on factors outside the vendor's and customer's control (e.g. a sales-based royalty);
- a difference between the promised consideration and the cash price relates to something other than financing such as protecting one of the parties from non-performance by the other.

4. Non-cash consideration

If a customer promises consideration in a form other than cash, an entity measures the non-cash consideration at fair value to determine the transaction price. If an entity is unable to reasonably measure the fair value of non-cash consideration, it indirectly measures the consideration by referring to the stand-alone selling price of the goods or services promised under the contract.

5. Consideration payable to the customer

Consideration payable to a customer includes the amount that an entity pays or expects to pay to a customer in the form of cash or non-cash items. An entity reduces the transaction price by the amount it owes to the customer, unless the consideration owed is in exchange for distinct goods or services transferred from the customer to the entity.

If the customer transfers distinct goods or services to an entity in exchange for payment, the entity accounts for the purchase of these goods or services similarly to other purchases from suppliers. If the amount of consideration owed to the customer exceeds the fair value of those goods or services, the entity reduces the transaction price by the amount of the excess.
If the entity cannot estimate the fair value of the goods or services it receives from the customer, it reduces the transaction price by the total consideration owed to the customer.

Step 4: Allocate the transaction price to the performance obligations

Entities have to allocate the contract's transaction price to each separate performance obligation within that contract a relative stand-alone selling price basis at contract interception. IFRS 15 defines a stand-alone selling price as "the price at which an entity would sell a promised good or service separately to a customer." The best evidence of the stand-alone selling price is the observable selling price charged by the entity to similar customers and in similar circumstances, if available. If not, the stand-alone selling price is estimated using all reasonably available information (including market conditions, entity-specific factors, and information about the customer or class of customer), maximising the use of observable inputs. IFRS 15 suggests the following three methods to estimate the stand-alone selling price.

- Adjusted market assessment approach
- Expected cost plus margin approach
- Residual approach

Allocation discounts and variable consideration
If the sum of the stand-alone selling prices for the promised goods or services exceeds the contract's total consideration, an entity treats the excess as a discount to be allocated to the separate performance obligations on a relative stand-alone selling price basis. However, an entity would allocate a discount to only some of the performance obligations only if it has observable evidence of the obligations to which the entire discount belongs. IFRS 15 requires that variable consideration is allocated entirely to a single performance obligation (or to a distinct good or service that forms part of a performance obligation) if and only if both of the following conditions have been met:

- the terms of the variable payment relate specifically to the entity's efforts towards, or outcome from, satisfying that performance obligation (or distinct good or service);
- the result of the allocation is consistent with the amount of consideration to which the entity expects to be entitled in exchange for the promised goods or services.

Changes in transaction price
The legal entity must assign all further changes in the transaction price to the performance obligations in the contract on the same basis as at the start of the contract. Amounts allocated to a fulfilled performance obligation should be included in the period in which the transaction price changes as revenue or as a reduction in revenue. The legal entity must proportionally allocate a change in the transaction price to all performance obligations, unless another allocation is more in line with the economic reality.

Step 5: Recognise revenue when or as an entity satisfies performance obligations

Under IFRS 15, an entity recognises revenue when or as it transfers promised goods or services to a customer. A "transfer" occurs when the customer obtains control of the good or service. A customer obtains control of an asset (good or service) when it can direct the use of and obtain substantially all the remaining benefits from it.

Control can be transferred at a point in time or over time. Control is considered to be transferred over time if one of the following conditions exists:

- the customer controls the asset as it is created or enhanced by the entity's performance under the contract;
- the customer receives and consumes the benefits of the entity's performance as the entity performs. A customer receives a benefit from the entity's performance as the entity performs if another entity does not have to substantially preform the work completed to date if it stepped in to complete the remaining obligation(s) under the contract;
- the entity's performance creates or enhances an asset that has no alternative use to the entity, and the entity has the right to receive payment for work performed to date. An entity evaluates whether a promised asset has an alternative use to it at contract inception by considering whether it can readily redirect the partially completed asset to another customer throughout the production process. In addition, the right to payment should be enforceable, and a vendor considers the contractual terms, as well as any legislation or legal precedent that could override those terms, in assessing the enforceability of that right.

An entity recognises over time revenue associated with a performance obligation that is satisfied over time by measuring its progress toward completion of that performance obligation. IFRS 15 discusses two classes of methods that are appropriate for measuring an entity's progress toward completion of a performance obligation:

- output methods;
- input methods.

Warranties

IFRS 15 identifies two types of warranties:

- Warranties that provide a service to the customer in addition to assurance that the delivered product is as specified in the contract (called 'service-type warranties')
- Warranties that promise the customer that the delivered product is as specified in the contract (called 'assurance-type warranties')

Service-type warranties

If the customer has the option to purchase the warranty separately or if the warranty provides a service to the customer beyond fixing defects that existed at the time of sale, the entity is providing a service-type warranty. This type of warranty represents a distinct service and is a separate performance obligation. Therefore, using the estimated stand-alone selling price of the warranty, the entity allocates a portion of the transaction price to the warranty. The entity then recognises the allocated revenue over the period the warranty service is provided.

Assurance-type warranties

If the customer has the right on a warranty when he/she buys a service or good, the entity is providing an assurance-type warranty. By providing this type of warranty, the selling entity has effectively provided a guarantee of quality. Under the standard, these types of warranties are accounted for as warranty obligations and the estimated cost of satisfying them is accrued in accordance with the requirements in IAS 37.

Contract costs

IFRS 15 specifies the accounting treatment for costs an entity incurs in obtaining and fulfilling a contract to provide goods and services to customers for both contracts obtained and contracts under negotiation.

Costs to obtain a contract

Under IFRS 15, the incremental costs of obtaining a contract are reconsidered as an asset if the entity expects to recover them. IFRS 15 permits an entity to immediately expense contract acquisition costs when the asset that would have resulted from capitalising such costs would have been amortised in one year or less. Entities are permitted to choose this approach as an accounting policy election and, if they do, must apply it consistently to all short-term contract acquisition costs. For example, sales commissions that are directly related to sales achieved during a time period would likely represent incremental costs that would require capitalisation. In contrast, some bonuses and other compensation that are based on other quantitative or qualitative metrics likely do not meet the criteria for capitalisation because they are not directly related to obtaining a contract.

Costs to fulfil a contract

IFRS 15 divides contract fulfilment costs into two categories:

1. Costs that give rise to an asset

2. Costs that are expensed as incurred

When determining the appropriate accounting treatment for such costs, IFRS 15 makes it clear that any other applicable standards are considered first. IFRS 15 stated that costs can be capitalised even if the related revenue contract with the customer is not finalised. However, rather than allowing costs to be related to any potential future contract, the standard requires that the costs be associated with a specifically identifiable anticipated contract. Costs that relate to a contract include one of the following:

a. direct labour;
b. direct materials;
c. allocations of costs that relate to the contract or to contract activities;
d. costs that are explicitly chargeable to the customer under the contract; and
e. other costs that are incurred only because an entity entered into the contract

When determining whether costs meet the criteria for capitalisation, an entity must consider its specific facts and circumstances. An example of costs incurred that generate or enhance resources of the entity that will be used in satisfying performance obligations in the future may be the intangible design and engineering costs related to future performance that provide (or continue to provide) benefit over the term of the contract. For costs to meet the 'expected to be recovered' criterion, they need to be either explicitly reimbursable under the contract, or reflected through the pricing on the contract and recoverable through margin.

Amortisation and impairment of capitalised costs

Any asset recorded by an entity is subject to an assessment of impairment at the end of each reporting period. An impairment exists if the carrying amount of any asset exceeds the amount of consideration the entity expects to receive in exchange for providing the associated goods and services, less the remaining costs that relate directly to providing those good and services.

However, before recognising an impairment loss on capitalised costs incurred to obtain or fulfil a contract, the entity will need to consider impairment losses recognised in accordance with another standard (e.g., IAS 36 Impairment of Assets). After applying the impairment test to the capitalised costs, an entity includes the resulting carrying amount in the carrying amount of a cash-generating unit for purposes of applying the requirements in IAS 36.

Licences of intellectual property

IFRS 15 provides application guidance specific tot he recognition of revenue for licences of intellectual property, which differs slightly from the requirements applied to all other promised goods and services.

Determining whether a licence is distinct

The application guidance provided on licences of intellectual property are only applicable to licences that are distinct. If a contract includes a multiple-element arrangement with promises for additional goods and services that may be explicit or implicit, the entity first determines whether the licence of intellectual property is distinct. This includes assessing whether the customer can benefit from the licence on its own or together with readily available resources. To determine whether a licence is distinct follow the guidance on page 4.

Determining the nature of the entity's promise

For all licences of intellectual property that are determined to be distinct, an entity must determine the nature of the promise to the customer. The standard states that entities provide their customers with either:

- A right to access the entity's intellectual property as it exists throughout the licence period, including any changes to that intellectual property ('a right to access')

Or

- A right to use the entity's intellectual property as it exists at the point in time in which the licence is granted ('a right to use')

Extract from IFRS 15

To determine whether an entity's promise to grant a licence provides a customer with either a right to access an entity's intellectual property or a right to use an entity's intellectual property, an entity shall consider whether a customer can direct the use of, and obtain substantially all of the remaining benefits from, a licence at the point in time at which the licence is granted. A customer cannot direct the use of, and obtain substantially all of the remaining benefits from, a licence at the point in time at which the licence is granted if the intellectual property to which the customer has rights changes throughout the licence period. The intellectual property will change (and thus affect the entity's assessment of when the customer controls the licence) when the entity continues to be involved with its intellectual property and the entity undertakes activities that significantly affect the intellectual property to which the customer has rights. In these cases, the licence provides the customer with a right to access the entity's intellectual property. In contrast, a 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 is granted if the intellectual property to which the customer has rights will not change (see paragraph B61). In those cases, any activities undertaken by the entity merely change its own asset (i.e. the underlying intellectual property), which may affect the entity's ability to provide future licences; however, those activities would not affect the determination of what the licence provides or what the customer controls.

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:

- **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 paragraph B59);**
- **the rights granted by the licence directly expose the customer to any positive or negative effects of the entity's activities identified in paragraph ; and**
- **those activities do not result in the transfer of a good or a service to the customer as those activities occur.**

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.

It is important to note that when an entity is making this assessment, it must exclude the effect of any other performance obligations in the arrangement.

Transfer of control of licenced intellectual property

Based on whether the nature of the entity's promise is a right to access or a right to use the intellectual property, the arrangement consideration allocated to the licensed intellectual property would be recognised over the licence period (for a right to access) or at the point in time the customer can first use the licensed intellectual property (for a right to use).

Presentation

When each party has performed a contract, the legal person must present the contract as a contractual or contractual obligation, depending on the relationship between the legal person's performance and the customer's payment. If a customer pays compensation or the legal person is entitled to an unconditional remuneration (ie a claim), the legal entity must present the contract as a contractual obligation before a good or a service to the customer, when the payment is done or, when this happens, when the payment is due. If the legal entity performs by transferring goods or services to a customer before the customer pays compensation or before payment is due, the legal entity must present the contract as a contractual asset, excluding all amounts presented as a claim.

Notes

The legal entity must explain the following information unless those amounts are presented in profit or loss:

- Performance Obligations:
  The legal entity must provide information about its performance obligations in customer contracts, including a description of the time when the legal entity usually performs its performance obligations (for example, when shipped, on delivery, as services are provided or upon completion of service), including the Time when performance obligations are fulfilled in a billing and retention agreement.

- Practical solutions:
  If the legal entity chooses to use the practical solution regarding the existence of a significant financing component or the marginal cost of obtaining a contract, the legal entity must mention this.

More information?

If you want to know more about IFRS 15, please contact your personal advisor, or else Hanneke Knoop, Head Department Professional Practice Audit

Impact IFRS 15

The impact of IFRS 15 depends on the specific facts and circumstances. The effects for serval industries can be estimated in order to provide companies an indication of the effects of IFRS 15. [1]

Step	Heat map items	Aerospace and defense	FSO	Auto	Health care	Life sciences	Media & Enter-tainment	Oil and gas	Real estate	RCP	Software	Telecom
1	Identify the contract	H	L	L	M	M	M	L	M	L	M	M
2	Identify the performance obligations	H	L	H	H	H	H	M	M	H	H	H
3	Determine the transaction price	H	M	H	H	H	H	H	H	M	H	H
4	Allocate the transactio price	H	M	M	H	H	M	M	M	M	H	H
5	Recognise revenue	H	M	M	M	H	H	M	H	L	H	H

● Very High ● High ● Medium ● Low

1. BRON: http://www.ey.com/Publication/vwLUAssets/IFRS_15_The_new_revenue_recognition_standard/$FILE/IFRS15_low.pdf

Appendix

Contract: An agreement between two or more parties that creates enforceable rights and obligations.

Contractive: Entity's right to compensation in exchange for goods or services that the entity has transferred to a customer if that depends on something other than the expiry of time (for example, the entity's future performance).

Contractual obligation: An entity's obligation to transfer goods or services to a customer for which the entity has received compensation from (or the amount owed by) the customer.

Customer: A party that has concluded an agreement with an entity to obtain goods or services that are an output of the entity's normal business in exchange for a consideration.

Revenues: Increased economic benefits in the reporting period in the form of an inflow of new assets or the strengthening of existing assets or liabilities, resulting in the increase in equity without the increases associated with contributions from shareholders in equity.

Performance Obligation: A promise in a contract with a customer for transfer to the customer of:

- a distinct good or service (or bundle of goods or services); Or
- a series of distinct goods or services that are largely the same and display the same pattern of transfer to the customer.

Revenues: Income arising from the normal business of an entity. Exceptional selling price (of a good or service): The price for which an entity would sell a promised good or promised service separately to a customer.

Transaction price (for a customer contract): The compensation that an entity expects to have in return for transferring promised goods or services to a customer, excluding amounts received on behalf of third parties.

Significant differences between IFRS 15 and Dutch GAAP	
Focus on control instead of risks and rewards	IFRS 15 focuses on when control of goods has been transferred to the customer. As a consequence, entities will need to assess whether control over goods passes to the customer at the point of shipment or at the point of delivery. This could result in revenue being recognized at a different time if the transfer of control happens at a different point in time then the transfer of the significant risks and rewards. In general, the control of a good will be transferred to a customer when the significant risks and rewards of ownership are transferred to the customer. However, IFRS 15 stresses that this will not always be the case. Under IFRS 15 the transfer of significant risks and rewards is considered just an indicator of the transfer of control. If under IFRS 15 revenue is recognised at the point of shipment, it may be necessary to allocate part of the transaction price to a distinct 'shipping and risk coverage' service (performance obligation), with that element of revenue recognized when the service is provided. Under Dutch GAAP, the timing of revenue recognition from the sale of goods is based primarily on the transfer of risks and rewards. This different approach may result in a different timing for revenue recognition for some entities. For example, some entities may supply goods on the basis that the title passes to the customer at the point of shipment but, as a matter of business practice, may compensate customer for loss or damage during shipping (either through credit or replacement). Under Dutch GAAP it's possible that revenue is recognized only at the point of delivery, on the basis that some exposure to risks and rewards is retained until then.
Identification of performance obligations	IFRS 15 requires the revenue from a contract to be allocated to each distinct good or service provided on a relative standalone selling price basis, though a 'residual' approach is permitted in limited circumstances. This may significantly change the profile of revenue recognition for some entities where, for example, they offer a 'free' maintenance period to customers as part of a transaction. Under Dutch GAAP there is greater room for judgment when identifying the goods and services within a contract and then allocating the revenue to those goods and services identified.
Allocating revenue to performance obligations	IFRS 15 requires the revenue from a contract to be allocated to each distinct good or service provided on a relative standalone selling price basis, though a 'residual' approach is permitted in limited circumstances. Given the lack of specific guidance under Dutch GAAP, there is greater room for judgment when identifying the goods and services within a contract and then allocating the revenue to those goods and services identified.
Effect of time value of money	IFRS 15 introduces more extensive guidance on financing arrangement and the impact of the time value of money. Under IFRS 15, the financing component, if it is significant, is accounted for separately from revenue. This applies to payments in advance as well as in arrears, but subject to an exemption where the period between payment and transfer of goods or services will be less than one year. Under Dutch GAAP the focus is on deferred payment terms. No guidance is included for payments in advance.

Significant differences between IFRS 15 and Dutch GAAP	
Warranties	IFRS 15 distinguishes between a warranty providing assurance that a product meets agreed-upon specifications (accounted for as a cost provision) and a warranty providing an additional service (for which revenue will be deferred). Consideration of factors such as whether the warranty is required by law, the length of the warranty coverage period, and the nature of the tasks the entity promises to perform will be necessary to determine which type of warranty exists. If a customer can chose whether or not to purchase a warranty as an "optional extra", that warranty will always be treated as a separate service. Where a warranty is determined to include both elements (assurance and service), the transaction price is allocated to the product and the service in a reasonable manner (if this is not possible, the whole warranty is treated as a service). Under Dutch GAAP there is no specific guidance relating to the distinction between assurance-type and service-type warranties. Practice is that warranties are accounted for using a cost provision.
Agent vs principal	Under IFRS 15 an entity is a principal if the entity controls a promised good or service before the entity transfers the good or service to a customer. However, an entity is not necessarily acting as a principal if the entity obtains legal title of a product only momentarily before legal title is transferred to a customer. An entity that is a principal in a contract may satisfy a performance obligation by itself or it may engage another party (for example, a subcontractor) to satisfy some or all of a performance obligation on its behalf. When an entity that is a principal satisfies a performance obligation, the entity recognizes revenue in the gross amount of the consideration that it expects to be entitled to in exchange for those goods or services transferred. IFRS 15 contains a list of factors that indicate whether an entity is an agent or principal, which are similar to those in RJ 270, however, they are focused on the context of the control of the underlying goods and/or services. This focus on control can result in a different outcome between IFRS 15 and RJ 270 whether an entity is an agent or a principal, because analysis under RJ 270 is primarily focused on risks and rewards.
Variable consideration	If the consideration promised in a contract includes a variable portion, IFRS 15 requires an entity to estimate the amount of consideration to which the entity will be entitled to in exchange for transferring the promised goods or services to a customer (e.g. a fee dependent on the cost savings arising from energy saving equipment). Variable consideration is estimated using one of two methods, whichever better predicts the amount of consideration an entity will ultimately be entitled to: a) The expected value method: the sum of the probability-weighted amounts in a range of possible consideration amounts. b) The most likely amount method: the single most likely amount in a range of possible outcomes. The transaction price includes some or all of an amount of variable consideration only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. This is a generally referred to as the "variable consideration constraint". Under Dutch GAAP revenue is recognized when the amount of revenue is able to be measured reliably. If this is the case the amount of revenue is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates. When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable ("cost recovery").
Licenses and royalties	In identifying performance obligations relating to licensing arrangements that are distinct, an entity must determine whether the license grants: • A right to access the entity's intellectual property as it exists throughout the license period (and therefore revenue is recognized over the period); or • A right to use the entity's intellectual property as it exists at the point in time at which the license is granted (and therefore revenue is recognized when control of the license transfers). Determining the correct classification above depends on whether the vendor is expected to undertake activities that significantly affect the intellectual property (e.g. maintenance or upgrades) and the nature of those activities. Therefore, licenses where the right to use is transferred at a point in time may have to recognize revenue "up front" as opposed to over the life of the contract, which is how revenue is recognized by many entities currently applying Dutch GAAP. An entity recognizes revenue for a sales-based or usage-based royalty promised in exchange for a license 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). Under Dutch GAAP royalty revenue is generally recognized on an accrual basis in accordance with the substance of the relevant agreement.
Pre-completion sales contracts (property development)	IFRS 15 requires that for pre-completion sales contracts entered into by an entity carrying out a property development project it is determined at contract inception whether the performance obligation is satisfied over time or at a point in time. Control is transferred over time (and therefore a performance obligation is satisfied and revenue is recognized over time) if any of the following criteria are met: (a) The customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs; (b) The entity's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or (c) 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. Under Dutch GAAP, pre-completion sales contracts are accounted for as construction contracts. Where the outcome of the project can be reliably estimated, revenue and expenses must be recognized by applying the percentage of completion method to that proportion of the project represented by the individual units of property sold.

Significant differences between IFRS 15 and Dutch GAAP	
Supply contracts of customised goods	The entity may need to change the timing of the recognition of the revenue from the customized parts under IFRS 15. Under IFRS 15, if an entity's performance does not create an asset with alternative use to the entity and the entity has an enforceable right to payment for performance completed to date, the entity is required to recognize revenue associated with the supply of customized goods over time (i.e., as production occurs), rather than at a point in time (i.e., when production is complete or when delivery takes place). Under Dutch GAAP, an entity can apply the recognition criteria relating to the sales of goods which will likely result in recognition of revenue when the goods are delivered to the customer (at a point in time).
Repurchase agreements (forwards and call options)	Under IFRS 15 the accounting for repurchase agreements is based on the transfer of control. If an entity has an obligation or a right to repurchase the asset (a forward or a call option), a customer is limited in its ability to direct the use of, and obtain substantially all of the remaining benefits from the asset. Consequently, the entity has not transferred control and shall not recognize revenue from sale of the asset. Under Dutch GAAP the accounting for repurchase agreements is based on an assessment of transfer of risks and rewards.
Contract modifications	A contract modification is treated as a separate contract under IFRS 15 if the scope of the contract increases because of the addition of promised goods or services that are distinct and the price of the contract increases by an amount that reflects the stand-alone selling prices of the additional goods or services. If both of these criteria are met, the modification to the contract is in essence a new, standalone contract and is therefore accounted as such. The requirements for contract modifications that do not meet these criteria depend on whether the remaining goods or services not yet transferred are distinct from the goods or services transferred on or before the date of the contract modification. If they are distinct, the entity accounts for the modification as if it were a termination of the existing contract and the creation of a new contract. The consideration allocated to the remaining performance obligations is the sum of the consideration promised by the customer that was included in the estimate of the transaction price that has yet to be recognized plus the consideration promised as part of the contract modification. If they are not distinct, the entity accounts for the modification as if it were a part of the existing contract. The effect of the contract modification on the transaction price and on the entity's measure of progress towards satisfying performance obligations is recognized as an adjustment to revenue on a "cumulative catch-up" basis at the time the modification takes place. Dutch GAAP does not contain any specific guidance on accounting for contract modifications.
Presentation of contract positions	Under IFRS 15, when either party to a contract has performed, an entity shall present the contract in the balance sheet as a contract asset or contract liability, depending on the relationship between the entity's performance and the customer's payment. Under Dutch GAAP it's allowed to present the balance of all construction contracts as one amount. If this alternative treatment is applied an entity shall disclose the gross amount due to customers and the gross amount due from customers.
Disclosures	IFRS 15 contains detailed disclosure requirements to achieve the disclosure objective stated by the IASB (enable users to understand the nature, timing and uncertainty of revenue and cash flows arising from contracts with customers). Dutch GAAP contains less detailed disclosure requirements.

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