INSTITUTE OF PUBLIC ACCOUNTANTS®

18 September 2023

Dr Keith Kendall
Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West VICTORIA 8007

Dear Dr Kendall

By email: hsimkova@aasb.gov.au

Dear Dr

Invitation to Comment 53 *Request for Comment on IASB Request for Information on Post-implementation Review of IFRS 15 Revenue from Contracts with Customers*

Thank you for the opportunity to comment on ITC 53.

IPA is of the view that IFRS 15 has met its objective and the inclusion of the five-step revenue recognition model does result in the better recognition of revenue. However, IFRS 15 is a complex standard to understand and apply, especially for small-to-medium enterprises (SMEs), which are the predominant membership group of IPA.

To assist the IASB in its post-implementation review of the standard, we offer the following general comments:

- Each of the steps in the five-step revenue recognition model contains numerous and complex factors to consider in order to determine if the step is satisfied. The steps also use terminologies, concepts and wording that are different and more complex than the previous revenue standard, and require more judgment in application. These can be challenging for an entity to understand and apply, and are particularly onerous for SMEs. The cost and effort to SMEs are therefore significantly and disproportionately greater in learning the requirements and changing their systems and processes in order to develop the necessary revenue accounting policies.
- IPA appreciates the balance that standard-setters have in setting a principles-based standard and providing guidance and examples to assist users in applying the principles for differing entity sizes and complexities. IPA encourages the IASB to provide guidance and examples, that are written in simple and straightforward language, where possible, to assist SMEs in applying the standard.
- Given the costs and effort entities have invested in applying IFRS 15, any proposed changes to the standard should not fundamentally change the existing requirements.

Further details on our comments above and response to the specific questions in ITC 53 are in Attachment 1.

If you have any queries with respect to our comments or require further information, please contact me at vicki.stylianou@publicaccountants.org.au.

Yours faithfully

Vicki Sylianou
Group Executive Advocacy & Policy
Institute of Public Accountants

About the IPA

The IPA is one of the three professional accounting bodies in Australia with over 50,000 members and students across 100 countries. Approximately three-quarters of IPA’s members either work in or are advisers to the small to medium business enterprises.

ATTACHMENT 1 – IPA’s response to specific questions in ITC 53

Question 1 – Overall assessment of IFRS 15

(a) In your view, has IFRS 15 achieved its objective? Why or why not?

(b) Do you have any feedback on the understandability and accessibility of IFRS 15 that the IASB could consider:

- **(i) in developing future Standards; or**
- **(ii) in assessing whether, and if so how, it could improve the understandability of IFRS 15 without changing its requirements or causing significant cost and disruption to entities already applying the Standard—for example, by providing education materials or flowcharts explaining the links between the requirements?**

(c) What are the ongoing costs and benefits of applying the requirements in IFRS 15 and how significant are they?

IPA is of the view that IFRS 15 has met its objective in that the standard established the principles for an entity to report useful information to the users of the financial statements about the nature, amount, timing and uncertainty of cash flows arising from a contract with a customer. Additionally, the five-step revenue recognition model does result in the better recognition of revenue.

However, each of the steps in the five-step revenue recognition model contains numerous and complex factors to consider in order to determine if the step is satisfied. Additionally, each of the steps uses terminologies, concepts and wording that are different and more complex than the previous revenue standard. The standard also requires an entity to exercise more judgment when applying the requirements. All of which can be challenging for an entity to understand and apply the requirements. This can be particularly onerous for small-to-medium enterprises (SME), who are the predominant membership group of IPA. The cost and effort to SMEs are therefore significantly and disproportionately greater in learning the requirements and changing their systems and processes in order to develop the necessary revenue accounting policies. Nevertheless, after the initial costs, the ongoing costs of applying the standard would be incremental.

IPA appreciates the balance that standard-setters must have in setting a principles-based standard that caters for current transactions and those that have not been envisaged (ie future-proofing the standard) and providing guidance and examples to assist all users in applying the principles for differing entity sizes and complexities. However, the guidance and examples in the standard currently tend to address transactions that are applicable to larger entities. As such, IPA encourages the IASB to provide more guidance and examples, that are written in simple and straightforward language where possible, to assist SMEs in applying the standard. Furthermore, given the costs and effort entities have invested in applying IFRS 15, any proposed changes to the standard should not fundamentally change the existing requirements.

Question 2 – Identifying performance obligations in a contract

(a) Does IFRS 15 provide a clear and sufficient basis to identify performance obligations in a contract? If not, why not; and

(b) Do you have any suggestions for resolving the matters you have identified?

Identifying a performance obligation in a contract requires considering if the contract contains a promise to transfer goods or services to a customer. An entity is required to assess, amongst others, if:

- the promise is explicit or implicit in a contract or agreement, including whether the promise is implied by an entity's customary practices, published policies or statements if the promise creates a valid expectation that the goods or services will be transferred to a customer and
- the promise is separately identifiable from other promises in the contract.

As per our response to Question 1, the above contains many elements for consideration and requires an entity to understand its intricacies in order to assess if the entity has a performance obligation to progress to the next steps in the revenue recognition model. This is challenging for SMEs that may not necessarily have the technical expertise to do so correctly and consistently. The areas where the assessment is particularly challenging and time-consuming are contract modifications and arrangements in which an entity uses its judgment to determine whether it is acting as an agent or principal (refer to Question 5 for more detail).

Question 3 – Determining the transaction price

(a) Does IFRS 15 provide a clear and sufficient basis to determine the transaction price in a contract—in particular, in relation to accounting for consideration payable to a customer? If not, why not? and;

(b) Do you have any suggestions for resolving the matters you have identified?

IFRS 15 requires an entity to recognise as revenue the amount of the transaction price, being an amount of consideration the entity expects to be entitled to in exchange for transferring the goods or services. The standard requires when determining the transaction price, an entity needs to consider the effects of variable consideration, constraints on estimating variable consideration, existence of a significant financing component in the contract, non-cash consideration and consideration payable to a customer.

As per our responses to Questions 1 and 2, the above contains many elements for consideration and requires an entity to understand the intricacies in order to determine the transaction price for revenue recognition. This is challenging for SMEs that may not necessarily have the technical expertise to do so correctly and consistently. IPA encourages the IASB to provide more examples with varying complexity and across different size entities (eg SMEs) either in the standard or other supporting guidance document.

Question 4—Determining when to recognise revenue

(a) Does IFRS 15 provide a clear and sufficient basis to determine when to recognise revenue? If not, why not?

(b) Do you have any suggestions for resolving the matters you have identified?

IFRS 15 requires an entity to recognise revenue when (or as) the entity transfers goods or services to a customer, which is when (or as) the customer obtains control of those goods or services. IPA acknowledges that this is a better recognition model compared to the previous requirement of recognising revenue based on an entity assessing the transfer of risks and rewards of ownership. However, the language used in IFRS 15 to determine if control is transferred for revenue recognition can be unnecessarily complex and confusing. For example, one of the criteria for revenue recognition over time is when "the customer simultaneously receives and consumes benefits provided by the entity's performance as the entity performs" (paragraph 35). Guidance to this concept is provided in the form of the entity providing cleaning services (guidance paragraph B3) and payroll processing services (Illustrative Example 13). To assist the application of the requirements, IPA suggests that, where possible, standards are written using simple and straightforward language.

Question 5 – Principal versus agent consideration

(a) Does IFRS 15 provide a clear and sufficient basis to determine whether an entity is a principal or an agent? If not, why not?

(b) Do you have any suggestions for resolving the matters you have identified?

The concept of considering principal versus agent is not new in determining an accounting treatment based on the substance and/or form of the transaction. This also extends to the use of the control concept in determining if the entity is a principal. IFRS 15 makes these considerations explicit and results in better accounting for the transactions, especially for large complex transactions that are subject to different interpretations based on an entity's preferred outcome. However, in practice, the principal versus agent is time-consuming and onerous for SMEs to work through. In some instances, an SME may after such consideration determine that the entity is partly a principal and an agent for the transaction. However, given the effort required to do so, the entity may decide that its accounting policy for such a type of transaction is that it is a principal for the entire transaction.

Question 6 – Licensing

(a) Does IFRS 15 provide a clear and sufficient basis for accounting for contracts involving licences? If not, why not?

(b) Do you have any suggestions for resolving the matters you have identified?

IFRS 15 requires the grant of licences of intellectual property (IP) to customers to be accounted based on the nature of the licence (that grants a right to access or right to use the entity's IP) and whether the licence is distinct from other goods or services promised in the contract. The licences include software, patents, trademarks and copyrights. As per our responses to the above questions, whilst these requirements result in better accounting, they can however be difficult, time-consuming and onerous for SMEs to apply.