Hong Kong Institute of Certified Public Accountants
香港會計師公會

MEMBERS' HANDBOOK

Update No. 174

(Issued 29 September 2015)

This Update relates to the publication of:

- *Effective Date of HKFRS 15* Revenue from Contracts with Customers

Document Reference and Title	***Instructions***	***Explanations***
VOLUME II		
Contents of Volume II	Discard existing pages i - ii & replace with revised pages i - ii.	Revised contents pages
HONG KONG FINANCIAL REPORTING STANDARDS (HKFRS)		
HKFRS 15 *Revenue from Contracts with Customers* (Standard)	Replace the cover page and pages 2, 6 and 49-50 with revised cover page and pages 2, 6 and 49-50.	- Note
HKFRS 15 *Revenue from Contracts with Customers* (Basis for Conclusions)	Replace the cover page and pages 2 and 88-89 with revised cover page and pages 2 and 88-89. Insert pages 89A-89B after page 89.	- Note

Notes:

1. The amendment to HKFRS 15 *Revenue from Contracts with Customers* follows from the International Accounting Standards Board (IASB)'s decision in July to defer the effective date of IFRS 15 *Revenue from Contracts with Customers* from 1 January 2017 to 1 January 2018, having considered the feedback to its consultation. Companies applying HKFRS continue to have the option to apply the Standard early.

2. The main reason for the amendment is that the IASB is currently consulting on some proposed clarifications to the Standard. These proposals follow discussions within the Revenue Transition Resource Group (TRG). The TRG was established by the IASB and the US Financial Accounting Standards Board (FASB) after the Standard was issued in 2014 to support companies in its implementation.

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MEMBERS' HANDBOOK
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(Updated to September 2015)

HKFRS 15
~~Issued July 2014~~ Revised September 2015

Hong Kong Financial Reporting Standard 15

Revenue from Contracts with Customers

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Introduction

Overview

IN1 Hong Kong Financial Reporting Standard 15 *Revenue from Contracts with Customers* (HKFRS 15) establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

IN2 HKFRS 15 is effective for annual periods beginning on or after 1 January ~~2017~~ 2018. Earlier application is permitted.

IN3 HKFRS 15 supersedes:

(a) HKAS 11 *Construction Contracts*;

(b) HKAS 18 *Revenue*;

(c) HK(IFRIC)-Int 13 *Customer Loyalty Programmes*;

(d) HK(IFRIC)-Int 15 *Agreements for the Construction of Real Estate*;

(e) HK(IFRIC)-Int 18 *Transfers of Assets from Customers*; and

(f) HK(SIC)-Int 31 *Revenue—Barter Transactions Involving Advertising Services*.

Reasons for issuing HKFRS 15

IN4 The objective of Hong Kong Institute of Certified Public Accountants (HKICPA) issuing HKFRS 15 is to maintain international convergence arising from the issuance of IFRS 15 by the International Accounting Standards Board (IASB).

Revenue is an important number to users of financial statements in assessing an entity's financial performance and position. However, previous revenue recognition requirements in International Financial Reporting Standards (IFRS) differed from those in US Generally Accepted Accounting Principles (US GAAP) and both sets of requirements were in need of improvement. Previous revenue recognition requirements in IFRS provided limited guidance and, consequently, the two main revenue recognition Standards, IAS 18 and IAS 11, could be difficult to apply to complex transactions. In addition, IAS 18 provided limited guidance on many important revenue topics such as accounting for multiple-element arrangements. In contrast, US GAAP comprised broad revenue recognition concepts together with numerous revenue requirements for particular industries or transactions, which sometimes resulted in different accounting for economically similar transactions.

IN5 Accordingly, the IASB and the US national standard-setter, the Financial Accounting Standards Board (FASB), initiated a joint project to clarify the principles for recognising revenue and to develop a common revenue standard for IFRS and US GAAP that would:

(a) remove inconsistencies and weaknesses in previous revenue requirements;

(b) provide a more robust framework for addressing revenue issues;

(c) improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets;

(d) provide more useful information to users of financial statements through improved disclosure requirements; and

Appendix C
Effective date and transition

This appendix is an integral part of the Standard and has the same authority as the other parts of the Standard.

Effective date

C1 An entity shall apply this Standard for annual reporting periods beginning on or after 1 January ~~2017~~ 2018. Earlier application is permitted. If an entity applies this Standard earlier, it shall disclose that fact.

Transition

C2 For the purposes of the transition requirements in paragraphs C3–C8:

(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 HKAS 11 *Construction Contracts*, HKAS 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 HKAS 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.

C4 Notwithstanding the requirements of paragraph 28 of HKAS 8, when this Standard is first applied, an entity need only present the quantitative information required by paragraph 28(f) of HKAS 8 for the annual period immediately preceding the first annual period for which this Standard is applied (the 'immediately preceding period') and only if the entity applies this Standard retrospectively in accordance with paragraph C3(a). An entity may also present this information for the current period or for earlier comparative periods, but is not required to do so.

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 begin and end within the same annual reporting period;

(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; and

(c) 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 shall apply this Standard retrospectively only to contracts that are not completed contracts at the date of initial application (for example, 1 January ~~2017~~ 2018 for an entity with a 31 December year-end).

C8 For reporting periods that include the date of initial application, an entity shall provide both of the following additional disclosures if this Standard is applied retrospectively in accordance with paragraph C3(b):

(a) the amount by which each financial statement line item is affected in the current reporting period by the application of this Standard as compared to HKAS 11, HKAS 18 and related Interpretations that were in effect before the change; and

(b) an explanation of the reasons for significant changes identified in C8(a).

References to HKFRS 9

C9 If an entity applies this Standard but does not yet apply HKFRS 9 *Financial Instruments*, any reference in this Standard to HKFRS 9 shall be read as a reference to HKAS 39 *Financial Instruments: Recognition and Measurement*.

Withdrawal of other Standards

C10 This Standard supersedes the following Standards:

(a) HKAS 11 *Construction Contracts*;

(b) HKAS 18 *Revenue*;

(c) HK(IFRIC)-Int 13 *Customer Loyalty Programmes*;

(d) HK(IFRIC)-Int 15 *Agreements for the Construction of Real Estate*;

(e) HK(IFRIC)-Int 18 *Transfers of Assets from Customers*; and

(f) HK(SIC)-Int 31 *Revenue—Barter Transactions Involving Advertising Services*.

HKFRS 15 BC

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Basis for Conclusions on
Hong Kong Financial Reporting Standard 15

Revenue from Contracts with Customers

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catch-up transition method responds to feedback from auditors and preparers by eliminating the need to restate prior periods and thus reducing costs.

BC442 The boards noted that applying the cumulative catch-up transition method results in consistent presentation of contracts under previous IFRS or US GAAP during the comparative years and in consistent presentation of any contracts not yet completed at the date of initial application under IFRS 15 in the current year. However, because the comparative information will not be restated under the cumulative catch-up transition method, the boards decided to require additional disclosures to help users of financial statements understand the effect on trend information. Consequently, when an entity uses the cumulative catch-up transition method, it is required to disclose the following information for reporting periods that include the date of initial application:

(a) the amount by which each financial statement line item is affected in the current year as a result of the entity applying IFRS 15 rather than previous revenue Standards in IFRS; and

(b) an explanation of the reasons for the significant changes in those financial statement line items.

BC443 In other words, to provide the required disclosures, an entity would apply both IFRS 15 and the previous revenue Standards in the year of initial application. Despite requiring an entity to account for revenue transactions in the year of initial application using two different sets of accounting requirements, the boards decided that this method would reduce the overall cost of applying IFRS 15 while still providing information about trends that was requested by users of financial statements.

BC444 The boards also considered other transition methods as alternatives to the cumulative catch-up method to try to ease the burden of retrospective application. For example, the boards considered requiring a prospective approach that would require entities to apply IFRS 15 only to new contracts or those that are materially modified on or after the date of initial application. However, the boards rejected this approach because prospective application would not result in consistent presentation of existing contracts and new contracts and thus would reduce comparability. In addition, this approach would not provide useful trend information for users of financial statements until existing contracts have been fully satisfied after the date of initial application. Furthermore, the boards observed that this approach would require some entities to incur significant costs of maintaining two accounting systems for contracts that are accounted for in accordance with IFRS 15 and previous revenue Standards in IFRS, until all existing contracts have been completed, which could take many years for entities with long-term contracts.

Other relief

BC445 If an entity applies IFRS 15 retrospectively in accordance with paragraph C3(a) of IFRS 15 (ie without electing to use the cumulative catch-up transition method), comparative information *would* be restated. Consequently, the IASB clarified that if an entity applies IFRS 15 retrospectively in accordance with paragraph C3(a), it is not required to provide the current year transition disclosure in paragraph 28(f) of IAS 8.

Effective date and early application (paragraph C1)

Effective date*

BC446 In the 2011 Exposure Draft, the boards indicated that the effective date of IFRS 15 would be set to ensure that the start of the earliest comparative period for an entity that is required to present two comparative annual periods (in addition to the current annual period) would be after the final requirements are issued. The boards developed this approach in response to feedback obtained from interested parties through a number of activities, including:

(a) the IASB's Request for Views on *Effective Dates and Transition Methods* and the FASB's Discussion Paper *Effective Dates and Transition Methods* (October 2010);

(b) the boards' joint investor outreach questionnaire (April 2011); and

(c) consultation with systems providers and preparers in 2010 and 2011.

BC447 On the basis of that proposed formula for setting an effective date and of the estimated issue date of IFRS 15 at the time of their decision, the boards would have set the effective date as 1 January 2016. However, many respondents, including respondents in industries for which there could be significant process and system changes required to comply with IFRS 15 (for example, in the telecommunications and software industries), indicated that the proposed formula would not provide them with adequate time. Specifically, those respondents explained that providing only a short time before the earliest comparative period would not be sufficient to ensure that processes and systems were in place to capture the information that would be required to apply IFRS 15 retrospectively. Some respondents further explained that because of the large volume of contracts in their businesses, it would be far more cost-effective to process the information on a real-time basis to ensure that the adjustments to the financial statements were being calculated during the transition period, rather than attempting to retrospectively calculate the adjustments at the date of initial application.

BC448 The boards considered whether their decision to permit an alternative transition method (see paragraphs BC439–BC444) would provide sufficient relief that an effective date of 1 January 2016, would be appropriate. However, the boards noted that if a contract is not completed at the date of initial application, the entity would need to apply IFRS 15 to that entire contract to calculate any cumulative effect that would be recognised in the opening retained earnings in the year of initial application. The boards noted that the industries that would be most affected generally have contracts with durations that would result in those industries still having only a few months to prepare their processes and systems to capture the required information on a real-time basis.

BC449 Consequently, the FASB decided to require that a public entity apply Topic 606 for annual reporting periods beginning after 15 December 2016, and the IASB decided to require that an entity apply IFRS 15 for annual reporting periods beginning on or after 1 January 2017. Although the effective dates are not identical, the boards noted that this difference has resulted from precedents in IFRS and US GAAP. Furthermore, the difference is not significant and the boards did not expect that it would result in a difference in the way that an entity considers the effective date.

BC450 The boards acknowledged that the period of time from which IFRS 15 is issued until its effective date is longer than usual. However, in this case, the boards decided that a delayed effective date is appropriate because of the unique attributes of IFRS 15, including the wide range of entities that will be affected and the potentially significant effect that a change in revenue recognition has on other financial statement line items.

* The boards subsequently deferred the effective date of IFRS 15 and Topic 606 by one year. See paragraphs BC453A–BC453H.

BC451 To ensure consistency with the IASB's requirements in IAS 34, the FASB clarified that the first set of interim financial reports in which Topic 606 will apply is the first set of interim financial reports after the effective date (ie 31 March 2017 for a calendar year-end entity). The FASB also decided that this is appropriate because of the relatively long lead time that has been provided to entities.

Early application

BC452 The FASB decided not to allow entities to apply Topic 606 early, because doing so would have reduced the comparability of financial reporting in the period up to the date of initial application.* Although the IASB agreed that allowing early application would reduce the comparability of financial reporting in the period up to the date of initial application, the IASB noted that IFRS 15 improves accounting for revenue in areas in which there was little guidance under previous revenue Standards in IFRS and, thus, entities should not be precluded from applying IFRS 15 before its effective date. Furthermore, the IASB noted that IFRS 15 should resolve some pressing issues in practice arising from previous revenue recognition requirements. For example, the requirements for determining whether a performance obligation is satisfied over time should address the current diversity in practice associated with the application of the interpretation of IFRS on the construction of real estate.

BC453 The boards observed that the IASB-only decision to permit early application should not result in differences after the date of initial application in the accounting for revenue between entities applying US GAAP and those applying IFRS that apply IFRS 15 early, even for contracts that straddle the date of initial application.

Deferral of effective date (amendment issued in September 2015)

BC453A After issuing IFRS 15 and Topic 606, the IASB and the FASB formed a joint Transition Resource Group (TRG) for Revenue Recognition to support the implementation of the Standard. The TRG discussed submissions from stakeholders and its discussions on five topics indicated potential differences of views on how to implement the requirements in IFRS 15. Consequently, those topics were discussed by the boards and each board decided to propose targeted amendments to IFRS 15 and Topic 606. The IASB published an Exposure Draft *Clarifications to IFRS 15* in July 2015. In the light of those proposed amendments, the IASB and the FASB each discussed whether to defer the effective date of the Standard.

BC453B The IASB observed that changing the effective date of a Standard shortly after its issuance creates uncertainty for stakeholders and has the potential to set a bad precedent. The effective date is set after consideration of information obtained in the exposure process about the time needed to implement the requirements. Accordingly, the IASB would consider changing the effective date only in exceptional circumstances. The IASB noted that it had already provided a considerable amount of time between issuing IFRS 15 and the effective date, anticipating that some entities would be required to change information technology systems and processes when applying the Standard. The IASB has also provided substantive relief on transition to IFRS 15 by giving entities a choice of transition methods, one of which does not involve the restatement of comparative financial information. In addition, the IASB observed that the proposed amendments noted in paragraph BC453A are expected to clarify, rather than change, the requirements of the Standard.

BC453C Nonetheless, the IASB decided to propose a deferral of the effective date of IFRS 15 by one year to 1 January 2018 because of the combination of the following factors that result in the circumstances surrounding the implementation of IFRS 15 being exceptional:

* The FASB subsequently amended Topic 606 to allow all entities to apply the Standard early for annual periods beginning after 15 December 2016. See paragraph BC453H.

(a) The IASB acknowledged that, although intended to provide clarity, the proposed amendments to IFRS 15 noted in paragraph BC453A may affect some entities that would wish to apply any amendments at the same time as they first apply IFRS 15. Those entities are likely to wish to avoid reporting changes to revenue when first implementing the Standard and then, within a year or two, potentially reporting further changes to revenue as a result of applying any amendments to the Standard. For those entities, a deferral of the effective date by one year would provide additional time to implement any amendments to the Standard.

(b) IFRS 15 was issued later than had been anticipated when the IASB set the effective date of the Standard, which absorbed some of the implementation time that entities were expecting to have.

(c) IFRS 15 is a converged Standard with Topic 606—although this was not the only consideration, the IASB observed that there are benefits for a broad range of stakeholders of retaining an effective date that is aligned with the effective date of Topic 606.

BC453D Accordingly, the IASB published the Exposure Draft *Effective Date of IFRS 15* in May 2015 proposing to defer the effective date of IFRS 15 by one year.

BC453E The IASB concluded that a one-year deferral would be sufficient in terms of providing additional time to implement IFRS 15. IASB members observed that the issuance of IFRS 15 in May 2014 had been later than anticipated by some months, not years. Accordingly, a deferral of the effective date of IFRS 15 for anything longer than one year would unnecessarily delay transition by many entities to a new Standard that the IASB views as a substantial improvement to financial reporting.

BC453F Almost all respondents to the Exposure Draft agreed with the proposal to defer the effective date of IFRS 15 for one or more of the reasons noted by the IASB, some noting the exceptional nature of the circumstances surrounding the implementation of IFRS 15. Most also agreed that a one-year deferral should be sufficient and would improve the quality of implementation.

BC453G In the light of the feedback received, the IASB confirmed its decision to defer the effective date of the Standard. The IASB did not change its previous decision to permit early application of IFRS 15.

BC453H For factors similar to those considered by the IASB, the FASB issued an Accounting Standards Update 2015-14 *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date* in August 2015 also deferring the effective date of Topic 606 for all entities by one year. Consequently, a public entity would be required to apply Topic 606 to annual reporting periods beginning after 15 December 2017. The FASB decided to permit early application of Topic 606 by all entities, but not before the original effective date of Topic 606 for a public entity (ie annual reporting periods beginning after 15 December 2016).