

International Financial Reporting Standard

Clarifications to IFRS 15

April 2016

ILLUSTRATIVE EXAMPLES – AMENDMENTS

[IFRS 15]

[Related to AASB 2016-3]

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Amendments to the Illustrative Examples on IFRS 15 Revenue from Contracts with Customers

Paragraphs IE45, IE47, IE50–IE51, IE55–IE57, IE61, IE63, IE225–IE227, IE230–IE232, IE237–IE238, IE240–IE245, IE247–IE248, IE275, IE277–IE280, IE286–IE287, IE290–IE294, IE296, IE299–IE300, IE304–IE305, IE307–IE308, IE310–IE311 and IE313 are amended. Heading above paragraph IE64 is amended. Paragraphs IE48A–IE48C and their related headings, IE58A–IE58K and their related headings, IE61A, IE65A, IE232A–IE232C, IE237A–IE237B, IE238A–IE238G and their related heading, IE242A–IE242C, IE247A–IE247B, IE248A–IE248F and their related heading, IE279A and IE286A are added. Deleted text is struck through and new text is underlined. Other paragraphs that have not been amended have been included for ease of reference.

Example 10—Goods and services are not distinct

Case A—Significant integration service

- IE45 An entity, a contractor, enters into a contract to build a hospital for a customer. The entity is responsible for the overall management of the project and identifies various promised goods and services ~~to be provided~~, including engineering, site clearance, foundation, procurement, construction of the structure, piping and wiring, installation of equipment and finishing.
- IE46 The promised goods and services are capable of being distinct in accordance with paragraph 27(a) of IFRS 15. That is, the customer can benefit from the goods and services either on their own or together with other readily available resources. This is evidenced by the fact that the entity, or competitors of the entity, regularly sells many of these goods and services separately to other customers. In addition, the customer could generate economic benefit from the individual goods and services by using, consuming, selling or holding those goods or services.
- IE47 However, ~~the promises to transfer~~ the goods and services are not ~~distinct within the context of the contract~~ separately identifiable in accordance with paragraph 27(b) of IFRS 15 (on the basis of the factors in paragraph 29 of IFRS 15). ~~That is, the entity's promise to transfer individual goods and services in the contract are not separately identifiable from other promises in the contract.~~ This is evidenced by the fact that the entity provides a significant service of integrating the goods and services (the inputs) into the hospital (the combined output) for which the customer has contracted.
- IE48 Because both criteria in paragraph 27 of IFRS 15 are not met, the goods and services are not distinct. The entity accounts for all of the goods and services in the contract as a single performance obligation.

Case B—Significant integration service

- IE48A An entity enters into a contract with a customer that will result in the delivery of multiple units of a highly complex, specialised device. The terms of the contract require the entity to establish a manufacturing process in order to

produce the contracted units. The specifications are unique to the customer, based on a custom design that is owned by the customer and that were developed under the terms of a separate contract that is not part of the current negotiated exchange. The entity is responsible for the overall management of the contract, which requires the performance and integration of various activities including procurement of materials, identifying and managing subcontractors, and performing manufacturing, assembly and testing.

IE48B The entity assesses the promises in the contract and determines that each of the promised devices is capable of being distinct in accordance with paragraph 27(a) of IFRS 15 because the customer can benefit from each device on its own. This is because each unit can function independently of the other units.

IE48C The entity observes that the nature of its promise is to establish and provide a service of producing the full complement of devices for which the customer has contracted in accordance with the customer's specifications. The entity considers that it is responsible for overall management of the contract and for providing a significant service of integrating various goods and services (the inputs) into its overall service and the resulting devices (the combined output) and, therefore, the devices and the various promised goods and services inherent in producing those devices are not separately identifiable in accordance with paragraph 27(b) and paragraph 29 of IFRS 15. In this case, the manufacturing process provided by the entity is specific to its contract with the customer. In addition, the nature of the entity's performance and, in particular, the significant integration service of the various activities means that a change in one of the entity's activities to produce the devices has a significant effect on the other activities required to produce the highly complex, specialised devices such that the entity's activities are highly interdependent and highly interrelated. Because the criterion in paragraph 27(b) of IFRS 15 is not met, the goods and services that will be provided by the entity are not separately identifiable and, therefore, are not distinct. The entity accounts for all of the goods and services promised in the contract as a single performance obligation.

Example 11—Determining whether goods or services are distinct

Case A—Distinct goods or services

IE49 An entity, a software developer, enters into a contract with a customer to transfer a software licence, perform an installation service and provide unspecified software updates and technical support (online and telephone) for a two-year period. The entity sells the licence, installation service and technical support separately. The installation service includes changing the web screen for each type of user (for example, marketing, inventory management and information technology). The installation service is routinely performed by other entities and does not significantly modify the software. The software remains functional without the updates and the technical support.

IE50 The entity assesses the goods and services promised to the customer to determine which goods and services are distinct in accordance with paragraph 27 of IFRS 15. The entity observes that the software is delivered before the other goods and services and remains functional without the updates

and the technical support. The customer can benefit from the updates together with the software licence transferred at the start of the contract. Thus, the entity concludes that the customer can benefit from each of the goods and services either on their own or together with the other goods and services that are readily available and the criterion in paragraph 27(a) of IFRS 15 is met.

IE51 The entity also considers the principle and the factors in paragraph 29 of IFRS 15 and determines that the promise to transfer each good and service to the customer is separately identifiable from each of the other promises (thus the criterion in paragraph 27(b) of IFRS 15 is met). In particular, the entity observes that the installation service does not significantly modify or customise the software itself and, as such, the software and the installation service are separate outputs promised by the entity instead of inputs used to produce a combined output. In reaching this determination, the entity considers that, although it integrates the software into the customer's system, the installation services do not significantly affect the customer's ability to use and benefit from the software licence because the installation services are routine and can be obtained from alternative providers. The software updates do not significantly affect the customer's ability to use and benefit from the software licence during the licence period. The entity further observes that none of the promised goods or services significantly modify or customise one another, nor is the entity providing a significant service of integrating the software and the services into a combined output. Lastly, the entity concludes that the software and the services do not significantly affect each other and, therefore, are not highly interdependent or highly interrelated, because the entity would be able to fulfil its promise to transfer the initial software licence independently from its promise to subsequently provide the installation service, software updates or technical support.

IE52 On the basis of this assessment, the entity identifies four performance obligations in the contract for the following goods or services:

- (a) the software licence;
- (b) an installation service;
- (c) software updates; and
- (d) technical support.

IE53 The entity applies paragraphs 31–38 of IFRS 15 to determine whether each of the performance obligations for the installation service, software updates and technical support are satisfied at a point in time or over time. The entity also assesses the nature of the entity's promise to transfer the software licence in accordance with paragraph B58 of IFRS 15 (see Example 54 in paragraphs IE276–IE277).

Case B—Significant customisation

IE54 The promised goods and services are the same as in Case A, except that the contract specifies that, as part of the installation service, the software is to be substantially customised to add significant new functionality to enable the software to interface with other customised software applications used by the customer. The customised installation service can be provided by other entities.

- IE55 The entity assesses the goods and services promised to the customer to determine which goods and services are distinct in accordance with paragraph 27 of IFRS 15. The entity first assesses whether the criterion in paragraph 27(a) has been met. For the same reasons as in Case A, the entity determines that the software licence, installation, software updates and technical support each meet that criterion. The entity next assesses whether the criterion in paragraph 27(b) has been met by evaluating the principle and the factors in paragraph 29 of IFRS 15. The entity observes that the terms of the contract result in a promise to provide a significant service of integrating the licenced software into the existing software system by performing a customised installation service as specified in the contract. In other words, the entity is using the licence and the customised installation service as inputs to produce the combined output (ie a functional and integrated software system) specified in the contract (see paragraph 29(a) of IFRS 15). In addition, the The software is significantly modified and customised by the service (see paragraph 29(b) of IFRS 15). Although the customised installation service can be provided by other entities, Consequently, the entity determines that within the context of the contract, the promise to transfer the licence is not separately identifiable from the customised installation service and, therefore, the criterion in paragraph 27(b) of IFRS 15 (on the basis of the factors in paragraph 29 of IFRS 15) is not met. Thus, the software licence and the customised installation service are not distinct.
- IE56 As On the basis of the same analysis as in Case A, the entity concludes that the software updates and technical support are distinct from the other promises in the contract. This is because the customer can benefit from the updates and technical support either on their own or together with the other goods and services that are readily available and because the promise to transfer the software updates and the technical support to the customer are separately identifiable from each of the other promises.
- IE57 On the basis of this assessment, the entity identifies three performance obligations in the contract for the following goods or services:
- (a) customised installation service (that includes the software licence) software customisation (which comprises the licence for the software and the customised installation service);
 - (b) software updates; and
 - (c) technical support.
- IE58 The entity applies paragraphs 31–38 of IFRS 15 to determine whether each performance obligation is satisfied at a point in time or over time.
- Case C—Promises are separately identifiable (installation)*
- IE58A An entity contracts with a customer to sell a piece of equipment and installation services. The equipment is operational without any customisation or modification. The installation required is not complex and is capable of being performed by several alternative service providers.
- IE58B The entity identifies two promised goods and services in the contract: (a) equipment and (b) installation. The entity assesses the criteria in

paragraph 27 of IFRS 15 to determine whether each promised good or service is distinct. The entity determines that the equipment and the installation each meet the criterion in paragraph 27(a) of IFRS 15. The customer can benefit from the equipment on its own, by using it or reselling it for an amount greater than scrap value, or together with other readily available resources (for example, installation services available from alternative providers). The customer also can benefit from the installation services together with other resources that the customer will already have obtained from the entity (ie the equipment).

IE58C The entity further determines that its promises to transfer the equipment and to provide the installation services are each separately identifiable (in accordance with paragraph 27(b) of IFRS 15). The entity considers the principle and the factors in paragraph 29 of IFRS 15 in determining that the equipment and the installation services are not inputs to a combined item in this contract. In this case, each of the factors in paragraph 29 of IFRS 15 contributes to, but is not individually determinative of, the conclusion that the equipment and the installation services are separately identifiable as follows:

- (a) The entity is not providing a significant integration service. That is, the entity has promised to deliver the equipment and then install it; the entity would be able to fulfil its promise to transfer the equipment separately from its promise to subsequently install it. The entity has not promised to combine the equipment and the installation services in a way that would transform them into a combined output.
- (b) The entity's installation services will not significantly customise or significantly modify the equipment.
- (c) Although the customer can benefit from the installation services only after it has obtained control of the equipment, the installation services do not significantly affect the equipment because the entity would be able to fulfil its promise to transfer the equipment independently of its promise to provide the installation services. Because the equipment and the installation services do not each significantly affect the other, they are not highly interdependent or highly interrelated.

On the basis of this assessment, the entity identifies two performance obligations in the contract for the following goods or services:

- (i) the equipment; and
- (ii) installation services.

IE58D The entity applies paragraphs 31–38 of IFRS 15 to determine whether each performance obligation is satisfied at a point in time or over time.

Case D—Promises are separately identifiable (contractual restrictions)

IE58E Assume the same facts as in Case C, except that the customer is contractually required to use the entity's installation services.

IE58F The contractual requirement to use the entity's installation services does not change the evaluation of whether the promised goods and services are distinct in this case. This is because the contractual requirement to use the entity's installation services does not change the characteristics of the goods or services

themselves, nor does it change the entity's promises to the customer. Although the customer is required to use the entity's installation services, the equipment and the installation services are capable of being distinct (ie they each meet the criterion in paragraph 27(a) of IFRS 15) and the entity's promises to provide the equipment and to provide the installation services are each separately identifiable, ie they each meet the criterion in paragraph 27(b) of IFRS 15. The entity's analysis in this regard is consistent with that in Case C.

Case E—Promises are separately identifiable (consumables)

- IE58G An entity enters into a contract with a customer to provide a piece of off-the-shelf equipment (ie the equipment is operational without any significant customisation or modification) and to provide specialised consumables for use in the equipment at predetermined intervals over the next three years. The consumables are produced only by the entity, but are sold separately by the entity.
- IE58H The entity determines that the customer can benefit from the equipment together with the readily available consumables. The consumables are readily available in accordance with paragraph 28 of IFRS 15, because they are regularly sold separately by the entity (ie through refill orders to customers that previously purchased the equipment). The customer can benefit from the consumables that will be delivered under the contract together with the delivered equipment that is transferred to the customer initially under the contract. Therefore, the equipment and the consumables are each capable of being distinct in accordance with paragraph 27(a) of IFRS 15.
- IE58I The entity determines that its promises to transfer the equipment and to provide consumables over a three-year period are each separately identifiable in accordance with paragraph 27(b) of IFRS 15. In determining that the equipment and the consumables are not inputs to a combined item in this contract, the entity considers that it is not providing a significant integration service that transforms the equipment and consumables into a combined output. In addition, neither the equipment nor the consumables are significantly customised or modified by the other. Lastly, the entity concludes that the equipment and the consumables are not highly interdependent or highly interrelated because they do not significantly affect each other. Although the customer can benefit from the consumables in this contract only after it has obtained control of the equipment (ie the consumables would have no use without the equipment) and the consumables are required for the equipment to function, the equipment and the consumables do not each significantly affect the other. This is because the entity would be able to fulfil each of its promises in the contract independently of the other. That is, the entity would be able to fulfil its promise to transfer the equipment even if the customer did not purchase any consumables and would be able to fulfil its promise to provide the consumables, even if the customer acquired the equipment separately.
- IE58J On the basis of this assessment, the entity identifies two performance obligations in the contract for the following goods or services:
- (a) the equipment; and

(b) the consumables.

IE5K The entity applies paragraphs 31–38 of IFRS 15 to determine whether each performance obligation is satisfied at a point in time or over time.

Example 12—Explicit and implicit promises in a contract

IE59 An entity, a manufacturer, sells a product to a distributor (ie its customer) who will then resell it to an end customer.

Case A—Explicit promise of service

IE60 In the contract with the distributor, the entity promises to provide maintenance services for no additional consideration (ie ‘free’) to any party (ie the end customer) that purchases the product from the distributor. The entity outsources the performance of the maintenance services to the distributor and pays the distributor an agreed-upon amount for providing those services on the entity’s behalf. If the end customer does not use the maintenance services, the entity is not obliged to pay the distributor.

IE61 The contract with the customer includes two promised goods or services—(a) the product and (b) the maintenance services. Because the The promise of maintenance services is a promise to transfer goods or services in the future and is part of the negotiated exchange between the entity and the distributor, the entity determines that the promise to provide maintenance services is a performance obligation (see paragraph 26(g) of IFRS 15). The entity concludes that the promise would represent a performance obligation regardless of whether the entity, the distributor, or a third party provides the service. Consequently, the entity allocates a portion of the transaction price to the promise to provide maintenance services. The entity assesses whether each good or service is distinct in accordance with paragraph 27 of IFRS 15. The entity determines that both the product and the maintenance services meet the criterion in paragraph 27(a) of IFRS 15. The entity regularly sells the product on a stand-alone basis, which indicates that the customer can benefit from the product on its own. The customer can benefit from the maintenance services together with a resource the customer already has obtained from the entity (ie the product).

IE61A The entity further determines that its promises to transfer the product and to provide the maintenance services are separately identifiable (in accordance with paragraph 27(b) of IFRS 15) on the basis of the principle and the factors in paragraph 29 of IFRS 15. The product and the maintenance services are not inputs to a combined item in the contract. The entity is not providing a significant integration service because the presence of the product and the services together in this contract do not result in any additional or combined functionality. In addition, neither the product nor the services modify or customise the other. Lastly, the product and the maintenance services are not highly interdependent or highly interrelated because the entity would be able to fulfil each of the promises in the contract independently of its efforts to fulfil the other (ie the entity would be able to transfer the product even if the customer declined maintenance services and would be able to provide maintenance services in relation to products sold previously through other

distributors). The entity also observes, in applying the principle in paragraph 29 of IFRS 15, that the entity's promise to provide maintenance is not necessary for the product to continue to provide significant benefit to the customer. Consequently, the entity allocates a portion of the transaction price to each of the two performance obligations (ie the product and the maintenance services) in the contract.

Case B—Implicit promise of service

IE62 The entity has historically provided maintenance services for no additional consideration (ie 'free') to end customers that purchase the entity's product from the distributor. The entity does not explicitly promise maintenance services during negotiations with the distributor and the final contract between the entity and the distributor does not specify terms or conditions for those services.

IE63 However, on the basis of its customary business practice, the entity determines at contract inception that it has made an implicit promise to provide maintenance services as part of the negotiated exchange with the distributor. That is, the entity's past practices of providing these services create valid expectations of the entity's customers (ie the distributor and end customers) in accordance with paragraph 24 of IFRS 15. Consequently, the entity ~~identifies~~ assesses whether the promise of maintenance services as is a performance obligation ~~to which it allocates a portion of the transaction price. For the same reasons as in Case A, the entity determines that the product and maintenance services are separate performance obligations.~~

Case C—~~Services are not a performance obligation promised service~~

IE64 In the contract with the distributor, the entity does not promise to provide any maintenance services. In addition, the entity typically does not provide maintenance services and, therefore, the entity's customary business practices, published policies and specific statements at the time of entering into the contract have not created an implicit promise to provide goods or services to its customers. The entity transfers control of the product to the distributor and, therefore, the contract is completed. However, before the sale to the end customer, the entity makes an offer to provide maintenance services to any party that purchases the product from the distributor for no additional promised consideration.

IE65 The promise of maintenance is not included in the contract between the entity and the distributor at contract inception. That is, in accordance with paragraph 24 of IFRS 15, the entity does not explicitly or implicitly promise to provide maintenance services to the distributor or the end customers. Consequently, the entity does not identify the promise to provide maintenance services as a performance obligation. Instead, the obligation to provide maintenance services is accounted for in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

IE65A Although the maintenance services are not a promised service in the current contract, in future contracts with customers the entity would assess whether it has created a business practice resulting in an implied promise to provide maintenance services.

...

Example 44—Warranties

- IE223 An entity, a manufacturer, provides its customer with a warranty with the purchase of a product. The warranty provides assurance that the product complies with agreed-upon specifications and will operate as promised for one year from the date of purchase. The contract also provides the customer with the right to receive up to 20 hours of training services on how to operate the product at no additional cost.
- IE224 The entity assesses the goods and services in the contract to determine whether they are distinct and therefore give rise to separate performance obligations.
- IE225 ~~The product is distinct because it meets both criteria in paragraph 27 of IFRS 15. The product is and training services are each capable of being distinct in accordance with paragraphs 27(a) and 28 of IFRS 15, because the customer can benefit from the product on its own without the training services and can benefit from the training services together with the product that already has been transferred by the entity. The entity regularly sells the product separately without the training services. In addition, the product is distinct within the context of the contract in accordance with paragraphs 27(b) and 29 of IFRS 15, because the entity's promise to transfer the product is separately identifiable from other promises in the contract.~~
- IE226 ~~In addition, the training services are distinct because they meet both criteria in paragraph 27 of IFRS 15. The training services are capable of being distinct in accordance with paragraphs 27(a) and 28 of IFRS 15, because the customer can benefit from the training services together with the product that has already been provided by the entity. In addition, the training services are distinct within the context of the contract. The entity next assesses whether its promises to transfer the product and to provide the training services are separately identifiable in accordance with paragraphs 27(b) and 29 of IFRS 15, because the entity's promise to transfer the training services are separately identifiable from other promises in the contract. The entity does not provide a significant service of integrating the training services with the product (see paragraph 29(a) of IFRS 15). The training services are and product do not significantly modified or customised by the product modify or customise each other (see paragraph 29(b) of IFRS 15). The product and the training services are not highly interdependent or, or highly interrelated with, the product (see paragraph 29(c) of IFRS 15). The entity would be able to fulfil its promise to transfer the product independently of its efforts to subsequently provide the training services, and would be able to provide training services to any customer that had previously acquired its product. Consequently, the entity concludes that its promise to transfer the product and its promise to provide training services are not inputs to a combined item, and, therefore, are each separately identifiable.~~
- IE227 The product and training services are each distinct in accordance with paragraph 27 of IFRS 15 and therefore give rise to two separate performance obligations.

- IE228 Finally, the entity assesses the promise to provide a warranty and observes that the warranty provides the customer with the assurance that the product will function as intended for one year. The entity concludes, in accordance with paragraphs B28–B33 of IFRS 15, that the warranty does not provide the customer with a good or service in addition to that assurance and, therefore, the entity does not account for it as a performance obligation. The entity accounts for the assurance-type warranty in accordance with the requirements in IAS 37.
- IE229 As a result, the entity allocates the transaction price to the two performance obligations (the product and the training services) and recognises revenue when (or as) those performance obligations are satisfied.

Principal versus agent considerations

- IE230 Examples 45–48A illustrate the requirements in paragraphs B34–B38 of IFRS 15 on principal versus agent considerations.

Example 45—Arranging for the provision of goods or services (entity is an agent)

- IE231 An entity operates a website that enables customers to purchase goods from a range of suppliers who deliver the goods directly to the customers. Under the terms of the entity's contracts with suppliers, when when a good is purchased via the website, the entity is entitled to a commission that is equal to 10 per cent of the sales price. The entity's website facilitates payment between the supplier and the customer at prices that are set by the supplier. The entity requires payment from customers before orders are processed and all orders are non-refundable. The entity has no further obligations to the customer after arranging for the products to be provided to the customer.
- IE232 To determine whether the entity's performance obligation is to provide the specified goods itself (ie the entity is a principal) or to arrange for the ~~supplier to provide~~ those goods to be provided by the supplier (ie the entity is an agent), the entity ~~considers the nature of its promise~~ identifies the specified good or service to be provided to the customer and assesses whether it controls that good or service before the good or service is transferred to the customer. Specifically, the entity ~~observes that the supplier of the goods delivers its goods directly to the customer and thus the entity does not obtain control of the goods. Instead, the entity's promise is to arrange for the supplier to provide those goods to the customer. In reaching that conclusion, the entity considers the following indicators from paragraph B37 of IFRS 15 as follows:~~
- (a) ~~the supplier is primarily responsible for fulfilling the contract ie by shipping the goods to the customer;~~
 - (b) ~~the entity does not take inventory risk at any time during the transaction because the goods are shipped directly by the supplier to the customer;~~
 - (c) ~~the entity's consideration is in the form of a commission (10 per cent of the sales price);~~

- (d) ~~the entity does not have discretion in establishing prices for the supplier's goods and, therefore, the benefit the entity can receive from those goods is limited; and~~
- (e) ~~neither the entity, nor the supplier, has credit risk because payments from customers are made in advance.~~

IE232A ~~The website operated by the entity is a marketplace in which suppliers offer their goods and customers purchase the goods that are offered by the suppliers. Accordingly, the entity observes that the specified goods to be provided to customers that use the website are the goods provided by the suppliers, and no other goods or services are promised to customers by the entity.~~

IE232B ~~The entity concludes that it does not control the specified goods before they are transferred to customers that order goods using the website. The entity does not at any time have the ability to direct the use of the goods transferred to customers. For example, it cannot direct the goods to parties other than the customer or prevent the supplier from transferring those goods to the customer. The entity does not control the suppliers' inventory of goods used to fulfil the orders placed by customers using the website.~~

IE232C ~~As part of reaching that conclusion, the entity considers the following indicators in paragraph B37 of IFRS 15. The entity concludes that these indicators provide further evidence that it does not control the specified goods before they are transferred to the customers:~~

- (a) ~~the supplier is primarily responsible for fulfilling the promise to provide the goods to the customer. The entity is neither obliged to provide the goods if the supplier fails to transfer the goods to the customer, nor responsible for the acceptability of the goods.~~
- (b) ~~the entity does not take inventory risk at any time before or after the goods are transferred to the customer. The entity does not commit itself to obtain the goods from the supplier before the goods are purchased by the customer, and does not accept responsibility for any damaged or returned goods.~~
- (c) ~~the entity does not have discretion in establishing prices for the supplier's goods. The sales price is set by the supplier.~~

IE233 ~~Consequently, the entity concludes that it is an agent and its performance obligation is to arrange for the provision of goods by the supplier. When the entity satisfies its promise to arrange for the goods to be provided by the supplier to the customer (which, in this example, is when goods are purchased by the customer), the entity recognises revenue in the amount of the commission to which it is entitled.~~

Example 46—Promise to provide goods or services (entity is a principal)

IE234 ~~An entity enters into a contract with a customer for equipment with unique specifications. The entity and the customer develop the specifications for the equipment, which the entity communicates to a supplier that the entity contracts with to manufacture the equipment. The entity also arranges to have~~

the supplier deliver the equipment directly to the customer. Upon delivery of the equipment to the customer, the terms of the contract require the entity to pay the supplier the price agreed to by the entity and the supplier for manufacturing the equipment.

- IE235 The entity and the customer negotiate the selling price, and the entity invoices the customer for the agreed-upon price with 30-day payment terms. The entity's profit is based on the difference between the sales price negotiated with the customer and the price charged by the supplier.
- IE236 The contract between the entity and the customer requires the customer to seek remedies for defects in the equipment from the supplier under the supplier's warranty. However, the entity is responsible for any corrections to the equipment required resulting from errors in specifications.
- IE237 To determine whether the entity's performance obligation is to provide the specified goods or services itself (ie the entity is a principal) or to arrange for ~~another party to provide~~ those goods or services to be provided by another party (ie the entity is an agent), the entity ~~considers the nature of its promise~~ identifies the specified good or service to be provided to the customer and assesses whether it controls that good or service before the good or service is transferred to the customer. The entity has promised to provide the customer with specialised equipment; however, the entity has subcontracted the manufacturing of the equipment to the supplier. In determining whether the entity obtains control of the equipment before control transfers to the customer and whether the entity is a principal, the entity considers the indicators in paragraph B37 of IFRS 15 as follows:
- (a) ~~the entity is primarily responsible for fulfilling the contract. Although the entity subcontracted the manufacturing, the entity is ultimately responsible for ensuring that the equipment meets the specifications for which the customer has contracted.~~
 - (b) ~~the entity has inventory risk because of its responsibility for corrections to the equipment resulting from errors in specifications, even though the supplier has inventory risk during production and before shipment.~~
 - (c) ~~the entity has discretion in establishing the selling price with the customer, and the profit earned by the entity is an amount that is equal to the difference between the selling price negotiated with the customer and the amount to be paid to the supplier.~~
 - (d) ~~the entity's consideration is not in the form of a commission.~~
 - (e) ~~the entity has credit risk for the amount receivable from the customer in exchange for the equipment.~~
- IE237A The entity concludes that it has promised to provide the customer with specialised equipment designed by the entity. Although the entity has subcontracted the manufacturing of the equipment to the supplier, the entity concludes that the design and manufacturing of the equipment are not distinct, because they are not separately identifiable (ie there is a single performance obligation). The entity is responsible for the overall management of the contract (for example, by ensuring that the manufacturing service conforms to the

specifications) and, thus, provides a significant service of integrating those items into the combined output—the specialised equipment—for which the customer has contracted. In addition, those activities are highly interrelated. If necessary modifications to the specifications are identified as the equipment is manufactured, the entity is responsible for developing and communicating revisions to the supplier and for ensuring that any associated rework required conforms with the revised specifications. Accordingly, the entity identifies the specified good to be provided to the customer as the specialised equipment.

IE237B The entity concludes that it controls the specialised equipment before that equipment is transferred to the customer (see paragraph B35A(c)). The entity provides the significant integration service necessary to produce the specialised equipment and, therefore, controls the specialised equipment before it is transferred to the customer. The entity directs the use of the supplier's manufacturing service as an input in creating the combined output that is the specialised equipment. In reaching the conclusion that it controls the specialised equipment before that equipment is transferred to the customer, the entity also observes that, even though the supplier delivers the specialised equipment to the customer, the supplier has no ability to direct its use (ie the terms of the contract between the entity and the supplier preclude the supplier from using the specialised equipment for another purpose or directing that equipment to another customer). The entity also obtains the remaining benefits from the specialised equipment by being entitled to the consideration in the contract from the customer.

IE238 The entity concludes that its promise is to provide the equipment to the customer. On the basis of the indicators in paragraph B37 of IFRS 15, the entity concludes that it controls the equipment before it is transferred to the customer. Thus, the entity concludes that it is a principal in the transaction ~~and~~. The entity does not consider the indicators in paragraph B37 of IFRS 15 because the evaluation above is conclusive without consideration of the indicators. The entity recognises revenue in the gross amount of consideration to which it is entitled from the customer in exchange for the specialised equipment.

Example 46A—Promise to provide goods or services (entity is a principal)

IE238A An entity enters into a contract with a customer to provide office maintenance services. The entity and the customer define and agree on the scope of the services and negotiate the price. The entity is responsible for ensuring that the services are performed in accordance with the terms and conditions in the contract. The entity invoices the customer for the agreed-upon price on a monthly basis with 10-day payment terms.

IE238B The entity regularly engages third-party service providers to provide office maintenance services to its customers. When the entity obtains a contract from a customer, the entity enters into a contract with one of those service providers, directing the service provider to perform office maintenance services for the customer. The payment terms in the contracts with the service providers are

generally aligned with the payment terms in the entity's contracts with customers. However, the entity is obliged to pay the service provider even if the customer fails to pay.

IE238C To determine whether the entity is a principal or an agent, the entity identifies the specified good or service to be provided to the customer and assesses whether it controls that good or service before the good or service is transferred to the customer.

IE238D The entity observes that the specified services to be provided to the customer are the office maintenance services for which the customer contracted, and that no other goods or services are promised to the customer. While the entity obtains a right to office maintenance services from the service provider after entering into the contract with the customer, that right is not transferred to the customer. That is, the entity retains the ability to direct the use of, and obtain substantially all the remaining benefits from, that right. For example, the entity can decide whether to direct the service provider to provide the office maintenance services for that customer, or for another customer, or at its own facilities. The customer does not have a right to direct the service provider to perform services that the entity has not agreed to provide. Therefore, the right to office maintenance services obtained by the entity from the service provider is not the specified good or service in its contract with the customer.

IE238E The entity concludes that it controls the specified services before they are provided to the customer. The entity obtains control of a right to office maintenance services after entering into the contract with the customer but before those services are provided to the customer. The terms of the entity's contract with the service provider give the entity the ability to direct the service provider to provide the specified services on the entity's behalf (see paragraph B35A(b)). In addition, the entity concludes that the following indicators in paragraph B37 of IFRS 15 provide further evidence that the entity controls the office maintenance services before they are provided to the customer:

- (a) the entity is primarily responsible for fulfilling the promise to provide office maintenance services. Although the entity has hired a service provider to perform the services promised to the customer, it is the entity itself that is responsible for ensuring that the services are performed and are acceptable to the customer (ie the entity is responsible for fulfilment of the promise in the contract, regardless of whether the entity performs the services itself or engages a third-party service provider to perform the services).
- (b) the entity has discretion in setting the price for the services to the customer.

IE238F The entity observes that it does not commit itself to obtain the services from the service provider before obtaining the contract with the customer. Thus, the entity has mitigated inventory risk with respect to the office maintenance services. Nonetheless, the entity concludes that it controls the office maintenance services before they are provided to the customer on the basis of the evidence in paragraph IE238E.

IE238G Thus, the entity is a principal in the transaction and recognises revenue in the amount of consideration to which it is entitled from the customer in exchange for the office maintenance services.

Example 47—Promise to provide goods or services (entity is a principal)

IE239 An entity negotiates with major airlines to purchase tickets at reduced rates compared with the price of tickets sold directly by the airlines to the public. The entity agrees to buy a specific number of tickets and must pay for those tickets regardless of whether it is able to resell them. The reduced rate paid by the entity for each ticket purchased is negotiated and agreed in advance.

IE240 The entity determines the prices at which the airline tickets will be sold to its customers. The entity sells the tickets and collects the consideration from customers when the tickets are purchased; ~~therefore there is no credit risk.~~

IE241 The entity also assists the customers in resolving complaints with the service provided by the airlines. However, each airline is responsible for fulfilling obligations associated with the ticket, including remedies to a customer for dissatisfaction with the service.

IE242 To determine whether the entity's performance obligation is to provide the specified goods or services itself (ie the entity is a principal) or to arrange for ~~another party to provide~~ those goods or services to be provided by another party (ie the entity is an agent), the entity ~~considers the nature of its promise~~ identifies the specified good or service to be provided to the customer and assesses whether it controls that good or service before the good or service is transferred to the customer. ~~The entity determines that its promise is to provide the customer with a ticket, which provides the right to fly on the specified flight or another flight if the specified flight is changed or cancelled. In determining whether the entity obtains control of the right to fly before control transfers to the customer and whether the entity is a principal, the entity considers the indicators in paragraph B37 of IFRS 15 as follows:~~

- ~~(a) the entity is primarily responsible for fulfilling the contract, which is providing the right to fly. However, the entity is not responsible for providing the flight itself, which will be provided by the airline.~~
- ~~(b) the entity has inventory risk for the tickets because they are purchased before they are sold to the entity's customers and the entity is exposed to any loss as a result of not being able to sell the tickets for more than the entity's cost.~~
- ~~(c) the entity has discretion in setting the sales prices for tickets to its customers.~~
- ~~(d) as a result of the entity's ability to set the sales prices, the amount that the entity earns is not in the form of a commission, but instead depends on the sales price it sets and the costs of the tickets that were negotiated with the airline.~~

IE242A The entity concludes that, with each ticket that it commits itself to purchase from the airline, it obtains control of a right to fly on a specified flight (in the

form of a ticket) that the entity then transfers to one of its customers (see paragraph B35A(a)). Consequently, the entity determines that the specified good or service to be provided to its customer is that right (to a seat on a specific flight) that the entity controls. The entity observes that no other goods or services are promised to the customer.

IE242B The entity controls the right to each flight before it transfers that specified right to one of its customers because the entity has the ability to direct the use of that right by deciding whether to use the ticket to fulfil a contract with a customer and, if so, which contract it will fulfil. The entity also has the ability to obtain the remaining benefits from that right by either reselling the ticket and obtaining all of the proceeds from the sale or, alternatively, using the ticket itself.

IE242C The indicators in paragraphs B37(b)-(c) of IFRS 15 also provide relevant evidence that the entity controls each specified right (ticket) before it is transferred to the customer. The entity has inventory risk with respect to the ticket because the entity committed itself to obtain the ticket from the airline before obtaining a contract with a customer to purchase the ticket. This is because the entity is obliged to pay the airline for that right regardless of whether it is able to obtain a customer to resell the ticket to or whether it can obtain a favourable price for the ticket. The entity also establishes the price that the customer will pay for the specified ticket.

IE243 The entity concludes that its promise is to provide a ticket (ie a right to fly) to the customer. On the basis of the indicators in paragraph B37 of IFRS 15, the entity concludes that it controls the ticket before it is transferred to the customer. Thus, the entity concludes that it is a principal in the ~~transaction and transactions with customers~~. The entity recognises revenue in the gross amount of consideration to which it is entitled in exchange for the tickets transferred to the customers.

Example 48—Arranging for the provision of goods or services (entity is an agent)

IE244 An entity sells vouchers that entitle customers to future meals at specified restaurants. ~~These vouchers are sold by the entity and the~~ The sales price of the voucher provides the customer with a significant discount when compared with the normal selling prices of the meals (for example, a customer pays CU100 for a voucher that entitles the customer to a meal at a restaurant that would otherwise cost CU200). The entity does not purchase or commit itself to purchase vouchers in advance of the sale of a voucher to a customer; instead, it purchases vouchers only as they are requested by the customers. The entity sells the vouchers through its website and the vouchers are non-refundable.

IE245 The entity and the restaurants jointly determine the prices at which the vouchers will be sold to customers. ~~Under the terms of its contracts with the restaurants, The~~ the entity is entitled to 30 per cent of the voucher price when it sells the voucher. ~~The entity has no credit risk because the customers pay for the vouchers when purchased.~~

- IE246 The entity also assists the customers in resolving complaints about the meals and has a buyer satisfaction programme. However, the restaurant is responsible for fulfilling obligations associated with the voucher, including remedies to a customer for dissatisfaction with the service.
- IE247 To determine whether the entity is a principal or an agent, the entity ~~considers the nature of its promise and whether it takes control of the voucher (ie a right) before control transfers to the customer~~ identifies the specified good or service to be provided to the customer and assesses whether it controls the specified good or service before that good or service is transferred to the customer. ~~In making this determination, the entity considers the indicators in paragraph B37 of IFRS 15 as follows:~~
- (a) ~~the entity is not responsible for providing the meals itself, which will be provided by the restaurants;~~
 - (b) ~~the entity does not have inventory risk for the vouchers because they are not purchased before being sold to customers and the vouchers are non-refundable;~~
 - (c) ~~the entity has some discretion in setting the sales prices for vouchers to customers, but the sales prices are jointly determined with the restaurants; and~~
 - (d) ~~the entity's consideration is in the form of a commission, because it is entitled to a stipulated percentage (30 per cent) of the voucher price.~~
- IE247A A customer obtains a voucher for the restaurant that it selects. The entity does not engage the restaurants to provide meals to customers on the entity's behalf as described in the indicator in paragraph B37(a) of IFRS 15. Therefore, the entity observes that the specified good or service to be provided to the customer is the right to a meal (in the form of a voucher) at a specified restaurant or restaurants, which the customer purchases and then can use itself or transfer to another person. The entity also observes that no other goods or services (other than the vouchers) are promised to the customers.
- IE247B The entity concludes that it does not control the voucher (right to a meal) at any time. In reaching this conclusion, the entity principally considers the following:
- (a) the vouchers are created only at the time that they are transferred to the customers and, thus, do not exist before that transfer. Therefore, the entity does not at any time have the ability to direct the use of the vouchers, or obtain substantially all of the remaining benefits from the vouchers, before they are transferred to customers.
 - (b) the entity neither purchases, nor commits itself to purchase, vouchers before they are sold to customers. The entity also has no responsibility to accept any returned vouchers. Therefore, the entity does not have inventory risk with respect to the vouchers as described in the indicator in paragraph B37(b) of IFRS 15.
- IE248 ~~The entity concludes that its promise is to arrange for goods or services to be provided to customers (the purchasers of the vouchers) in exchange for a commission. On the basis of the indicators in paragraph B37 of IFRS 15, the~~

~~entity concludes that it does not control the vouchers that provide a right to meals before they are transferred to the customers. Thus, the entity concludes that it is an agent in the arrangement and with respect to the vouchers. The entity recognises revenue in the net amount of consideration to which the entity will be entitled in exchange for the service arranging for the restaurants to provide vouchers to customers for the restaurants' meals, which is the 30 per cent commission it is entitled to upon the sale of each voucher.~~

Example 48A—Entity is a principal and an agent in the same contract

- IE248A An entity sells services to assist its customers in more effectively targeting potential recruits for open job positions. The entity performs several services itself, such as interviewing candidates and performing background checks. As part of the contract with a customer, the customer agrees to obtain a licence to access a third party's database of information on potential recruits. The entity arranges for this licence with the third party, but the customer contracts directly with the database provider for the licence. The entity collects payment on behalf of the third-party database provider as part of the entity's overall invoicing to the customer. The database provider sets the price charged to the customer for the licence, and is responsible for providing technical support and credits to which the customer may be entitled for service down time or other technical issues.
- IE248B To determine whether the entity is a principal or an agent, the entity identifies the specified goods or services to be provided to the customer, and assesses whether it controls those goods or services before they are transferred to the customer.
- IE248C For the purpose of this example, it is assumed that the entity concludes that its recruitment services and the database access licence are each distinct on the basis of its assessment of the requirements in paragraphs 27–30 of IFRS 15. Accordingly, there are two specified goods or services to be provided to the customer—access to the third party's database and recruitment services.
- IE248D The entity concludes that it does not control the access to the database before it is provided to the customer. The entity does not at any time have the ability to direct the use of the licence because the customer contracts for the licence directly with the database provider. The entity does not control access to the provider's database—it cannot, for example, grant access to the database to a party other than the customer, or prevent the database provider from providing access to the customer.
- IE248E As part of reaching that conclusion, the entity also considers the indicators in paragraph B37 of IFRS 15. The entity concludes that these indicators provide further evidence that it does not control access to the database before that access is provided to the customer:
- (a) the entity is not responsible for fulfilling the promise to provide the database access service. The customer contracts for the licence directly with the third-party database provider and the database provider is

responsible for the acceptability of the database access (for example, by providing technical support or service credits).

- (b) the entity does not have inventory risk because it does not purchase, or commit itself to purchase, the database access before the customer contracts for database access directly with the database provider.
- (c) the entity does not have discretion in setting the price for the database access with the customer because the database provider sets that price.

IE248F Thus, the entity concludes that it is an agent in relation to the third party's database service. In contrast, the entity concludes that it is the principal in relation to the recruitment services because the entity performs those services itself and no other party is involved in providing those services to the customer.

...

Licensing

IE275 Examples 54–61 illustrate the requirements in paragraphs 22–30 of IFRS 15 for identifying performance obligations and paragraphs B52–B63B of IFRS 15 on licensing. These examples also illustrate other requirements as follows:

- (a) ...
- (c) paragraphs B63–B63B of IFRS 15 on consideration in the form of sales-based or usage-based royalties on licences of intellectual property (Examples 57 and 61).

Example 54—Right to use intellectual property

IE276 Using the same facts as in Case A in Example 11 (see paragraphs IE49–IE53), the entity identifies four performance obligations in a contract:

- (a) the software licence;
- (b) installation services;
- (c) software updates; and
- (d) technical support.

IE277 The entity assesses the nature of its promise to transfer the software licence in accordance with paragraph B58 of IFRS 15. ~~The entity observes that the software is functional at the time that the licence transfers to the customer, and the customer can direct the use of, and obtain substantially all of the remaining benefits from, the software when the licence transfers to the customer. Furthermore, the entity concludes that because the software is functional when it transfers to the customer, the customer does not reasonably expect the entity to undertake activities that significantly affect the intellectual property to which the licence relates. This is because at the point in time that the licence is transferred to the customer, the intellectual property will not change throughout the licence period.~~ The entity does not consider in its assessment of the criteria in paragraph B58 of IFRS 15 the promise to provide software updates, because they ~~represent a separate performance obligation~~ result in the transfer of an additional good or service to the customer (see paragraph B58(c)). ~~The~~

entity also observes that it does not have any contractual or implied obligations (independent of the updates and technical support) to undertake activities that will change the functionality of the software during the licence period. The entity observes that the software remains functional without the updates and the technical support and, therefore, the ability of the customer to obtain the benefits of the software is not substantially derived from, or dependent on, the entity's ongoing activities. The entity therefore determines that the contract does not require, and the customer does not reasonably expect, the entity to undertake activities that significantly affect the software (independent of the updates and technical support). Therefore, the The entity concludes that the software to which the licence relates has significant stand-alone functionality and none of the criteria in paragraph B58 of IFRS 15 are met and. The entity further concludes that the nature of the entity's promise in transferring the licence is to provide a right to use the entity's intellectual property as it exists at a point in time—ie the intellectual property to which the customer has rights is static. Consequently, the entity accounts for the licence as a performance obligation satisfied at a point in time.

Example 55—Licence of intellectual property

- IE278 An entity enters into a contract with a customer to licence (for a period of three years) intellectual property related to the design and production processes for a good. The contract also specifies that the customer will obtain any updates to that intellectual property for new designs or production processes that may be developed by the entity. The updates are essential integral to the customer's ability to use derive benefit from the licence during the licence period, because the customer operates intellectual property is used in an industry in which technologies change rapidly. The entity does not sell the updates separately and the customer does not have the option to purchase the licence without the updates.
- IE279 The entity assesses the goods and services promised to the customer to determine which goods and services are distinct in accordance with paragraph 27 of IFRS 15. The entity determines that although the entity can conclude that the customer can obtain benefit from (a) the licence on its own without the updates (see paragraph 27(a) of IFRS 15), that benefit; and (b) the updates together with the initial licence. Although the benefit the customer can derive from the licence on its own (ie without the updates) is would be limited because the updates are critical integral to the customer's ability to continue to make use of the licence in the rapidly changing technological environment in which the customer operates use the intellectual property in an industry in which technologies change rapidly, the licence can be used in a way that generates some economic benefits. In assessing whether the criterion in paragraph 27(b) of IFRS 15 is met, the entity observes that the customer does not have the option to purchase the licence without the updates and the customer obtains limited benefit from the licence without the updates. Therefore, the entity concludes that the licence and the updates are highly interrelated and the promise to grant the licence is not distinct within the context of the contract, because the licence is not separately identifiable from the promise to provide the updates (in

accordance with the criterion in paragraph 27(b) and the factors in paragraph 29 of IFRS 15). Therefore, the criterion in paragraph 27(a) of IFRS 15 is met for the licence and the updates.

IE279A The fact that the benefit the customer can derive from the licence on its own (ie without the updates) is limited (because the updates are integral to the customer's ability to continue to use the licence in the rapidly changing technological environment) is also considered in assessing whether the criterion in paragraph 27(b) of IFRS 15 is met. Because the benefit that the customer could obtain from the licence over the three-year term without the updates would be significantly limited, the entity's promises to grant the licence and to provide the expected updates are, in effect, inputs that together fulfil a single promise to deliver a combined item to the customer. That is, the nature of the entity's promise in the contract is to provide ongoing access to the entity's intellectual property related to the design and production processes for a good for the three-year term of the contract. The promises within that combined item (ie to grant the licence and to provide when-and-if-available updates) are, therefore, not separately identifiable in accordance with the criterion in paragraph 27(b) of IFRS 15.

IE280 The nature of the combined good or service that the entity promised to transfer to the customer is ongoing access to the entity's intellectual property related to the design and production processes for a good for the three-year term of the contract. On the basis of this conclusion, the entity applies paragraphs 31–38 of IFRS 15 to determine whether the single performance obligation (which includes the licence and the updates) is satisfied at a point in time or over time. The entity concludes that because the customer simultaneously receives and consumes the benefits of the entity's performance as it occurs, the performance obligation is satisfied over time in accordance with paragraph 35(a) of IFRS 15.

Example 56—Identifying a distinct licence

IE281 An entity, a pharmaceutical company, licenses to a customer its patent rights to an approved drug compound for 10 years and also promises to manufacture the drug for the customer. The drug is a mature product; therefore the entity will not undertake any activities to support the drug, which is consistent with its customary business practices.

Case A—Licence is not distinct

IE282 In this case, no other entity can manufacture this drug because of the highly specialised nature of the manufacturing process. As a result, the licence cannot be purchased separately from the manufacturing services.

IE283 The entity assesses the goods and services promised to the customer to determine which goods and services are distinct in accordance with paragraph 27 of IFRS 15. The entity determines that the customer cannot benefit from the licence without the manufacturing service; therefore, the criterion in paragraph 27(a) of IFRS 15 is not met. Consequently, the licence and the manufacturing service are not distinct and the entity accounts for the licence and the manufacturing service as a single performance obligation.

IE284 The entity applies paragraphs 31–38 of IFRS 15 to determine whether the performance obligation (ie the bundle of the licence and the manufacturing services) is a performance obligation satisfied at a point in time or over time.

Case B—Licence is distinct

IE285 In this case, the manufacturing process used to produce the drug is not unique or specialised and several other entities can also manufacture the drug for the customer.

IE286 The entity assesses the goods and services promised to the customer to determine which goods and services are distinct ~~in accordance with, and it concludes that the criteria in~~ paragraph 27 of IFRS 15 ~~are met for each of the licence and the manufacturing service.~~ Because the manufacturing process can be provided by other entities, ~~the~~ The entity concludes that ~~the criterion in paragraph 27(a) of IFRS 15 is met because~~ the customer can benefit from the licence on its own (ie without the manufacturing service) and that the licence is separately identifiable from the manufacturing process ~~(ie the criteria in paragraph 27 of IFRS 15 are met) together with readily available resources other than the entity's manufacturing service (because there are other entities that can provide the manufacturing service), and can benefit from the manufacturing service together with the licence transferred to the customer at the start of the contract.~~ Consequently, the entity concludes that the licence and the manufacturing service are distinct and the entity has two performance obligations:

- (a) licence of patent rights; and
- (b) manufacturing service.

IE286A The entity also concludes that its promises to grant the licence and to provide the manufacturing service are separately identifiable (ie the criterion in paragraph 27(b) of IFRS 15 is met). The entity concludes that the licence and the manufacturing service are not inputs to a combined item in this contract on the basis of the principle and the factors in paragraph 29 of IFRS 15. In reaching this conclusion, the entity considers that the customer could separately purchase the licence without significantly affecting its ability to benefit from the licence. Neither the licence, nor the manufacturing service, is significantly modified or customised by the other and the entity is not providing a significant service of integrating those items into a combined output. The entity further considers that the licence and the manufacturing service are not highly interdependent or highly interrelated because the entity would be able to fulfil its promise to transfer the licence independently of fulfilling its promise to subsequently manufacture the drug for the customer. Similarly, the entity would be able to manufacture the drug for the customer even if the customer had previously obtained the licence and initially utilised a different manufacturer. Thus, although the manufacturing service necessarily depends on the licence in this contract (ie the entity would not provide the manufacturing service without the customer having obtained the licence), the licence and the manufacturing service do not significantly affect each other. Consequently, the entity

concludes that its promises to grant the licence and to provide the manufacturing service are distinct and that there are two performance obligations:

(a) licence of patent rights; and

(b) manufacturing service.

- IE287 The entity assesses, in accordance with paragraph B58 of IFRS 15, the nature of the entity's promise to grant the licence. The drug is a mature product (ie it has been approved, is currently being manufactured and has been sold commercially for the last several years). For these types of mature products, the entity's customary business practices are not to undertake any activities to support the drug. The drug compound has significant stand-alone functionality (ie its ability to produce a drug that treats a disease or condition). Consequently, the customer obtains a substantial portion of the benefits of the drug compound from that functionality, rather than from the entity's ongoing activities. ~~Consequently, the~~ The entity concludes that the criteria in paragraph B58 of IFRS 15 are not met because the contract does not require, and the customer does not reasonably expect, the entity to undertake activities that significantly affect the intellectual property to which the customer has rights. In its assessment of the criteria in paragraph B58 of IFRS 15, the entity does not take into consideration the separate performance obligation of promising to provide a manufacturing service. Consequently, the nature of the entity's promise in transferring the licence is to provide a right to use the entity's intellectual property in the form and the functionality with which it exists at the point in time that it is granted to the customer. Consequently, the entity accounts for the licence as a performance obligation satisfied at a point in time.
- IE288 The entity applies paragraphs 31–38 of IFRS 15 to determine whether the manufacturing service is a performance obligation satisfied at a point in time or over time.

Example 57—Franchise rights

- IE289 An entity enters into a contract with a customer and promises to grant a franchise licence that provides the customer with the right to use the entity's trade name and sell the entity's products for 10 years. In addition to the licence, the entity also promises to provide the equipment necessary to operate a franchise store. In exchange for granting the licence, the entity receives a sales-based royalty of five per cent of the customer's monthly sales. The fixed consideration for the equipment is CU150,000 payable when the equipment is delivered.

Identifying performance obligations

- IE290 The entity assesses the goods and services promised to the customer to determine which goods and services are distinct in accordance with paragraph 27 of IFRS 15. The entity observes that the entity, as a franchisor, has developed a customary business practice to undertake activities such as analysing ~~the customer's~~ consumers' changing preferences and implementing product improvements, pricing strategies, marketing campaigns and operational efficiencies to support the franchise name. However, the entity

concludes that these activities do not directly transfer goods or services to the customer because they are part of the entity's promise to grant a licence ~~and, in effect, change the intellectual property to which the customer has rights.~~

IE291 The entity determines that it has two promises to transfer goods or services: a promise to grant a licence and a promise to transfer equipment. In addition, the entity concludes that the promise to grant the licence and the promise to transfer the equipment are each distinct. This is because the customer can benefit from each good or service promise (ie the ~~promise of the~~ licence and the ~~promise of the~~ equipment) on ~~their~~ its own or together with other resources that are readily available (see paragraph 27(a) of IFRS 15). ~~(That is, the~~ The customer can benefit from the licence together with the equipment that is delivered before the opening of the franchise and the equipment can be used in the franchise or sold for an amount other than scrap value.) The entity also determines that the promises to grant the franchise licence and to transfer the equipment are separately identifiable, in accordance with the criterion in paragraph 27(b) of IFRS 15, because none of the factors in paragraph 29 of IFRS 15 are present. The entity concludes that the licence and the equipment are not inputs to a combined item (ie they are not fulfilling what is, in effect, a single promise to the customer). In reaching this conclusion, the entity considers that it is not providing a significant service of integrating the licence and the equipment into a combined item (ie the licensed intellectual property is not a component of, and does not significantly modify, the equipment). In addition, the licence and the equipment are not highly interdependent or highly interrelated because the entity would be able to fulfil each promise (ie to license the franchise or to transfer the equipment) independently of the other. Consequently, the entity has two performance obligations:

- (a) the franchise licence; and
- (b) the equipment.

Allocating the transaction price

IE292 The entity determines that the transaction price includes fixed consideration of CU150,000 and variable consideration (five per cent of customer sales). The stand-alone selling price of the equipment is CU150,000 and the entity regularly licenses franchises in exchange for five per cent of customer sales.

IE293 The entity applies paragraph 85 of IFRS 15 to determine whether the variable consideration should be allocated entirely to the performance obligation to transfer the franchise licence. The entity concludes that the variable consideration (ie the sales-based royalty) should be allocated entirely to the franchise licence because the variable consideration relates entirely to the entity's promise to grant the franchise licence. In addition, the entity observes that allocating CU150,000 to the equipment and the sales-based royalty to the franchise licence would be consistent with an allocation based on the entity's relative stand-alone selling prices in similar contracts. ~~That is, the stand-alone selling price of the equipment is CU150,000 and the entity regularly licenses franchises in exchange for five per cent of customer sales.~~ Consequently, the

entity concludes that the variable consideration (ie the sales-based royalty) should be allocated entirely to the performance obligation to grant the franchise licence.

Application guidance: licensing

IE294 The entity assesses, in accordance with paragraph B58 of IFRS 15, the nature of the entity’s promise to grant the franchise licence. The entity concludes that the criteria in paragraph B58 of IFRS 15 are met and the nature of the entity’s promise is to provide access to the entity’s intellectual property in its current form throughout the licence period. This is because:

- (a) the entity concludes that the customer would reasonably expect that the entity will undertake activities that will significantly affect the intellectual property to which the customer has rights. The ability of the customer to obtain benefit from the intellectual property to which the customer has rights is substantially derived from, or dependent upon, the expected activities of the entity. This is on the basis of the entity’s customary business practice to undertake activities such as analysing ~~the customer’s~~ consumers’ changing preferences and implementing product improvements, pricing strategies, marketing campaigns and operational efficiencies. In addition, the entity observes that because part of its compensation is dependent on the success of the franchisee (as evidenced through the sales-based royalty), the entity has a shared economic interest with the customer that indicates that the customer will expect the entity to undertake those activities to maximise earnings.
- (b) the entity also observes that the franchise licence requires the customer to implement any changes that result from those activities and thus exposes the customer to any positive or negative effects of those activities.
- (c) the entity also observes that even though the customer may benefit from the activities through the rights granted by the licence, they do not transfer a good or service to the customer as those activities occur.

IE295 Because the criteria in paragraph B58 of IFRS 15 are met, the entity concludes that the promise to transfer the licence is a performance obligation satisfied over time in accordance with paragraph 35(a) of IFRS 15.

IE296 The entity also concludes that because the consideration that is in the form of a sales-based royalty relates specifically to the franchise licence (see paragraph B63A), the entity applies paragraph B63 of IFRS 15, ~~and, after~~ After the transfer of the franchise licence, the entity recognises revenue as and when ~~those~~ the customer’s sales occur because the entity concludes that this reasonably depicts the entity’s progress towards complete satisfaction of the franchise licence performance obligation.

Example 58—Access to intellectual property

IE297 An entity, a creator of comic strips, licenses the use of the images and names of its comic strip characters in three of its comic strips to a customer for a four-year term. There are main characters involved in each of the comic strips. However,

newly created characters appear regularly and the images of the characters evolve over time. The customer, an operator of cruise ships, can use the entity's characters in various ways, such as in shows or parades, within reasonable guidelines. The contract requires the customer to use the latest images of the characters.

- IE298 In exchange for granting the licence, the entity receives a fixed payment of CU1 million in each year of the four-year term.
- IE299 In accordance with paragraph 27 of IFRS 15, the entity assesses the goods and services promised to the customer to determine which goods and services are distinct. The entity concludes that it has no other performance obligations other than the promise to grant a licence. That is, the additional activities associated with the licence do not directly transfer a good or service to the customer because they are part of the entity's promise to grant a licence ~~and, in effect, change the intellectual property to which the customer has rights.~~
- IE300 The entity assesses the nature of the entity's promise to transfer the licence in accordance with paragraph B58 of IFRS 15. In assessing the criteria the entity considers the following:
- (a) the customer reasonably expects (arising from the entity's customary business practices) that the entity will undertake activities that will significantly affect the intellectual property to which the customer has rights (ie the characters). ~~Those activities include development of the characters and the publishing of a weekly comic strip that includes the characters. This is because the entity's activities (ie development of the characters) change the form of the intellectual property to which the customer has rights. In addition, the ability of the customer to obtain benefit from the intellectual property to which the customer has rights is substantially derived from, or dependent upon, the entity's ongoing activities (ie the publishing of the comic strip).~~
 - (b) the rights granted by the licence directly expose the customer to any positive or negative effects of the entity's activities because the contract requires the customer to use the latest characters.
 - (c) even though the customer may benefit from those activities through the rights granted by the licence, they do not transfer a good or service to the customer as those activities occur.
- IE301 Consequently, the entity concludes that the criteria in paragraph B58 of IFRS 15 are met and that the nature of the entity's promise to transfer the licence is to provide the customer with access to the entity's intellectual property as it exists throughout the licence period. Consequently, the entity accounts for the promised licence as a performance obligation satisfied over time (ie the criterion in paragraph 35(a) of IFRS 15 is met).
- IE302 The entity applies paragraphs 39–45 of IFRS 15 to identify the method that best depicts its performance in the licence. Because the contract provides the customer with unlimited use of the licensed characters for a fixed term, the

entity determines that a time-based method would be the most appropriate measure of progress towards complete satisfaction of the performance obligation.

Example 59—Right to use intellectual property

- IE303 An entity, a music record label, licenses to a customer a 1975 recording of a classical symphony by a noted orchestra. The customer, a consumer products company, has the right to use the recorded symphony in all commercials, including television, radio and online advertisements for two years in Country A. In exchange for providing the licence, the entity receives fixed consideration of CU10,000 per month. The contract does not include any other goods or services to be provided by the entity. The contract is non-cancellable.
- IE304 The entity assesses the goods and services promised to the customer to determine which goods and services are distinct in accordance with paragraph 27 of IFRS 15. The entity concludes that its only performance obligation is to grant the licence. The entity determines that the term of the licence (two years), its geographical scope (the customer's right to use the recording only in Country A), and the defined permitted use for the recording (in commercials) are all attributes of the promised licence in the contract.
- IE305 In accordance with paragraph B58 of IFRS 15, the entity assesses the nature of the entity's promise to grant the licence. The entity does not have any contractual or implied obligations to change the licensed recording. ~~Thus, the intellectual property to which the customer has rights is static.~~ The licensed recording has significant stand-alone functionality (ie the ability to be played) and, therefore, the ability of the customer to obtain the benefits of the recording is not substantially derived from the entity's ongoing activities. ~~The entity therefore determines that the contract does not require, and the customer does not reasonably expect, the entity to undertake activities that significantly affect the licensed recording (ie the criterion in paragraph B58(a) is not met).~~ Consequently, the entity concludes that the nature of its promise in transferring the licence is to provide the customer with a right to use the entity's intellectual property as it exists at the point in time that it is granted. Therefore, the promise to grant the licence is a performance obligation satisfied at a point in time. The entity recognises all of the revenue at the point in time when the customer can direct the use of, and obtain substantially all of the remaining benefits from, the licensed intellectual property.
- IE306 Because of the length of time between the entity's performance (at the beginning of the period) and the customer's monthly payments over two years (which are non-cancellable), the entity considers the requirements in paragraphs 60–65 of IFRS 15 to determine whether a significant financing component exists.

Example 60—Sales-based royalty for a licence of intellectual property

- IE307 An entity, a movie distribution company, licenses Movie XYZ to a customer. The customer, an operator of cinemas, has the right to show the movie in its cinemas for six weeks. Additionally, the entity has agreed to (a) provide memorabilia from the filming to the customer for display at the customer's cinemas before

the beginning of the six-week screening period; and (b) sponsor radio advertisements for Movie XYZ on popular radio stations in the customer's geographical area throughout the six-week screening period. In exchange for providing the licence and the additional promotional goods and services, the entity will receive a portion of the operator's ticket sales for Movie XYZ (ie variable consideration in the form of a sales-based royalty). The entity concludes that its only performance obligation is the promise to grant the licence.

IE308 ~~The entity observes that regardless of whether the promise to grant the licence represents a right to access the entity's intellectual property, or a right to use the entity's intellectual property, the entity applies paragraph B63 of IFRS 15 and recognises revenue as and when the ticket sales occur. This is because the consideration for its licence of intellectual property is a sales-based royalty and the entity has already transferred the licence to the movie to which the sales-based royalty relates. The entity concludes that the licence to show Movie XYZ is the predominant item to which the sales-based royalty relates because the entity has a reasonable expectation that the customer would ascribe significantly more value to the licence than to the related promotional goods or services. The entity recognises revenue from the sales-based royalty, the only consideration to which the entity is entitled under the contract, wholly in accordance with paragraph B63. If the licence, the memorabilia and the advertising activities are separate performance obligations, the entity would allocate the sales-based royalty to each performance obligation.~~

Example 61—Access to intellectual property

IE309 An entity, a well-known sports team, licenses the use of its name and logo to a customer. The customer, an apparel designer, has the right to use the sports team's name and logo on items including t-shirts, caps, mugs and towels for one year. In exchange for providing the licence, the entity will receive fixed consideration of CU2 million and a royalty of five per cent of the sales price of any items using the team name or logo. The customer expects that the entity will continue to play games and provide a competitive team.

IE310 The entity assesses the goods and services promised to the customer to determine which goods and services are distinct in accordance with paragraph 27 of IFRS 15. The entity concludes that its only performance obligation is to transfer the licence. ~~That is, the~~ The additional activities associated with the licence (ie continuing to play games and provide a competitive team) do not directly transfer a good or service to the customer because they are part of the entity's promise to grant the licence ~~and, in effect, change the intellectual property to which the customer has rights.~~

IE311 The entity assesses the nature of the entity's promise to transfer the licence in accordance with paragraph B58 of IFRS 15. In assessing the criteria the entity considers the following:

- (a) the entity concludes that the customer would reasonably expect that the entity will undertake activities that will significantly affect the intellectual property (ie the team name and logo) to which the customer has rights. This is on the basis of the entity's customary business practice to undertake activities that support and maintain the value of the name

and logo such as continuing to play and providing a competitive team. The entity determines that the ability of the customer to obtain benefit from the name and logo is substantially derived from, or dependent upon, the expected activities of the entity. In addition, the entity observes that because some of its consideration is dependent on the success of the customer (through the sales-based royalty), the entity has a shared economic interest with the customer, which indicates that the customer will expect the entity to undertake those activities to maximise earnings.

- (b) the entity observes that the rights granted by the licence (ie the use of the team's name and logo) directly expose the customer to any positive or negative effects of the entity's activities.
- (c) the entity also observes that even though the customer may benefit from the activities through the rights granted by the licence, they do not transfer a good or service to the customer as those activities occur.

IE312 The entity concludes that the criteria in paragraph B58 of IFRS 15 are met and the nature of the entity's promise to grant the licence is to provide the customer with access to the entity's intellectual property as it exists throughout the licence period. Consequently, the entity accounts for the promised licence as a performance obligation satisfied over time (ie the criterion in paragraph 35(a) of IFRS 15 is met).

IE313 The entity then applies paragraphs 39–45 of IFRS 15 to determine a measure of progress that will depict the entity's performance ~~for the fixed consideration.~~ For the consideration that is in the form of a sales-based royalty, paragraph B63 of IFRS 15 applies because the sales-based royalty relates solely to the licence, which is the only performance obligation in the contract. The entity concludes that recognition of the CU2 million fixed consideration as revenue rateably over time plus recognition of the royalty as revenue; therefore, the entity recognises revenue as and when the customer's sales of items using the team name or logo occur reasonably depicts the entity's progress towards complete satisfaction of the licence performance obligation.