Katie Woods, Revenue expert, guides us through the maze of IFRS 15 transition and makes sure we stay on track.

Navigating the maze of IFRS 15 transition

You have probably worked through the IFRS 15 5-step approach and got to grips with terms such as 'performance obligation' and 'control'. But have you navigated the maze of how to transition from existing GAAP (IAS 18, *Revenue*, and IAS 11, *Construction contracts*) to the new standard? IFRS 15 is applicable for periods beginning on or after 1 January 2018, with early application permitted. There are two transition approaches:

Approach	Application	Comparatives
Full retrospective	The financial statements are presented as if IFRS 15 has always been applied.	Comparatives (including the opening balance sheet) are restated.
Modified retrospective	The financial statements are retrospectively adjusted but the cumulative impact is recognised at the date of initial application (1 January 2018 for calendar year ends.)	Comparatives are not restated and are presented using existing GAAP.

Transition decisions do not stop there. The standard provides three practical expedients to simplify transition for contracts that are completed. A completed contract is a contract where an entity has transferred all of the goods or services identified in accordance with existing GAAP. The expedients differ depending on whether an entity has chosen full or modified transition. Entities need to apply any elected expedients consistently to all contracts. Entities should also disclose the expedients that have been applied.

Expedient 1: Completed contracts

Full retrospective:

An entity does not need to restate any contracts that are completed before the beginning of the comparative period (option 1) and/or that begin and end in the same annual reporting period (option 2). For example, an entity with a calendar year end would not restate any contracts that completed before 1 January 2017 when applying option 1 only.

Modified retrospective:

An entity does not need to restate any contracts that are completed before the date of initial application.

Expedient 2: Variable consideration hindsight

This is only available if following the full retrospective approach. An entity may use the transaction price at the date the contract was completed during the comparative period for a contract that:

- has not used the completed contract expedient;
- completed in the comparative period, and
- includes variable consideration.

Expedient 3: Contract modification

This expedient is available under both approaches. The aggregate impact of all modifications are accounted for at the same time to determine the contract price and identity the performance obligations.

Identifying completed contracts

Entities need to determine if there are any promises to customers outstanding at the end of the comparative period to identify completed contracts. This might be complex where entities sell multiple goods and services, and deliver or render them in different periods, or offer customers options for future goods or services or contracts with no minimum purchase commitment.

Balance of costs and benefits

Entities need to apply selected expedients to all completed contracts. The expedient might be attractive for some contracts but not for others. Management also needs to consider how much the accounting is expected to change. IT systems may need to be re-configured to capture the information to apply both the old and new accounting policies. For example, an entity could have to run parallel systems to capture information for both the accounting under IAS 18/IAS 11 and IFRS 15, if the completed contract expedient is elected.

What's next?

Whether a contract is completed is not always obvious. Do not rush to use the expedient until a thorough assessment has been carried out! Think about the impact of using the expedient on both the preparation of the financial information as well as communications with the stakeholders.