



HM Treasury

# IFRS 15 Revenue from contracts with customers: Application guidance

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# IFRS 15 Revenue from contracts with customers: Application Guidance

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# Executive summary

IFRS 15 Revenue from Contracts with Customers is applied by HM Treasury in the Government Financial Reporting Manual (FReM) from 2018-19. Early adoption is not permissible for central government entities to ensure consistency for group consolidations and the Whole of Government Accounts (WGA), unless with the explicit approval from HM Treasury.

IFRS 15 introduces a new five stage model for the recognition of revenue from contracts with customers replacing the previous Standards IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related IFRIC and SIC Interpretations. The reason for clarifying the principles for recognising revenue are to:

- Remove inconsistencies and weaknesses in previous revenue requirements
- Provide a more robust framework for addressing revenue issues
- Improve comparability of revenue recognition practices across entities
- Provide more useful information to users of financial statements through improved disclosure requirements
- Simplify the preparation of financial statements by reducing the number of requirements to which entities must refer

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

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

Application of this model will depend on the facts and circumstances presented in a contract with a customer and will require the exercise of judgement.

The Standard also includes a comprehensive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive

information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

It is widely recognised that under the new Standard, entities are required to disclose more information about their revenue from contracts with customers than currently presented. This is an inevitable consequence of addressing the shortcomings in the previous disclosure requirements. Entities are reminded to use the principles of materiality that flow through all accounting standards to ensure they provide relevant and reliable information in the financial statements.

With £694 billion revenue disclosed in the 2015-16 WGA, revenue is material in the public sector. £593 billion relates to taxation revenue that is primarily surrendered to the Consolidated Fund and reported through Trust Statements. There are no changes to the accounting requirements for this revenue. The remaining £101 billion relates to the sales of goods and services and other revenue received by central government, local government and public corporations. A large proportion of this revenue will fall under IFRS 15 (if the requirements of other standards do not apply).

As detailed in Chapter 6 of the FReM, the following adaptations and interpretations have been applied to IFRS 15 for the public-sector context:

- **Adaptation** - The definition of a contract is expanded to include legislation and regulations which enables an entity to obtain revenue that is not classified as a tax by the Office of National Statistics. The costs of preparing the legislation or regulations does not amount to assets under IFRS 15 (91-94).
- **Adaptation** - Where by statute or Treasury consent, an entity is permitted to retain the revenue from taxation, fines and penalties, this revenue shall be treated as arising from a contract and accounted for under IFRS 15 (15a).
- **Interpretation** - Upon transition, the following accounting policy choice to retrospectively restate in accordance with IAS 8 has been withdrawn. All entities applying the FReM shall recognise the difference between the previous carrying amount and the carrying amount at the beginning on the annual reporting period that includes the date of initial application in the opening general fund within taxpayers' equity (or other component of equity, as appropriate) per IFRS 15 C3(b). In using this transition approach:
  - The election to apply this Standard retrospectively only to contracts that are not completed contracts at the date of initial application should be exercised.
  - The practical expedient available for contract modifications (C7A) should be exercised.

This guidance sets out the basis for the public-sector interpretations and provides illustrative examples to support the interpretations and disclosure requirements. It does not seek to duplicate the extensive application guidance and illustrative examples already included within IFRS 15, nor take away the judgements each entity will be required to make to apply IFRS 15 to their own financial statements.

# Chapter 1

## Definition of a contract

- 1.1 IFRS 15 requires all of the following criteria to be met in order for a contract to be within the scope of IFRS 15
- The parties have approved the contract (in writing, orally or in accordance with their customary business practices and are committed to perform their respective obligations).
  - The entity can identify each party's rights regarding the goods and services to be transferred.
  - The entity can identify the payment terms.
  - The contract has commercial substance (i.e. the risk, timing or amount of the future cash flows is expected to change as a result of the contract).
  - It is probable the entity will collect the consideration to which it will be entitled.
- 1.2 Within the public sector, there may be difficulty in identifying a contract in the traditional sense, particularly in relation to fees, levies and charges that are not classified as taxation by the Office of National Statistics (ONS) applying the criteria within the European System of Accounts 2010 (ESA10).
- 1.3 ESA 10 classifies tax as compulsory and unrequited payments levied by general government. Such revenue is usually reported separately in a Trust statement (if material) or in a separate note to the financial statements. In the case for non-tax revenue, whilst there may be a statutory requirement to pay government if the customer chooses to engage in particular activities, the customer in return receives a good or a service such as an inspection, a licence etc. that is commensurate to the amount being paid. It should therefore be possible to identify performance obligations and transaction prices in such circumstances.
- 1.4 Therefore, the definition of a contract has been expanded to include legislation or regulations which provides the ability for the entity to impose a charge on the customer and the requirement for the customer undertaking the relevant activities to be liable to pay the charge. The existence of such legislation/regulations and the practice of the government imposing the fee, levy or charge is deemed akin to customary business practices. The legislation would also provide the enforceability of the obligations on both parties. Box 1A overleaf provides an illustrative example of this intent.
- 1.5 When considering the costs of establishing new legislation or regulations that would result in fees, levies or charges being imposed, these costs do not



meet the criteria in IFRS 15 (91-94) to be capitalised. These costs would have been incurred regardless of whether the customer chooses to undertake the activity that would make them liable to pay the charge. Furthermore, under Managing Public Money, these costs, deemed as policy work, cannot be recharged to customers and therefore there would be no intention for the entity to recover such costs.

- 1.6 From the “customer’s” perspective, IFRIC 21 Levies provides the interpretation on when to recognise a liability to pay a levy whose timing and amount is certain or where it is a liability within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The interpretation states that the obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation.

**Public Sector Adaptation** - The definition of a contract is expanded to include legislation and regulations which enables an entity to obtain revenue that is not classified as a tax by the Office of National Statistics. The costs of preparing the legislation or regulations does not amount to assets under IFRS 15 (91-94).

### Box 1.A: Illustrative Example – Definition of a Contract

Per the Fishing Act 1952 the Department of Fishing (DoF) may impose a levy on persons engaged in fishing activities. Any levy imposed under this section shall be payable by such persons engaged in the sea fish industry, in such proportions and at such times as may be prescribed; and the amount payable by any person on account of the levy shall be a debt due from him to the DoF and recoverable accordingly.

In return for imposing the levy, the DoF will issue a licence to the persons engaged in fishing activities for one year. This levy is not classified as a tax by the Office of National Statistics.

If DoF were to apply the IFRS 15 criteria to identifying a contract for their levy revenue:

- The legislation is the approved contract which enables the DoF to impose a levy and for the person engaged in fishing activities (customer) to pay the levy. The legislation provides the enforceability on both parties
- The DoF can identify that they will have rights to consideration from imposing the levy as a result of the customer engaging in fishing activities. The obligation on DoF is to provide a licence
- DoF can identify payment terms as the levies are agreed with Ministers and published on the website each year
- The contract (i.e. legislative requirements) has commercial substance as the amount of DoF's future cash flows is expected to change as a result of the levy being imposed on persons engaged in fishing activities
- It is probable that DoF will collect the consideration to which it will be entitled to.

As all the criteria are met, there is a contract in place.

## Chapter 2

# Revenue from taxation, fines and penalties

- 2.1 The FReM currently provides the accounting requirements for revenue (and some associated expenditure) collected by entities on behalf of the Consolidated Fund, either by statute or convention, and where the entity undertaking the collection is consequently acting as agent rather than as principal. These revenues are accounted for in Trust Statements rather than departmental or arm's length bodies' (ALB) accounts.
- 2.2 As detailed in Chapter 1, the independent ONS has the final say on how a particular stream of revenue should be classified for the purpose of the National Accounts. Guidance is available for entities to consider if their revenue streams are considered to be taxation<sup>1</sup>. Fines and penalties are governed by their underlying legislation that enable these to be levied.
- 2.3 By virtue of the criteria for classifying revenue as taxation, fines or penalties there are usually no specific performance obligations associated with receiving the revenue. The revenue is also considered non-refundable, unless there was an error in the reasons behind the initial collection. These revenue streams are therefore considered to be non-exchange transactions.
- 2.4 However, there are some limited instances where by Statute or with HM Treasury consent, an entity may retain revenue from taxation, fines and penalties. As a result, this revenue is recorded in the entity's Departmental or ALB accounts rather than in a Trust Statement.
- 2.5 IFRS 15 does not apply to non-exchange transactions such as taxation, fines and penalties. However, in order to apply an appropriate framework to account for these revenues, we look towards IFRS 15 (15). The Standard states that when a contract with a customer does not meet the criteria in paragraph 9 and an entity receives consideration from the customer, the entity shall recognise the consideration received as revenue only when either of the following events has occurred:
- the entity has no remaining obligations to transfer goods or services to the customer and all, or substantially all, of the consideration promised by the customer has been received by the entity and is non-refundable; or
  - the contract has been terminated and the consideration received from the customer is non-refundable
- 2.6 In the case of revenue from taxation, fines and penalties which the entity is permitted to retain, the first bullet in paragraph 2.5 is considered most in

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<sup>1</sup> Classification of Receipts - <https://www.gov.uk/government/publications/introduction-to-classification>

line with the substance of such revenue; i.e. there are no performance obligations to perform and the consideration has been received and is non-refundable. An adaptation has been included in the FReM to enable such revenue to be accounted for under IFRS 15.

**Public Sector Adaptation** – where by statute or Treasury consent, an entity is permitted to retain the revenue from taxation, fines and penalties, this revenue shall be treated as arising from a contract and accounted for under IFRS 15 (15a).

# Chapter 3

## Transition arrangements

- 3.1 There are several considerations to evaluate as part of the transition from IAS 11 and IAS 18 to IFRS 15. These include the transition arrangements around retrospective application (and the associated reliefs) and disclosure considerations.
- 3.2 The date of initial application is the date when an entity first applies the transition requirements of IFRS 15 and must be the beginning of a reporting period after the standard is issued. For the public sector this will usually be 1 April 2018. Entities must have made certain key assessments by this date including:
- Identifying which contracts are in scope of IFRS 15 including confirmation that the revenue meets the ONS definition of revenue
  - Determining which of these contracts need restating and the information needed to restate them. This may include identifying any individually significant contracts that should be assessed separately, or sub-populations of contracts with similar characteristics that can be evaluated in aggregate
  - Identifying the outstanding performance obligations associated with contracts still open as at the beginning of the reporting period
  - Determining appropriate methodologies to allocate the transaction price to performance obligations
  - Consideration of any impairments required in conjunction with the introduction of IFRS 9 *Financial Instruments*
  - Consideration of which disclosure requirements are material and where the necessary information is held to provide sufficient disclosures

### Transition Approach

- 3.3 IFRS 15 allows two approaches for transitioning to IFRS 15:
- Retrospective application with full restatement in accordance with IAS 8 (subject to practical expedients) or
  - Retrospective application with the cumulative effect recognised as an adjustment to opening balances
- 3.4 However, to improve consistency across the public sector and consolidation of entities within the WGA, the Standard has been interpreted to mandate the transition approach and certain transitional reliefs available.

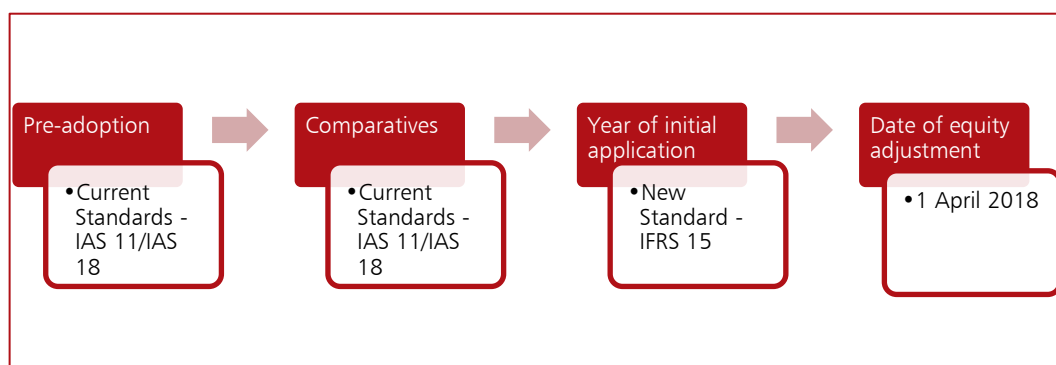
**Public Sector Interpretation** – upon transition, the accounting policy choice to retrospectively restate in accordance with IAS 8 has been withdrawn.

All entities applying the FReM shall recognise the difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application in the opening general fund within taxpayers' equity (or other component of equity, as appropriate) per IFRS 15 C3(b). In using this transition approach:

- The election to apply this Standard retrospectively only to contracts that are not completed contracts at the date of initial application should be exercised.
- The practical expedient available for contract modifications (C7A) should be exercised.

3.5 The following diagram provides a summary of the impact of this transition approach on the financial statements:

**Chart 3.A: Impact of transition approach on the financial statements**



## Disclosures on transition

3.6 The transition approach adopted does require additional disclosures to enable users to understand the effects of implementing IFRS 15. In accordance with IFRS 15 Appendix C, entities will need to disclose:

- the amount by which each financial statement line item is affected in the current reporting period by the application of this Standard as compared to IAS 11, IAS 18 and related Interpretations that were in effect before the change; and
- an explanation of the reasons for significant changes identified in the above.
- a statement where practical expedients have been used and to the extent reasonably possible, a qualitative assessment of the estimated effect of applying this expedient.

- 3.7 Dual reporting is therefore required in the year of initial application as entities are required to disclose what the financial statements would have been under the previous accounting standards.
- 3.8 An illustrative example of the quantitative disclosures has been included in Table 3.A. The exact presentation of the transition disclosures should reflect the presentation in the entity's own primary statements. Therefore, additional line items may be required or lines removed from the illustration below.
- 3.9 IFRS 15 states that the transition effects on each financial reporting line should be disclosed. If there are no effects due to IFRS 15, entities should consider aggregating the financial statement lines to streamline the presentation and increase understandability.

**Table 3.A: Disclosures on transition (per IFRS 15 (Appendix C))**

The following table shows the impact of the adoption of IFRS on these financial statements

<b>Consolidated Statement of Comprehensive Net Expenditure</b>			
Impact of changes in accounting policies			
31 March 20XX £'000	As reported (20XX-20YY)	Adjustments	Balances without adoption of IFRS 15
Income from contracts with customers	X	(X)	X
Other operating income	X	X	X
<b>Total operating income</b>			
Total operating expenditure			
<b>Net operating expenditure</b>			
Finance Income			
Finance Costs			
<b>Net expenditure for the year</b>			
<b>Other comprehensive net expenditure</b>			
<b>Consolidated Statement of Financial Position</b>			
Impact of changes in accounting policies			
31 March 20XX £'000	As reported (20XX-20YY)	Adjustments	Balances without the adoption of IFRS 15
Contract Costs ( <i>i.e. capitalised under IFRS 15</i> )			
Trade and other receivables			
Contract Assets			

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Other (e.g. PPE and other asset lines not affected by IFRS 15)

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**Total Assets**

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Trade and other payables

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Contract liabilities

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Provisions

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Other (e.g. other lines not affected by IFRS 15)

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**Total liabilities**

---

General fund

---

Revaluation reserve

---

**Total Equity**

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**Consolidated Statement of Cash Flows**

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**Impact of changes in accounting policies**

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31 March 20XX £'000	As reported (20XX-20YY)	Adjustments	Balances without the adoption of IFRS 15
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Net operating expenditure

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Adjustments for non-cash transactions

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Increases/Decreases in:

Trade and other receivables

Inventories

Trade and other payables

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Other

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**Net cash outflow from operating activities**

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**Net cash outflow from investing activities**

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**Net financing**

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**Net increases/decreases in cash and cash equivalents before adjustments for payments to the Consolidated Fund**

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**Significant Variances**

Qualitative narrative should be included to explain significant variances. Such disclosures could be included immediately following the table or within the table itself.



# Chapter 4

## Presentation and disclosure

- 4.1 IFRS 15 includes an overarching disclosure objective that requires disclosure to enable a user to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. To meet this objective, entities are required to disclose quantitative and qualitative information about all of the following:
- Its contract with customers
  - Significant judgements and changes in judgements made in applying IFRS 15 to these contracts
  - Any assets recognised from the costs to obtain or fulfil a contract with a customer
- 4.2 Specific disclosures are not required under IFRS if the information resulting from that disclosure is not material. As with all disclosures, care should be taken to not reduce the understandability of the financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures and functions. The materiality concept should be applied on a disclosure-by-disclosure basis.
- 4.3 Entities are reminded that these disclosures only apply to revenue arising from contracts with customers. Entities should refer to the requirements of other standards for revenue generating items such as leases (IAS 17), financial assets (IFRS 9) and grants (IAS 20) etc. for relevant disclosure requirements.
- 4.4 IFRS 15 also states that an entity need not disclose information in accordance with this Standard if it has provided the information in accordance with another Standard. Similarly, under simplifying and streamlining project, information does not need to be duplicated across the three sections of the Annual Report and Accounts. For example, if sufficient information is provided for fees and charges under IFRS 15 in the Financial Statements, these need not be duplicated in the Accountability Report. Appropriate cross referencing should be included to ensure the financial statements and notes are understandable to the users of the accounts.

### Illustrative Disclosures

- 4.5 Following are illustrative disclosures providing examples about how the disclosure requirements could be fulfilled. The illustrations are not templates or exhaustive and entities are reminded to review the disclosure requirements in the context of their own activities and financial statements.

## Changes in accounting policies (IAS 8)

- 4.6 As part of the adoption of IFRS 15, entities may need to reassess their revenue accounting policy disclosures. Entities are also reminded that in the year of initial application of IFRS 15, the disclosure requirements of IAS 8 (28) come into force which requires entities are required to disclose details about changes in accounting policies. However due to the transition approach adopted for IFRS 15, the requirements of IAS 8 (28(f)) are not required as it is substituted by the additional disclosures on transition (see para 3.8).

## Disaggregation of revenue (IFRS 15 114-115)

- 4.7 IFRS 15 requires entities to disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. In addition, the Standard requires entities to disclose sufficient information to enable users to understand the relationship between the disclosure of disaggregated revenue and revenue disclosed for each reportable segment under IFRS 8 Operating Segments.
- 4.8 The Standard does not specify how to disaggregate revenue but provides some guidance on potential areas to consider where the revenue is material. Entities are likely to need to use more than one category of disaggregation to fulfil the disclosure requirements. In small entities, there is a possibility that the disaggregation of revenue is already sufficiently presented with the disclosures required under IFRS 8; duplicate disclosures would then not be required.
- 4.9 If the entity applies IFRS 8, an entity must disclose sufficient information to enable users of financial statements to understand the relationship between the disclosure of disaggregated revenue and revenue information that is disclosed for each reportable segment.

### Box 4.A: Examples of revenue disaggregation

The following provides examples of revenue disaggregation that may be useful in a public-sector context:

- Types of goods and services – for example major services offered.
- Contract duration - for example, distinguishing between short-term and long-term contracts.
- Geographical region – for example where the entity receives income from UK vs. international sources or breakdowns by region.
- Types of customers – for example, government and non-government; individuals or companies, listed companies vs SMEs etc

4.10 When selecting the type of category (or categories) to use to disaggregate revenue, entities will need to consider how information about the entity's revenue has been presented for other purposes, including all of the following:

- Disclosures presented outside of the financial statements (for example in Single Departmental Plans, Memorandums on Supply, Parliamentary papers etc.)
- Information regularly reviewed by the chief operating decision maker (as per IFRS 8)
- Other information that is similar to the first two categories and used by the entity or users to evaluate the financial performance or make resource allocation.

**Box 4.B: Illustration: Disaggregation of revenue**

<i>Links to Operating Segment categories →</i>	<b>Energy</b>	<b>Transport</b>	<b>Prisons</b>	<b>Total</b>
<b>Major goods/service lines</b> Sale of assets IT services Fees and charges				
<b>Contract duration</b> Less than one year One-5 years 5 years plus				
<b>Types of Customers</b> Government Non-Government				
<b>Geographical Markets</b> UK Europe Asia Rest of the World				
<b>Timing of revenue recognition</b> Goods transferred at a point in time Services transferred over time				

## Performance obligations (IFRS 15 119)

- 4.11 An entity shall disclose information about its performance obligations in contracts with customers, such as when an entity typically satisfies performance obligations, significant payment terms and obligations for returns, refunds and warranties. These disclosures are therefore qualitative and specific how each entity operates the revenue contracts it enters into.
- 4.12 Previously, many entities provided a boiler plate description of the revenue accounting policy without explaining how that policy relates to the contracts the entity enters into with customers. The requirements under IFRS 15 seek to address this bad practice to enable the users to obtain more relevant disclosures.
- 4.13 Some key principles entities should consider when making disclosures under performance obligations:
- Entities can choose whether these disclosures are included in the accounting policy note or within the revenue note. Although where an entity only has one or two material contracts, the understandability for the user is likely to be increased if the disclosures are made in the revenue note alongside the other revenue disclosures.
  - These disclosures are not required for every contract; especially where an entity holds many contracts. However, aggregation should reflect contracts with similar performance obligations, payment terms and other options.

## Contract balances (IFRS 15 116-118)

- 4.14 The Standard requires entities to disclose the opening and closing balances of receivables, contract assets and contract liabilities from contracts with customers; revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period and from obligations satisfied in previous periods; and an explanation of significant changes.
- 4.15 The objective of this disclosure is to enable users of the accounts to understand the judgements taken in recognising or not recognising revenue. In satisfying this disclosure requirement, entities should consider the requirements of IFRS 9, considering the stability of the customer and whether any impairments would be required. Such disclosures would fall under the disclosure requirements of IFRS 7 and IFRS 9. In doing so, entities are reminded that impairment losses for contracts with customers should be separately disclosed as a line item.

### Box 4.C: Illustration: Contract Balances

	31 March 20XX	31 March 20XW
Receivables, which are included in Trade and Other Receivables (Note X)	X	X
Contract Assets	X	X
Contract Liabilities	X	X

Contract assets primarily relate to....

Contract liabilities primarily relate to....

Significant changes in the contract assets and the contract liabilities balances during the period are as follows:

	Contract Assets	Contract Liabilities
<b>Contract Assets/Liabilities at the beginning of the period</b>		
Increases/Decreases due to cash received/paid		
Transfers from contract assets/liabilities to receivables/payables		
Changes in the measure of progress		
<b>Contract assets/liabilities at the end of the period</b>		

### Transaction price allocated to remaining performance obligations (IFRS 15 120-122)

- 4.16 The Standard requires disclosure on the aggregate amount of the transaction price allocated to performance obligations that are (partially) unsatisfied and an explanation of when an entity expects to recognise these amounts as revenue. This disclosure can be made in either of the following ways:
- Quantitative basis using the time bands most appropriate for the duration of the remaining performance obligations; or
  - By using qualitative information
- 4.17 Where an entity holds a variety of revenue contracts, they should consider how best to aggregate the disclosures – for example by product type or customer if appropriate - in order to meet the overall disclosure objective.

- 4.18 Entities are reminded that there are practical expedients available if the obligation is part of a contract that has an original expected duration of one year or less or if the revenue is recognised in accordance with IFRS 15 (B162) (e.g. service contracts where there is a fixed amount per hour).

#### Box 4.D: Illustration: Transaction price to remaining performance obligations

##### Quantitative

The following table includes revenue expected to be recognised in the future related to performance obligations that are (partially) unsatisfied at the reporting date:

Revenue expected to be received	20X1	20X2	20X3	20X4-2X10
IT service contracts	X	X	X	
Sale of assets	X			
Electricity generation contracts	X	X	X	X

##### Qualitative

As of 31 March 20X2, the aggregate amount of the transaction price allocated to the remaining performance obligation is £XX million and the entity will recognise this revenue as the building is completed, which is expected to occur over the next 12–18 months.

#### Contract Assets (IFRS 15 127-128)

- 4.19 IFRS 15 requires disclosures of the judgements made in determining the amount of costs incurred to obtain or fulfil a contract (that are not covered by another standard) and the method the entity uses to determine the amortisation.

#### Box 4.E: Illustration: Contract Assets

	31 March 20XY	31 March 20XX
Assets recognised from costs to obtain a contract	X	X
Assets recognised from costs to fulfil a contract	X	X
<b>Total</b>	<b>X</b>	<b>X</b>

Management expects X costs are recoverable [for Y contract]. The group has therefore capitalised them as contract costs in the amount of XXX at 31 March 2019. The asset will be amortised over the life of the contract with is XX years.

Applying the practical expedient in paragraph 94 of IFRS 15, the entity/group recognises the incremental costs of obtaining contracts as an expense when incurred if the amortisation period of the assets that the group otherwise would have recognised is one year or less.

#### Significant judgements (IFRS 15 123-126)

- 4.20 The requirements to disclose significant judgements stems for the requirements under IAS 1 Presentation of Financial Statements. Whilst not exhaustive, IFRS 15 does provide areas of focus for judgements made in applying the Standard on the timing and satisfaction of performance obligations, the transaction price and the amounts allocated to performance obligations.
- 4.21 These disclosures can be situated either be included in the accounting policies note or in the revenue note. Entities have flexibility in the presentation to best suit the placement of other disclosures in relation to the understandability for the users of the accounts.

#### Practical expedients (IFRS 15 129)

- 4.22 Where entities use practical expedients available in IFRS 15, this fact should be disclosed.

# Chapter 5

## Budgets and Estimates

### Budgets

- 5.1 The budgeting treatment for revenue is detailed in the Consolidated Budgeting Guidance.
- 5.2 The introduction of IFRS 15 is not expected to impact budgets significantly. However, some entities may find the timing of their revenue recognition results in revenue recognition being accelerated or deferred. In such cases, entities should discuss the impacts with their Treasury Spending Team
- 5.3 Where entities identify their revenue should be classified as taxation (or vice versa) by the Office of National Statistics, they should discuss the impacts with their Treasury Spending Team.

### Estimates

- 5.4 Where there is a change in accounting standards there is no net impact on budgets and the Supply sought at the time was correct. Parliament is therefore content not to see a Prior Period Adjustment (PPA) on the voted part of the Estimate (i.e. Part I, Part II).
- 5.5 However, Parliament does require departments to identify the change due to adopting a new accounting standard and the impact on prior years in the 'Note F to an Estimate - Accounting Policy changes'. Further details can be found in paragraphs 3.39 – 3.40 of the Supply Estimates guidance manual.
- 5.6 As this change in accounting standard will be made across the public sector, HM Treasury will provide a common statement and narrative to be included in the 2018-19 Main Supply Estimates, explaining the change, in 'Note F to an Estimate – Accounting Policy changes'.



# Annex A

## Further information

A.1 For further information and guidance, please refer to:

- Government Financial Reporting Manual (FReM) - <https://www.gov.uk/government/collections/government-financial-reporting-manual-frem>
- Consolidated Budgeting Guidance 2017-18<sup>1</sup> - <https://www.gov.uk/government/publications/consolidated-budgeting-guidance-2017-to-2018>
- Supply Estimates Guidance Manual – <https://www.gov.uk/government/publications/supply-estimates-guidance-manual>
- Classification guidance - <https://www.gov.uk/government/publications/introduction-to-classification>
- Financial Reporting Advisory Board - <https://www.gov.uk/government/groups/financial-reporting-advisory-board-frab>
- One Finance, Government Financial Reporting - <https://www.epims.ogc.gov.uk/OneFinance/home/89/Government-Financial-Reporting>

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<sup>1</sup> Entities should refer to the latest version of the Consolidated Budgeting Guidance available on gov.uk.