

MAZARS' LONG-TERM CONTRACTS CLUB

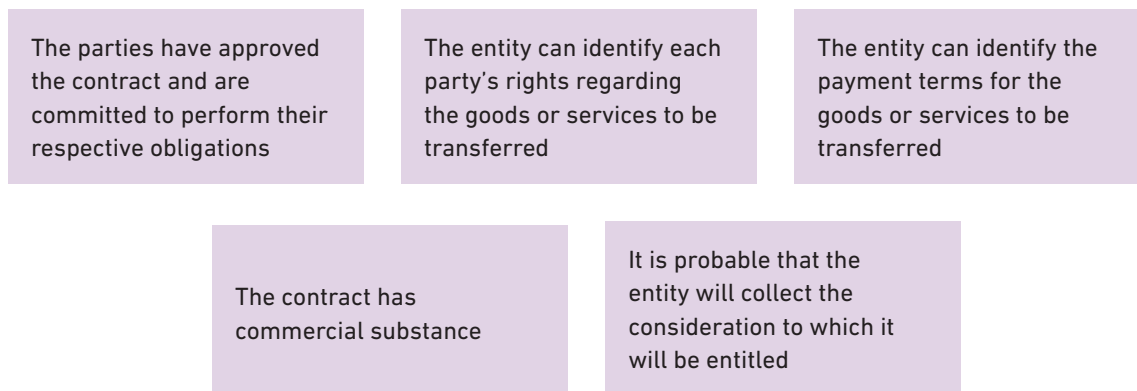
Identification of a contract

IAS 11 reminder

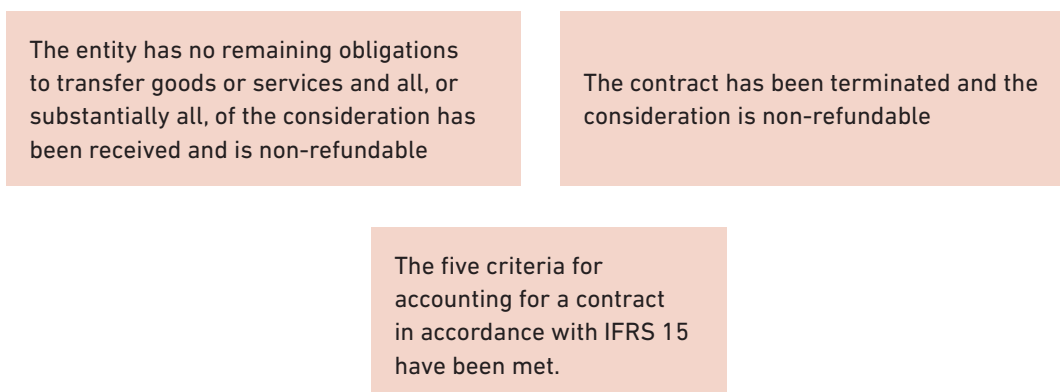
IAS 11 does not define a contract, but defines only a construction contract as a specific type of contract.

IFRS 15 defines a contract as an agreement between two or more parties that creates enforceable rights and obligations, with this enforceability being a matter of law. Contracts can be written, oral or implied by a company's customary business practices and may vary across legal jurisdictions.

A company accounts for a contract in accordance with IFRS 15 only when the following five criteria are met:



When a contract does not meet these criteria and a company receives consideration, the company recognises the consideration received as a liability unless one of the following events has occurred in which case the company recognises the consideration received as revenue:



Key implications:

The new legal definition of a contract, as well as the new guidance for accounting for contracts may lead to changes in accounting practices. We recommend that the enforceability of rights and obligations in significant contracts are analysed on a legal basis and that companies consider the need for changes to systems and processes based on the new criteria for accounting for contracts. The impact of any changes to reported figures should be assessed, as well as the need to communicate such changes to key stakeholders.

About Mazars' Long-term Contracts Club

Mazars' Long-term Contracts Club is a series of hands-on, technical workshops designed for organisations involved in long-term contracts. IFRS 15 comes into effect on 1 January 2018 and brings a number of changes for companies with long-term contracts. These workshops consider some of the most pressing issues related to the new standard and help organisations understand the requirements, anticipate the challenges and implement the standard effectively.

The series includes:

- Introduction to the main principles of IFRS 15
- Identification of performance obligations
- Revenue recognition on transfer of control
- Incremental costs of obtaining a contract
- Identification of contracts, including contract modifications
- Variable consideration
- Existence of a significant financing component
- Disclosures on remaining performance obligations
- Presentation of contract assets and liabilities
- Licensing
- Principal versus agent considerations

Mazars' Financial Reporting Advisory team

Mazars' technical experts have impressive experience in a wide variety of accounting, financial reporting and narrative reporting matters. We support numerous technical projects, including GAAP conversions, and have a proven track record in helping our clients to successfully apply new accounting and financial reporting standards, important in today's fast-changing technical environment.

How we can help you

We can help you prepare for IFRS 15 and, more immediately, IAS 8 which requires companies to disclose information relating to the impact of IFRS 15 on their financial statements.

Impact assessments

IAS 8 requires a company to disclose information relating to the impact of IFRS 15 on their financial statements. With regulators expecting more and more detailed qualitative and quantitative disclosures in respect of the application of IFRS 15, we can perform impact assessments to assist with identifying the key areas of differences.

Contract analysis

With the effective date of the new Standard fast approaching, we can use our contract analysis tool to help you understand IFRS 15's impact on existing contracts, as well as future contracts you are negotiating, giving you the opportunity to prepare for transition, as well as avoid or mitigate unwanted implications.

Please get in touch

Paul Lucas – Audit Partner

T: 0121 232 9526

E: paul.lucas@mazars.co.uk

Steven Brice – Financial Reporting Advisory Partner

T: 0207 063 4410

E: steven.brice@mazars.co.uk

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy organisation, and is a limited liability partnership registered in England with registered number OC308299. A list of partners' names is available for inspection at the firm's registered office, Tower Bridge House, St Katharine's Way, London E1W 1DD.

Registered to carry on audit work in the UK by the Institute of Chartered Accountants in England and Wales. Details about our audit registration can be viewed at www.auditregister.org.uk under reference number C001139861.

© Mazars LLP 2016-10 34245