

MAZARS' LONG-TERM CONTRACTS CLUB

Identification of performance obligations

At contract inception, a company assesses the goods or services promised in a contract with a customer and identifies as a performance obligation each promise to transfer to the customer:

- A good or service (or a bundle of goods or services) that is distinct; or
- A series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

Distinct goods or services

A good or service is distinct if **both** of the following criteria are met:

The good or service is capable of being distinct:

This means that the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer.

Indicators:

1. The company regularly sells the good or service separately

AND

The promise to transfer the good or service is distinct within the context of the contract:

This means that the company's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract.

Indicators:

1. The company provides a significant service of integrating the goods or services into a bundle of goods or services that represent a combined output(s);
2. The goods or services significantly modify or customise each other; and
3. The goods or services are highly interdependent or highly interrelated.

Key implications:

The identification of performance obligations may involve judgement and is a key step in determining the timing of revenue and profit recognition, as the transaction price is allocated between the performance obligations and revenue is recognised when (or as) the company satisfies each performance obligation. The assessment of whether a good or service is distinct may result in a change in current accounting practices, with a contract being split into different components.

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 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

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

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