MAZARS' LONG-TERM CONTRACTS CLUB

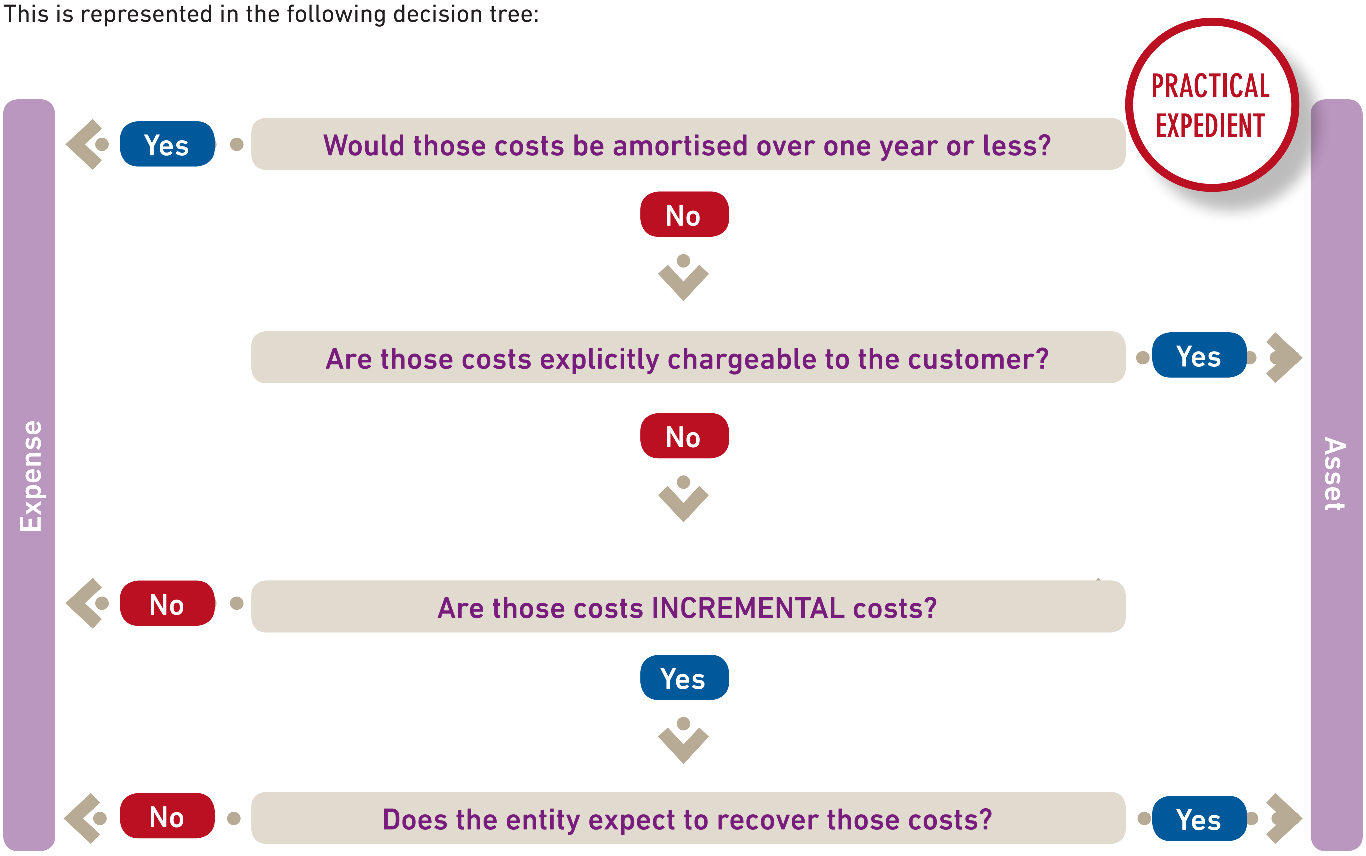
Incremental costs of obtaining a contract

IAS 11 reminder

Under IAS 11, a company recognises costs that relate directly to a contract and are incurred in securing the contract as an asset if they can be separately identified and measured reliably and it is probable that the company will obtain the contract.

IFRS 15 requires a company to recognise as an asset the incremental costs of obtaining a contract with a customer if the company expects to recover those costs. Incremental costs are those that a company would not have incurred if the contract had not been obtained, eg a sales commission. Other costs are recognised as an expense when incurred, unless they are explicitly chargeable to the customer. However, as a practical expedient, a company may recognise the incremental costs of obtaining a contract as an expense when incurred if the amortisation period of the asset that the company would otherwise have recognised is one year or less.

This is represented in the following decision tree:



Key implications:

IFRS 15 may result in changes to the capitalisation of the costs of obtaining a contract. Whether or not it will result in changes to companies will depend on their current accounting practices and, in particular, the costs they are currently capitalising. Any changes to the costs companies capitalise may have implications for systems and processes, as well as reported figures. We recommend that the new criteria are considered carefully when assessing the impact of the new Standard.

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 spent 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

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