IFRS 15: REVENUE FROM CONTRACTS WITH CUSTOMERS – PRESENTATION AND DISCLOSURE ISSUES IN SHIPPING

The revenue standard, IFRS 15, introduced more detailed requirements for presentation and disclosure than IAS 18, the main standard it replaces. Much of what is required had not been disclosed previously in shipping company financial statements, meaning that consideration must be given to disclosure and how the information is to be obtained. This may require accounting systems and processes to be amended or updated.

PRESENTATION

Although the standard is a revenue standard, it does introduce requirements for more than the income statement. The principal requirement for the income statement is that revenue recognised from customers with contacts is shown separately from other sources of revenue. This disclosure may be made in the notes. If, for example, a company sells goods and also leases out assets, the latter would not be income within the scope of IFRS 15 and so must be separated. For a shipping company this means that any time charter income, which is outside the scope of the revenue standard to the extent that it deals with the asset, is presented separately from voyage charter income. Each of these will also have detailed disclosures in the notes.

In addition, the standard introduced requirements for contract balances to be disclosed in the statement of financial position. Contract balances comprise contract assets and contract liabilities. These will arise because of timing differences between when revenue is recognised from the performance of an obligation, when an entity has an unconditional right to consideration, that is it becomes a debtor, and when cash is received from the customer. For example, if cash is received before a performance obligation has been satisfied, e.g. a voyage charter, this will lead to the recognition of a contract liability.

Traditionally such amounts would have been classified as deferred income, but under IFRS 15 this will be a contract liability that represents the unperformed promise to provide the services.

Contract assets and contract liabilities must be presented separately in the statement of financial position from other assets and liabilities, either on the face or in a note.

DISCLOSURES

IFRS 15 sets out a disclosure objective "…to understand the nature, timing and uncertainty of revenue and cash flows arising from contracts with customers…" To meet this objective, qualitative and quantitative information is required about contracts with customers, the significant judgements made in applying the standard and assets recognised from costs to obtain or fulfil a contract.

> "…to understand the nature, timing and uncertainty of revenue and cash flows arising from contracts with customers…"

Revenue disaggregation

To comply with this, an entity must consider whether, and how, disaggregation of revenue is required. Where segmental information is included in the financial statements, or revenue is disclosed elsewhere in the annual report using different classes these may be suitable bases for disaggregation. If the entity previously gave no disclosure of these, they may need to look to practice in the shipping industry for guidance on what may be an appropriate basis for disaggregation. Possible factors to consider could include, for example, disaggregation by good or service, by geographical region, whether goods or services are transferred at a point in time or over time and the duration of the contract.

The entity should be looking to disaggregate revenue to enable the disclosure objective to be met. If the nature, timing, uncertainty or cash flows differ between revenue streams then disaggregation is needed.

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> "…payments are received on an agreed schedule, or in accordance with the terms of the charter party, with accounts receivable recognised when the right to payment is unconditional…"

Consideration may need to be given to whether a single vessel owning company would have to disaggregate its revenue where it is exposed to different risks over the course of the year.

Impact on assets and liabilities

Specific disclosures are also required about contract assets and contract liabilities. If not separately presented in the statement of financial position, they must be disclosed in a note. Any amount included in the opening contract liability but which has been recognised as revenue following the satisfaction of performance obligations must also be disclosed.

An explanation is also required about significant changes in contract assets and contract liabilities. This does not require a reconciliation, and may be made through commentary. Examples within the standard of the type of factors which could give rise to changes are business combinations, contract asset impairment, a change in the time frame for when a right to consideration becomes unconditional or when a performance obligation is considered satisfied. As with all the disclosures, they must reflect what is relevant to the entity and its business.

Qualitative disclosures

All the disclosures so far are quantitative, but IFRS 15 also has some requirements that are qualitative. These include the need to disclose the relationship between the timing of the satisfaction of a performance obligation and the timing of the payment and how this impacts upon contract assets and contract balances. This relationship may be simple, possibly "… payments are received on an agreed schedule, or in accordance with the terms of the charter party, with accounts receivable recognised when the right to payment is unconditional…". If the relationship varies, possibly some cash received in advance, and subsequently further amounts in arrears, for example demurrage, the disclosure will need to be more elaborate to explain this. If the entity negotiates different terms with each, contract, consideration will need to be given about how to provide this disclosure in a manner which meets the requirement but is understandable.

Revenue recognition policy

One criticism of previous requirements for revenue disclosures was that it often did not give enough detail about what the entity did and when the related revenue was actually recognised. The term 'boilerplate' may have been coined to describe a typical revenue accounting policy. IFRS 15 changed this by setting out in far more detail what must be disclosed.

> "The disclosures for IFRS 15 are only required to be given for those transactions within its scope."

This includes:

- when a performance obligation is satisfied (for example at completion of discharge)
- significant payment terms (for example when due, if financing is included)
- the nature of the goods/services promised and whether another partyhas any responsibility for this, for example an agent
- obligations for returns, refunds
- types of warranties.

Although this may itself appear straightforward, the standard does recognise that judgement can be involved and to ensure an understanding of this, the following should be given:

- for revenue recognised over a period of time – the methods used to recognise that revenue together with an explanation of why that is a faithful depiction of the transfer of goods or services
- for revenue recognised at a point in time – when a customer obtains control of the promised goods or services.

Where judgement has also been applied in determining the transaction price, be this estimating variable consideration, the use of discounting or the measurement of noncash consideration, this must be explained, along with any constraints that have been applied. If the price has been allocated to more than one performance obligation, information must be given about how that allocation has been made, including how any discount or variable consideration has been treated.

Disclosure about future revenue

One aspect of the disclosure which represents possibly the biggest change from what has been previously been required is the need to give information about unsatisfied or partially satisfied performance obligations and the aggregate amount that has been allocated to them. This is akin to disclosure of the amount of the confirmed order book. It will only include contractual arrangements, but once agreed, because it covers both partially satisfied and unsatisfied contracts there may be a challenge in obtaining the details. In addition to the aggregate amount, an explanation of when the entity expects to recognise it as revenue should be given – this could be in a table or a narrative format.

There are two practical expedients that may limit the disclosure, and so ease the process. The first is that the aggregate amount is not required for contracts with an original expected duration of one year or less. If all of an entity's contracts would fall within this, then this may be useful to apply. Where there is a mix of contracts, then apart from the apparent inconsistency of the disclosure, it may be impracticable to separate contracts internally by duration.

The second expedient applies if an entity has a right to consideration that corresponds with the timing of the recognition of revenue. Again, there is no need to disclose information about obligations not fully satisfied at the reporting date. This disclosure is therefore going to be most applicable to entities with long-term contracts for which the timing of the receipt of consideration, be it cash or non-cash, does not follow the timing of the revenue recognition. Long-term construction contracts, bespoke software development, major outsourcing arrangements, are examples where disclosure is most likely to be required. Whilst not an issue for most shipping companies this disclosure requirement should not be over-looked.

Although the standard is about revenue, it also deals with contact costs, being costs to obtain a contract and costs incurred in fulfilling a contract. Where these are recognised as an asset, disclosure is required of the judgement made to recognise these as assets and the method to be employed in amortising them. The amount carried as an asset should be given together with the amount recognised as expenses in the period.

All of the above represents a substantial increase over previous requirements, which itself will be a challenge. The disclosure becomes even more problematic where an entity has revenue that arises from transactions that are dealt with by other standards, for example lease income. The disclosures for IFRS 15 are only required to be given for those transactions within its scope, and preparers must look to other standards for the requirements that apply to these other sources. This may lead to the unusual position where there is a mismatch between the amount of disclosure for one source of revenue when compared with that for another.

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