Financial Reporting News

IAASA Information Notes

IAASA has recently published two Information Notes on 'Requirement to disclose dividends proposed' and 'Requirement to disclose disaggregated revenue'.

The former reminds companies of the requirement to provide two separate disclosures regarding proposed dividends: firstly, the total amount of dividends proposed or declared before the financial statements were approved by the directors but which had not been recognised as a distribution in those financial statements and, secondly, the related dividend per share.

IAASA has detected instances where companies have omitted to disclose all the required information regarding proposed dividends.

The latter reminds companies of the requirement in IFRS 15 to disclose the disaggregation of revenue into categories that depict how revenue and cash flows are affected by economic factors. Those disclosures must provide sufficient information to enable users to understand the relationship between the disaggregated revenue and the revenue information that is disclosed for each operating segment.

IAASA has observed that some companies have provided more disaggregated revenue information outside of the financial statements (e.g. in investor presentations or in management reports). In these circumstances, IAASA has challenged those companies and sought explanations as to why further disaggregation of revenue was not provided within the notes to the financial statements.

IAASA reminds directors and Audit Committees that they need to consider the revenue information that is presented outside the financial statements (e.g. in investor presentations or in management reports) when considering the presentation of 'categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.'

Source: www.iaasa.ie

Costs to Fulfil a Contract (IFRS 15 Revenue from Contracts with Customers)

The IFRS Interpretations Committee received a request about the recognition of costs incurred to fulfil a contract as an entity satisfies a performance obligation in the contract over time. In the fact pattern described in the request, the entity (a) transfers control of a good over time (ie one (or more) of the criteria in paragraph 35 of IFRS 15 is met) and, therefore, satisfies a performance obligation and recognises revenue over time; and (b) measures progress towards complete satisfaction of the performance obligation using an output method applying paragraphs 39-43 of IFRS 15.

The entity incurs costs in constructing the good. At the reporting date, the costs incurred relate to construction work performed on the good that is transferring to the customer as the good is being constructed.

In considering the request, the Committee first noted the principles and requirements in IFRS 15 relating to the measurement of progress towards complete satisfaction of a performance obligation satisfied over time. Paragraph 39 states that 'the objective when measuring progress is to depict an entity's performance in transferring control of goods or services promised to a customer.' The Committee also observed that when evaluating whether to apply an output method to measure progress, paragraph B15 requires an entity to 'consider whether the output selected would faithfully depict the entity's performance towards complete satisfaction of the performance obligation.'

In considering the recognition of costs, the Committee noted that paragraph 98(c) of IFRS 15 requires an entity to recognise as expenses when incurred costs that relate to satisfied performance obligations (or partially satisfied performance obligations) in a contract—ie costs that relate to past performance.

The Committee observed that the costs of construction described in the request are costs that relate to the partially satisfied performance obligation in the contract—ie they are costs that relate to the entity's past performance. Those costs do not meet the criteria in paragraph 95 of IFRS 15 to be recognised as an asset.

The Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity to determine how to recognise costs incurred in fulfilling a contract in the fact pattern described in the request.

Source: www.ifrs.org