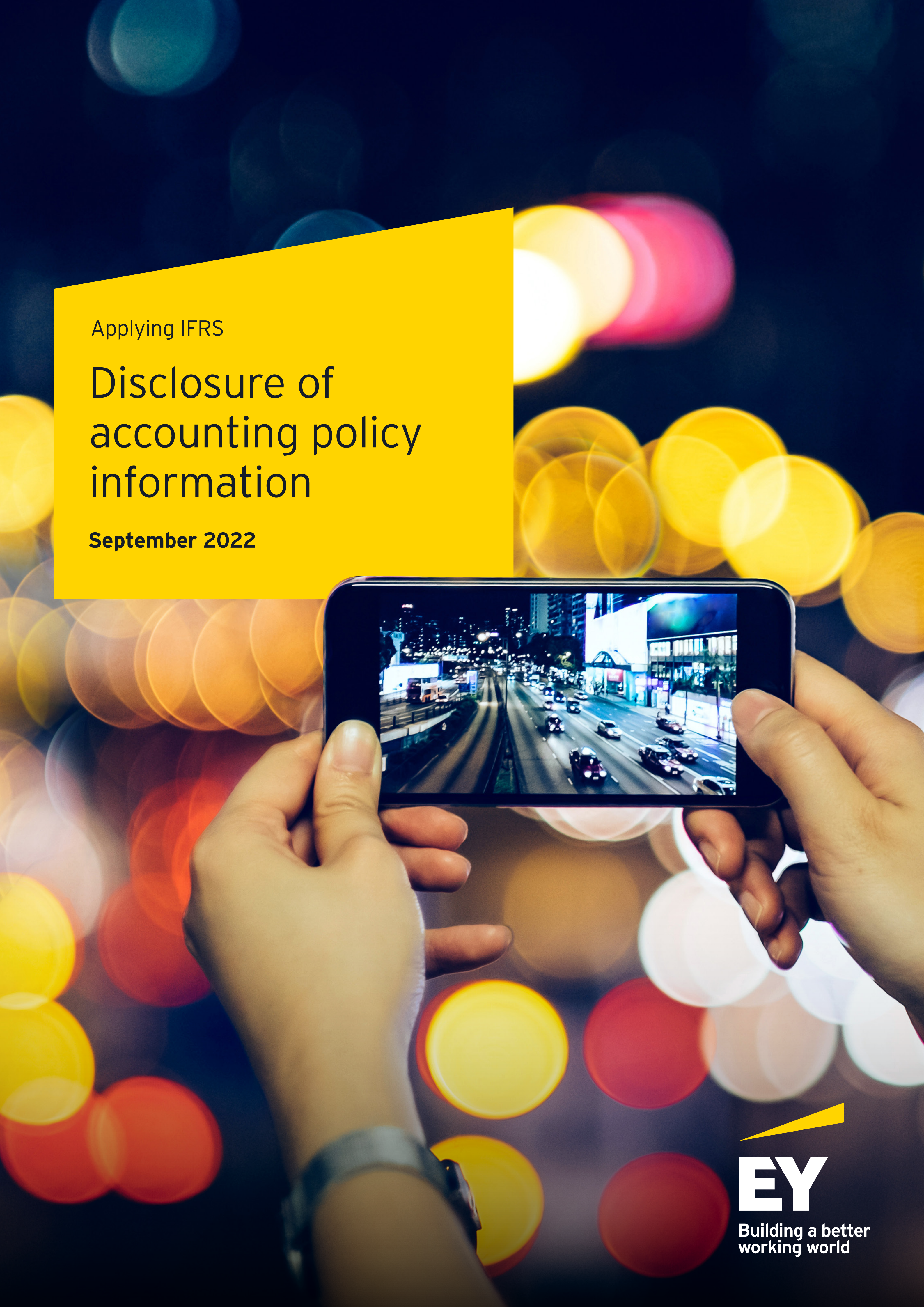

Applying IFRS

Disclosure of accounting policy information

September 2022

Building a better working world

Contents

What you need to know

- On 12 February 2021, the IASB issued amendments to IAS 1 and Practice Statement 2 to provide guidance on the application of materiality judgements to accounting policy disclosures.
- The amendments to IAS 1 replace the requirement to disclose 'significant accounting policies' with a requirement to disclose 'material accounting policy information'.
- Guidance and illustrative examples are added in IAS 1 and Practice Statement 2 to assist in the application of the materiality concept when making judgements about accounting policy disclosures.
- The amendments are effective for annual periods starting on or after 1 January 2023.

Overview

In February 2021, the International Accounting Standards Board (IASB or the Board) issued amendments to IAS 1 *Presentation of Financial Statements* in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The Board also issued amendments to IFRS Practice Statement 2 *Making Materiality Judgements* (the PS) to support the amendments in IAS 1 by adding guidance and Illustrative examples which explain and demonstrate the application of the 'four-step materiality process' to accounting policy disclosures.

In particular, the amendments aim to help entities to provide accounting policy disclosures that are more useful by:

- Replacing the requirement for entities to disclose their 'significant accounting policies' with a requirement to disclose their 'material accounting policy information'

  And

- Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures

In the Board's view, accounting policy information is expected to be material if its disclosure is needed for primary users to understand other information provided about material transactions, other events, or conditions in the financial statements.[1]

Determining whether accounting policy information is material or not will require the significant use of judgement and could result in additional efforts, in particular in the year of adopting the amendments.

While acknowledging that "standardised information, or information that only duplicates or summarises the requirements of the IFRSs" is generally less useful than entity-specific accounting policy information, the Board agreed that such information could be material in specific circumstances. Similarly, while requiring that entities ensure that immaterial and standardised information does not obscure material accounting policy information, the amended IAS 1 implicitly acknowledges that the disclosure of immaterial accounting policy information could be acceptable, although it is not required.

The amendments are applicable for annual periods beginning on or after 1 January 2023. Earlier application is permitted as long as this fact is disclosed.

How we see it

We encourage entities to revisit their accounting policy information disclosures in light of these amendments. Entities can enhance the usefulness of their financial statements by making accounting policy information disclosure more entity-specific and reducing the disclosure of immaterial and standardised accounting policies.

1 The Appendix to the *Conceptual Framework for Financial Reporting* defines primary users (of general purpose financial reports) as "Existing and potential investors, lenders and other creditors."

1 Introduction

1.1 Background

In an attempt to enhance communication in financial reporting, the IASB has made 'Better Communication in Financial Reporting' a central theme of its standard-setting activities in recent years. The Disclosure Initiative is part of the IASB's Better Communication theme and aims to address how the effectiveness of disclosures in IFRS financial statements can be improved. The 2021 amendments to IAS 1 and the PS are part of the Disclosure Initiative.

The PS represents non-mandatory guidance that was first issued by the IASB in September 2017 to help entities make materiality judgements. The PS describes a four-step process (identify, assess, organise and review) for applying materiality and includes guidance on how to make materiality judgements in specific circumstances.

1.2 The amendments

1.2.1 Replacement of the term 'significant' with 'material'

IAS 1 previously required the disclosure of significant accounting policies comprising the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements.

Feedback on the IASB's March 2017 Discussion Paper *Disclosure Initiative – Principles of Disclosure* (the Discussion Paper) suggested that further guidance, with materiality as a basis, should be developed to help entities provide more effective accounting policy disclosures since some entities find it difficult to assess whether an accounting policy is 'significant'. In the absence of a definition of the term 'significant' in IFRS, the Board decided to replace it with 'material' in the context of disclosing accounting policy information. 'Material' is a defined term in IFRS and, according to the Board, is widely understood by the users of financial statements.

According to the revised IAS 1, "Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements."[2]

How we see it

The replacement of 'significant accounting policies' with 'material accounting policy information' in IAS 1 and the corresponding new guidance in IAS 1 and the PS could impact the accounting policy disclosures of entities. Determining whether accounting policy information is material or not requires significant use of judgement. Therefore, entities need to revisit their accounting policy disclosures to ensure consistency with the amended standard.

1.2.2 Guidance in applying the materiality definition

The IAS 1 amendments added guidance to help entities determine when accounting policy information is material and, therefore, needs to be disclosed. In assessing the materiality of accounting policy information, entities need to

2 IAS 1.117.

consider both the size and the nature of the transactions, other events or conditions.

The Board also amended the PS to clarify that the materiality assessment for accounting policy information follows the same guidance that applies to the materiality assessments of other information. Therefore, both qualitative and quantitative factors must be considered. Furthermore, a diagram illustrating how entities are to incorporate the different factors in an assessment of the materiality of accounting policy information has been added.

This guidance is considered in more detail in section 2 below.

1.2.3 Removal of reference to 'measurement basis'

In the amended IAS 1, which introduced the guidance on the materiality of accounting policy information, references to the 'measurement basis' used in preparing the financial statements have been removed from the requirements as they were deemed redundant by the Board. Information about the measurement basis could be material, but this requires judgement similar to that which applies to other accounting policy information.

The Board notes that, in some cases, information about the measurement basis (or bases) used for a particular asset or liability would not be material and would, therefore, not need to be disclosed. For example, information about a measurement basis might be immaterial if:

- The relevant IFRS accounting standard requires an entity to use a particular measurement basis involving little or no judgement

  And

- Information about the measurement basis is not needed for users to understand the related material transactions, other events or conditions

1.2.4 Other disclosure requirements

The Board decided to emphasise that the amendments do not relieve an entity from the other disclosure requirements within IFRS accounting standards. The amended IAS 1 highlights that other disclosures required by IFRS could be material despite the corresponding accounting policy information being immaterial. For example, even if an entity determines that accounting policy information for income taxes is immaterial to its financial statements, other disclosures required by IAS 12 *Income Taxes* could be material.

Particular IFRS accounting standards sometimes specifically require an entity to disclose its accounting policy. For example, IAS 16 *Property, Plant and Equipment* requires an entity to disclose the measurement bases used for determining the gross carrying amount of property, plant and equipment.[3] The Board concluded that it was unnecessary to change these requirements (relating to accounting policy disclosures in other IFRS accounting standards) as part of the amendments since IAS 1 makes it clear that disclosure requirements in IFRS accounting standards are subject to materiality judgements. IAS 1 states that "An entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material. This is the case even if the IFRS contains a list of specific requirements or describes them as minimum requirements."[4]

3 IAS 16.73.

4 IAS 1.31.

2 Material accounting policy information

The amendments to IAS 1 and PS 2 require an entity to disclose material accounting policy information. Accounting policy information would rarely be assessed as material when considered in isolation since accounting policy information on its own is unlikely to influence the decisions primary users make based on the financial statements. However, accounting policy information could be material when considered together with other information in the financial statements.

In the Board's view, "accounting policy information is expected to be material if its disclosure were needed for primary users to understand information provided about material transactions, other events or conditions in the financial statements."[5] Accounting policy information that relates to immaterial transactions, immaterial other events or immaterial conditions is also immaterial and does not need to be disclosed.

2.1 Application of judgement

In order to assess whether accounting policy information is material, an entity needs to consider whether primary users of the entity's financial statements need that information to understand other material information in the financial statements.

This assessment involves the use of judgement and requires consideration of both qualitative and quantitative factors. Consequently, in assessing whether accounting policy information is material, an entity is required to consider not just the size of the transactions, other events, or conditions to which the accounting policy information relates, but also the nature of those transactions, other events, or conditions.

Quantitative factors

In assessing whether information is quantitatively material an entity considers not only the size of the impact that it recognises in its primary financial statements, but also any unrecognised items that could ultimately affect primary users' overall perception of the entity's financial position, financial performance and cash flows (e.g., contingent liabilities or contingent assets).

Qualitative factors

The PS notes that "qualitative factors are characteristics of an entity's transactions, other events or conditions, or of their context, that, if present, make information more likely to influence the decisions of the primary users of the entity's financial statements".[6] While it will not necessarily make information material, the presence of qualitative factors is likely to increase the primary users' interest in that information. An entity considers both entity-specific and external qualitative factors.

Entity-specific qualitative factors include the involvement of related parties, uncommon or non-standard features in transactions, other events or conditions and unexpected variations or changes in trends. The context in which the entity operates could also impact the relevance of information to the primary users; this is referred to as external qualitative factors. Examples include geographical locations, industry sector, and the state of the economy in which the entity operates.

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5 IAS 1.BC76N.

6 PS 2.46.

Sometimes the absence of an external qualitative factor is relevant, for example, if the entity is not exposed to a certain risk to which many other entities in its industry are exposed, information about that lack of exposure could be material information.

2.2 Illustrative flow chart

In order to assist entities in assessing whether accounting policy information is material the Board included a diagram in the PS to illustrate how an entity assesses whether accounting policy information is material and, therefore, needs to be disclosed.

The first step in the diagram considers whether the related transaction, other event or condition is material due to its size, nature, or a combination of both (in the current or comparative period) before assessing the materiality of the accounting policy information. If the related transaction, other event or condition is immaterial, the accounting policy information is also immaterial and does not need to be disclosed.

Although a transaction, other event, or condition to which the accounting policy information relates could be material, it does not necessarily mean that the corresponding accounting policy information is also material to the entity's financial statements. In assessing the materiality of the accounting policy information, an entity considers the list of indicators provided by the Board in IAS 1 (discussed in section 2.3 below).[7]

The flow chart below, is based on Diagram 2 in the PS[8]:

Is the related transaction, other event or condition material in:
- **Size?**
- **Nature?**
  Or
- **Both?**

No → **The accounting policy information is immaterial i.e., does not need to be disclosed**
[IAS 1.117A, 117D]

Yes ↓

Is the accounting policy information itself material?
(I.e., is the accounting policy information required for users to understand other material information in the financial statement?)
[IAS 1.117B]

Consider whether:
- **Options are permitted in the applicable standard**
- **Accounting policy was developed under IAS 8**
- **Relevant in the context of:**
  - **Material change in accounting policy**
  - **Significant judgement or estimate**
  - **Complex accounting**
- **Other entity-specific factors make it material**
- **Users are familiar with IFRS**

No ↑ (to: The accounting policy information is immaterial)

Yes ↓

Accounting policy information is material - i.e., must be disclosed
[IAS 1.117, 117C]

7 IAS 1.117B.

8 PS 2.88C, Diagram 2.

2.3 Indicators of materiality

The amended IAS 1 includes examples of circumstances in which users of an entity's financial statements would normally need accounting policy information to understand other material information in the financial statements, i.e., where the accounting policy information is normally material. The Board clarified that the list of examples is not exhaustive, but it believes that the examples will help an entity to determine whether accounting policy information is material or not.

Entities may use these examples as a list of indicators to consider in determining whether their accounting policy information is material. Since accounting policy information related to immaterial transactions, other events or conditions is immaterial, the list of indicators is only considered after concluding that the related transaction, other event, or conditions is material due to its size, nature, or a combination of both (in the current or comparative periods).

Accounting policy information that relates to material transactions, other events or conditions is likely to be material to an entity's financial statements if:

1) A choice of accounting policy is permitted by the IFRS accounting standard (e.g., the entity choses to measure investment property at historical cost rather than fair value)
2) An entity develops an accounting policy in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* in the absence of an IFRS accounting standard that specifically applies
3) It is needed to provide context for a change of accounting policy that had a material effect on the information in the financial statements
4) It is needed to provide context to significant judgements and estimates which are disclosed under IAS 1[9]
5) The required accounting (recognition, measurement, presentation, disclosure) is complex and users would otherwise not understand the material transaction, other event, or condition (e.g., when more than one IFRS is applied)
6) There are other qualitative factors that make the accounting policy information material (e.g., entity-specific facts require the application of the accounting policy in some entities, but not others – see section 3.2.1 below)
7) It is needed because users are not familiar with IFRS

Each of these indicators are discussed in more detail in the sections below.

2.3.1 Option permitted in the related standard

Where an IFRS accounting standard provides a preparer with an accounting policy choice on how to account for a material class of transactions, other events or conditions, the disclosure of accounting policy information indicating the choice selected by the entity is normally material. This is because a primary user would require the information to understand the other material information provided about the related amounts and balances in the financial statements.

9 IAS 1.122 and IAS 1.125.

2.3.2 Accounting policy developed under IAS 8

Accounting policy information is normally material where an entity has developed its own accounting policy under IAS 8, for a material transaction, other event or condition. This is the case since a primary user is unlikely to understand the other information about that material transaction, other event or condition, in the financial statements without it. Since an accounting policy developed under IAS 8 is, by nature, not a policy prescribed by an IFRS accounting standard, a primary user normally needs further information about the chosen policy in order to understand the related accounting impacts.

2.3.3 Material change in accounting policy

If an entity has changed an accounting policy, in the current reporting period, that resulted in a material change to the information in the financial statements, the related accounting policy information is normally material as it provides the context a primary user would likely need to understand the other material information in the financial statements (e.g., under IAS 8.28-29) related to the impact of the change.

This information could be easier to access if disclosed along with the change in accounting policy information rather than separately in the general accounting policies disclosures.

2.3.4 Relates to significant judgements and estimates

Accounting policy information that relates to areas for which the entity is disclosing significant judgements or estimates (e.g., under IAS 1.122 and IAS 1.125) are more likely to be required in order for a primary user to understand the other material information in the financial statements as these provide context to the significant judgements and estimates being made.

However, the fact that an entity discloses significant judgements and estimates does not automatically mean that the related accounting policy information is also material. This fact is illustrated in Example T in the PS, discussed in section 2.7.2 below.

In some instances, this accounting policy information is most useful if presented with the significant estimate disclosure, rather than in a separate accounting policy information note.

2.3.5 Required accounting is complex

Although entity-specific accounting policies information is generally more useful, the PS acknowledges that if the accounting is complex, the disclosure of standardised accounting policy information could also be material.[10] This is the case since primary users are less likely to understand the complex accounting treatment without being provided with the standardised information in the same context.

10 PS 2.88F.

2.3.5 *Required accounting is complex (cont.)*

However, neither IAS 1 nor the PS defines "complex". IAS 1 notes that "such a situation could arise if an entity applies more than one IFRS to a class of material transactions."[11]

Examples of such complex accounting could include the case of non-lease components in lease contracts (IFRS 16 *Leases* and IFRS 15 *Revenue from Contracts with Customers*) and situations in which a corporate wrapper is used in the context of customer contracts (IFRS 10 *Consolidated Financial Statements* and IFRS 15).

2.3.6 *Other qualitative factors*

The situations addressed in sections 2.3.1 to 2.3.5 are examples of circumstances where accounting policy information is normally considered to be material to an entity's financial statements. Since the list is not exhaustive, entities also need to consider if there are any other qualitative factors that would make accounting policy information material to the financial statements.

For example, an entity could act as a principal in some classes of transactions and as an agent in other similar transactions depending on whether it controls the goods or services before transferring them to the customer or not. In such instances, in addition to the disclosures about significant judgements (see above), a primary user could require accounting policy information explaining the two situations and the accounting policy differences to understand the related information in the financial statements.

2.3.7 *Primary users are not familiar with IFRS*

The PS suggests that if "an entity reports in a jurisdiction in which entities also report applying local standards", then generic accounting policy information could be material.[12] This is because some of the primary users in that jurisdiction are likely to be less familiar with IFRS than with the local standards.

It is not entirely clear how an entity ought to interpret this guidance. A preparer could argue that since the *Conceptual Framework for Financial Reporting*, IAS 1 and the PS all state that users of financial statements are expected to have a reasonable knowledge of business and economic activities, this reasonable knowledge includes a general understanding of the requirements of IFRS accounting standards.[13] However, there is no clarification anywhere that users are assumed to know the IFRS accounting standards.

In an environment where the market is primarily exposed to a local GAAP (e.g., US GAAP in a US context), it may be that users could benefit from the disclosure of accounting policies, so they can identify the difference from local GAAP, in spite of such disclosures being standardised and generic.

Generally, users could be less familiar with IFRS in jurisdictions where IFRS has recently been adopted. In such cases, generic policy disclosures could be required for a transitory period.

11 IAS 1.117B(e).

12 PS 288F.

13 Refer to CF 2.36, IAS 1.7 and PS 2.13-23.

2.4 Entity-specific information

The amended standard highlights that accounting policy information which explains how an entity has applied the requirements of IFRS accounting standards to its own circumstances, provides entity-specific information that is generally more useful to users than standardised information which simply repeats what the applicable IFRS accounting standard generally requires.[14] Similarly, the PS was amended to emphasise that providing accounting policy information that is entity-specific is generally more useful to primary users. The PS also notes that entity-specific accounting policy information is particularly useful when it relates to an area where the entity has exercised judgement, e.g., when an entity applies an IFRS accounting standard differently from similar entities in the same industry. Tailoring accounting policy information is particularly relevant when judgement is applied.

2.5 Disclosure of standardised information

Entities often disclose information describing how they have applied the requirements of a specific standard and provide "standardised information, or information that only duplicates or summarises the requirements of the IFRSs" sometimes referred to as 'boilerplate disclosures'.[15] The Board acknowledged that, generally, such information is less useful to users than entity-specific accounting policy information. However, the Board also agreed that, in some circumstances, standardised accounting policy information could be needed for users to understand other material information in the financial statements. In those situations, standardised accounting policy information is material, and must be disclosed.

The amendments to the PS also provide examples of types of situations when generic or standardised information summarising or duplicating the requirements of IFRS could be considered material accounting policy information, as follows:

- The information is necessary for the users to understand other material information provided in the financial statements.
- The entity reports in a jurisdiction where entities also report under local accounting standards. (Refer to section 2.3.7 above).
- Complex accounting is required by IFRS and the standardised information is needed to understand the accounting (e.g., where more than one IFRS is applied). (Refer to section 2.3.5 above).

How we see it

The use of standardised (sometimes referred to as 'boilerplate') disclosures for accounting policy information has been observed in practice. Entities are encouraged to carefully consider whether "standardised information, or information that only duplicates or summarises the requirements of the IFRSs" is material information and, if not, whether it could be removed from the accounting policies disclosures (or relocated) to enhance the usefulness of the financial statements.

14 IAS 1.117C.

15 IAS 1.117C.

2.6 Disclosure of immaterial accounting policy information

The amended IAS 1 requires that if an entity decides to disclose accounting policy information that is not material, it needs to ensure that immaterial information does not obscure material information. For example, an entity could obscure material accounting policy information by giving the immaterial accounting policy information more prominence or presenting immaterial information with material information such that the reader is unable to distinguish the two.

The PS refers preparers to its general guidance under "Step 3 – organise"[16] on how to communicate information clearly and concisely in the financial statements which would also apply to the disclosure of accounting policy information.

While requiring that entities ensure that immaterial and standardised information does not obscure material accounting policy information, the amended IAS 1 implicitly acknowledges that disclosure of immaterial accounting policy information could be acceptable, although it is not required.

How we see it

While the amended IAS 1 implicitly acknowledges that disclosure of immaterial accounting policy information could be acceptable, it is clear that entities must ensure that such immaterial information does not obscure material accounting policy information.

Immaterial accounting policy information could be removed from the accounting policies disclosures (or relocated) to avoid obscuring material accounting policy information.

2.7 Examples in the PS

The amended PS provides two examples to illustrate how an entity makes materiality judgements by focusing on entity-specific information, while avoiding standardised (boilerplate) accounting policy information (Example S) and accounting policy information that only duplicates requirements in IFRS (Example T).

Examples S and T are only intended to illustrate the application of the amendments to accounting policy information and do not illustrate the application of the definition of material to all the disclosure requirements of IFRS 15 and IAS 36 *Impairment of Assets*. The PS includes a reminder that entities are also required to comply with the other disclosure requirements of those IFRS accounting standards. These two examples have been summarised below.

2.7.1 Example S – Entity-specific information while avoiding boilerplate information

Example S illustrates the assessment of the materiality of revenue accounting policy information by an entity operating in the telecommunications industry.

The entity's typical contract provides a customer with a handset and data services for three years. The handset and data services have been assessed as two separate performance obligations. The entity applies judgement in

16 PS 2.56-59.

allocating the transaction price and determining the timing of when it satisfies these performance obligations.

Having concluded that the revenue from these contracts is material to its financial statements, the entity assesses whether the accounting policy information for revenue from these contracts is material by considering the presence of qualitative factors.

Despite the fact that these revenue recognition accounting policies are:

- Unchanged from the prior period
- Not chosen from available options in the IFRS accounting standards
- Not developed under IAS 8

  And

- Not complex

The entity concludes that the accounting policy information about the significant judgements made in applying IFRS 15 to these contracts is material and must be disclosed. This is the case because the entity believes that this accounting policy information relates to an area of significant judgements which are specific to the entity.

In addition to the significant judgements disclosure required by IFRS 15,[17] it is likely that users would need to understand the related accounting policy information and how the entity has applied the IFRS 15 requirements to its specific circumstances in order to understand the related information. For example, understanding how the entity allocates the transaction price to its performance obligations and when the entity recognises revenue could help users understand the entity's revenue and cash flows.

Therefore, the entity concludes that this accounting policy information could reasonably be expected to influence the decisions of primary users of its financial statements. However, it is worth noting that the Example S does not illustrate the accounting policy disclosure that the entity would ultimately provide, leaving it up to the judgement of preparers.

2.7.2 Example T – Information that just duplicates the IFRS requirements

Example T illustrates the assessment by an entity of whether its accounting policy under IAS 36 for impairment of non-current assets is material.

The entity has not recorded any impairment (or impairment reversals) of non-current assets in its current or prior period and historically provided IAS 36 accounting policy information that simply duplicated that standard's recognition and measurement requirements without providing any entity-specific information. While the entity does not have any goodwill or other intangible assets, it concluded that property, plant & equipment is material to its financial statements.

Similarly, impairment of property, plant and equipment is an area where the entity is required to make significant judgements or assumptions, as described in IAS 1. Given the entity's specific circumstances, it concludes that information about these significant judgements and assumptions is also material.[18]

17 IFRS 15.123-126.

18 IAS 1.122 and IAS 1.125.

In assessing whether the IAS 36 accounting policy is material, the entity considers the fact that:

- It does not have any goodwill or other intangible assets
- There have been no impairments (or impairment reversals) on property, plant and equipment in the current or prior period

  And

- The impairment of property, plant and equipment accounting policy relates to an area requiring significant judgements and assumptions by the entity

However, the entity notes that information about the significant judgements and assumptions used in its impairment assessments is already provided elsewhere in the financial statements as part of its significant judgements and assumptions disclosures (which the entity will continue to provide).

The entity concludes that a summary of the IAS 36 recognition and measurement requirements would not be material as it does not provide information that could reasonably be expected to influence the decisions of primary users, since the primary users are unlikely to need this information to understand the related information disclosed in the financial statements.

3 Practical example – revenue accounting policy

3.1 Introduction

For illustrative purposes, the section below considers a possible thought process that the amendments could trigger in revising a subset of the accounting policy information for revenue as included in EY's *Good Group (International) Limited: Illustrative consolidated financial statements for the year ended 31 December 2022* (Good Group 2022), (refer to Appendix 1 for the full accounting policy).

This section also includes real life examples from the publicly available disclosure of certain entities under the IAS 1 requirements applicable prior to the 2021-amendments.

Extracts from financial statements presented in this publication are reproduced for illustrative purposes. They have not been subject to any review as to their compliance with IFRS or any other requirements, such as local capital market rules. Thus, they document practices that entities have developed to date; they are not intended to represent 'best practice'. The extracts presented should be read in conjunction with the rest of the information provided in the financial statements in order to understand their intended purpose. Entities need to carefully assess their specific circumstances and the preferences of the primary users before deciding on how to present the revenue accounting policy information in their own financial statements.

It is important to keep in mind that Good Group 2022 is intended to reflect transactions, events and circumstances considered to be common for a broad range of entities across a wide variety of industries. Certain disclosures are, therefore, included in those financial statements for illustrative purposes, even though they could be regarded as immaterial for Good Group Limited. Thus, a structured materiality assessment as presented in the following examples could suggest non-disclosure of certain accounting policies that, nevertheless, are disclosed in Good Group 2022.

In assessing whether the accounting policy information for revenue is material for Good Group 2022, it has been assumed that revenue and all the balances and transactions related to IFRS 15 (e.g., contract balances, loyalty scheme) are material to Good Group Limited in 2022.

Revenue is generally considered material because of the reliance that users place on this line item for their modelling and decisions. Furthermore, it is a mandatory line item in the statement of comprehensive income. Even in circumstances of nil or otherwise quantitatively low amounts, revenue could often be deemed material for the reasons explained above.

The selected accounting policy information below has been extracted from Good Group 2022 to illustrate certain specific indicators (refer to section 2.3 above) which entities could consider when assessing whether their own accounting policy information is material.

The examples provided illustrate how the amendments could be applied to the specific subsections selected, but similar consideration could be relevant in evaluating whether any other subsections of the accounting policy disclosure in Good Group 2022, that are not included in the illustrations below, are material to an entity's financial statements.

Often there is overlap between the facts and circumstances, the accounting policies being applied to those facts and circumstances, and the judgements made in applying the accounting policies. These are all interrelated and, thus, in some cases, the applicable facts and circumstances form an integral part of the material accounting policy disclosures.

3.1.1 Indicators not considered

Good Group Limited has not developed any revenue accounting policies under IAS 8, nor has it made any revenue accounting policy changes during the 2022 financial year, and the users of the Good Group Limited financial statements are assumed to be knowledgeable about IFRS as it is the primary reporting language in the jurisdiction in which Good Group Limited operates. Therefore, the indicators discussed in sections 2.3.2, 2.3.3, and 2.3.7 above are not applicable.

3.2 Revenue from contracts with customers

Illustration 3-1: Extract from Good Group 2022: Revenue from contracts with customers

The Group is in the business of providing fire prevention and electronic equipment and installation services. Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements, except for the procurement services below, because it typically controls the goods or services before transferring them to the customer.

...

This extract from Good Group 2022 provides information about the Group's revenue generating activities and is an example of entity-specific accounting policy information that is generally more useful to users in understanding the related balances, transactions and conditions, than standardised information that only repeats what the applicable IFRS accounting standard generally requires (refer to section 2.4 above).

The extract introduces the Group's main business and goes on to disclose a judgement made in applying the standard (i.e., whether the Group is an agent or principal in its revenue transactions) as required by IFRS 15.[19] Entities must be careful not to remove any material disclosures required by other IFRS accounting standards when assessing their current accounting policy disclosures for materiality, since an entity's conclusion that accounting policy information is immaterial does not affect the related disclosure requirements set out in other IFRS accounting standards.

The second sentence in the extract duplicates the requirements of the standard. A relevant assessment in this case is whether this disclosure could be omitted without affecting the primary users' understanding of the other material information provided in the financial statements. If it is deemed to be immaterial, it could be removed to 'cut the clutter' and to draw attention to

19 IFRS 15.123.

accounting policy information relying on entity-specific information. In making such an assessment, an entity would need to consider the guidance on disclosing standardised information discussed in section 2.5 above.

The third sentence is another example of entity-specific information, in that it clarifies the judgement applied by the entity, concluding it is the principal in most of its revenue transactions, except for in the context of procurement services (discussed in section 3.2.1 below).

3.2.1 Sale of fire prevention and electronic equipment and procurement services

Illustration 3-2: Extract from Good Group 2022: Sale of fire prevention and electronic equipment, and Procurement services

Sale of fire prevention and electronic equipment

Revenue from sale of fire prevention and electronic equipment is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the equipment at the customer's location. The normal credit term is 30 to 90 days upon delivery.

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g., warranties, customer loyalty points). In determining the transaction price for the sale of fire prevention and electronic equipment, the Group considers the effects of variable consideration, existence of a significant financing component, non-cash consideration, and consideration payable to the customer (if any).

...

Procurement services

The Group has contracts with customers to acquire, on their behalf, special fire prevention equipment produced by foreign suppliers. Under these contracts, the Group provides procurement services (i.e., coordinating the selection of suitable suppliers and managing the ordering and delivery of the imported equipment). The Group does not have control of the equipment before it is being transferred to the customer. The Group is acting as an agent and recognises revenue at the net amount that is retained for these arrangements. Revenue is recognised at a point in time (i.e., upon receipt of the customer of the equipment) because this is when the customer benefits from the Group's procurement services.

This extract from Good Group 2022 provides entity-specific information about the Group's revenue generating activities and relates to an area of complex accounting, i.e., the principal-versus-agent assessment and determining the nature of the promise to the customer.

The first paragraph of the 'Sale of fire prevention and electronic equipment' policy is an example of accounting policy information that provides entity-specific disclosure (i.e., explaining when the entity typically transfers control to the customer and disclosure of the normal credit terms) (see section 2.4 above). In some circumstances, entities could find that disclosure of the corresponding entity-specific presentation policy is material, e.g., identification of the line items in the income statement that include costs incurred on delivery could be necessary for primary users to understand the related information in the financial statements.

Determining whether the nature of the promises in the contract give rise to additional performance obligations to which a portion of the promised consideration is allocated, as required by IFRS 15, can be judgemental. Therefore, in some circumstances, the inclusion of standardised information (like those in the second paragraph of the 'Sale of fire prevention and electronic equipment' policy) on how this requirement is applied could be material since the primary users are less likely to understand the accounting treatment without access to the standardised information in the same context (refer to section 2.3.4 above).

The "Procurement services" policy disclosure indicates that a different conclusion was reached for a part of the Group's revenue. This is an example of materiality triggered by an entity's specific qualitative factors. The specific facts require the application of an accounting policy (revenue recognised as the principal) to some, but not all, of the Group's transactions (refer to section 2.3.6 above). The principal versus agent assessment required by IFRS 15 is complex and can require significant judgement. Therefore, the guidance in sections 2.3.4 and 2.3.5 above could also be relevant to this section of the accounting policy information disclosure.

Entity-specific practical example 1: Telefónica, S.A.

In the extract below, the revenue accounting policy information disclosed by Telefónica, S.A., a telecommunications entity, is an example of an accounting policy, under the IAS 1 requirements applicable prior to the 2021-amendments, which appears to provide entity-specific information. This information might be useful to the primary users of financial statements as it describes the types of revenue-generating services provided by the entity, when the revenue from these services are recognised, how the entity treats upfront fees, the method the entity uses to estimate variable consideration and the fact that a practical expedient has been applied.

Practical example 1: Telefónica, S.A. (2021)

Consolidated Annual Accounts 2021 [extract]

Notes to the consolidated financial statements [extract]

Note 3. Accounting policies [extract]

l) Revenues and expenses

The Telefónica Group revenues are derived principally from providing the following telecommunications services: traffic, connection fees, regular (normally monthly) network usage fees, interconnection, network and equipment leasing, handset sales and other digital services such as Pay TV and value-added services or maintenance. Products and services may be sold separately or bundled in promotional packages.

Revenues from calls carried on Telefónica's networks (traffic) entail an initial call establishment fee plus a variable call rate, based on call length, distance and type of service. Both fixed and wireless traffic is recognized as revenue as service is provided. For prepaid calls, the amount of unused traffic generates deferred revenues presented in Contractual liabilities on the statement of financial position.

Revenues from traffic sales and services at a fixed rate over a specified period of time (flat rate) are recognized on a straight-line basis over the term covered by the rate paid by the customer.

Installation fees are taken to the income statement on a straight-line basis over the related period. Equipment leases and other services are taken to the income statement as they are consumed.

Interconnection revenues from fixed-wireless and wireless-fixed calls and other customer services are recognized in the period in which the calls are made.

Revenues from handset and equipment sales are recognized once the sale is considered complete, i.e., generally when delivered to the end customer.

For bundled packages that include multiple elements sold in the fixed, wireless, Internet and television businesses it is determined whether it is necessary to identify the separate performance obligations and apply the corresponding revenue recognition policy to each one. Total package revenues are allocated among the identified performance obligations based on their respective standalone selling prices.

As connection or initial activation fees, or upfront non-refundable fees, are not separately identifiable performance obligations in these types of packages, any consideration received from the customer for these items is allocated to the remaining elements.

When the customer has a right of return, the agreed consideration is considered variable. The Group estimates the amount of variable consideration to which it is entitled using the expected value method (probability-weighted possible amounts), considering all historical, current and forecast information that is reasonably available, and only to the extent that it determines that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur.

…

Practical example 1:	Telefónica, S.A. (2021) (cont.)

Expenses relating to customer contracts (mainly, commissions payable to dealers for customer acquisitions) are recognized as an asset to the extent that they are incremental and are expected to be recovered. Subsequently, these costs are amortized over the same term as the revenues associated with such contract are recognized, unless the expected amortization period is one year or less, in which case they are expensed as incurred.

…

Entity-specific practical example 2: ArcelorMittal

In the extract below, ArcelorMittal, an entity operating in the steel and mining industry, discloses what appears to be entity-specific accounting policy information about its revenue recognition. This information disclosed by ArcelorMittal, under the IAS 1 requirements applicable prior to the 2021-amendments, might be useful to the primary users of its financial statements as it could help primary users to understand how the entity determines the performance obligation, when control over the entity's goods is transferred to the customer, how the deferred revenue is recognised and how the amount of revenue is affected because of the customers' right to return.

Practical example 2:	ArcelorMittal (2021)

Annual Report 2021 [extract]

Consolidated Financial Statements [extract]

NOTE 4: OPERATING DATA [extract]

4.1 Revenue

The Company's revenue is derived from the single performance obligation to transfer primarily steel and mining products under arrangements in which the transfer of control of the products and the fulfillment of the Company's performance obligation occur at the same time. Revenue from the sale of goods is recognized when the Company has transferred control of the goods to the buyer and the buyer obtains the benefits from the goods, the potential cash flows and the amount of revenue (the transaction price) can be measured reliably, and it is probable that the Company will collect the consideration to which it is entitled to in exchange for the goods.

Whether the customer has obtained control over the asset depends on when the goods are made available to the carrier or the buyer takes possession of the goods, depending on the delivery terms. For the Company's steel producing operations, generally the criteria to recognize revenue has been met when its products are delivered to its customers or to a carrier who will transport the goods to its customers, this is the point in time when the Company has completed its performance obligations. Revenue is measured at the transaction price of the consideration received or receivable, the amount the Company expects to be entitled to.

Additionally, the Company identifies when goods have left its premises, not when the customer receives the goods. Therefore, the Company estimates, based on its historical experience, the amount of goods in-transit when the transfer of control occurs at the destination and defers the revenue recognition.

Practical example 2:	ArcelorMittal (2021) (cont.)

The Company's products must meet customer specifications. A certain portion of the Company's products are returned or have claims filed against the sale because the products contained quality defects or other problems. Claims may be either of the following:

- Product Rejection - Product shipped and billed to an end customer that did not meet previously agreed customer specifications. Claims typically result from physical defects in the goods, goods shipped to the wrong location, goods produced with incorrect specifications and goods shipped outside acceptable time parameters.
- Consequential Damages - Damages reported by the customer not directly related to the value of the rejected goods (for example: customer processing cost or mill down time, sampling, storage, sorting, administrative cost, replacement cost, etc.).

The Company estimates the variable consideration for such claims using the expected value method and reduces the amount of revenue recognized.

...

3.2.2 Significant financing component

Illustration 3-3: Extract from Good Group 2022: Significant financing component policy

(ii) Significant financing component

The Group receives advance payments from customers for the sale of customised fire prevention equipment with a manufacturing lead time of two years after signing the contract and receipt of payment. There is a significant financing component for these contracts considering the length of time between the customers' payment and the transfer of the equipment, as well as the prevailing interest rate in the market. As such, the transaction price for these contracts is discounted, using the interest rate implicit in the contract (i.e., the interest rate that discounts the cash selling price of the equipment to the amount paid in advance). This rate is commensurate with the rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception.

The Group applies the practical expedient for short-term advances received from customers. That is, the promised amount of consideration is not adjusted for the effects of a significant financing component if the period between the transfer of the promised good or service and the payment is one year or less.

This extract from Good Group 2022 provides entity-specific information about the practical expedient the entity has chosen to apply for the existence of a financing component, which is an example of where the IFRS accounting standards permit an accounting policy choice (refer to section 2.3.1 above).

The first paragraph is an example of entity-specific accounting policy information explaining that when the customer pays in advance for the specified goods, the entity effectively receives financing from the customer which gives rise to a significant financing component.

In some circumstances, significant financing component policy disclosures could benefit from information about the principles of allocating the significant financing component when there are multiple performance obligations in a contract.

The third sentence in the first paragraph duplicates the requirements of the standard. If it is deemed to be immaterial, it could be removed to 'cut the clutter' and to draw attention to accounting policy information relying on entity-specific information. In making such an assessment, an entity would need to consider the guidance on disclosing standardised information discussed in section 2.5 above.

The second paragraph discloses the entity's accounting policy choice, as required by IFRS 15[20], regarding the use of the practical expedient permitted by IFRS 15 and expands on how this impacts the amount recognised as revenue.

Entity-specific practical example 3: Bombardier Inc.

The extract below, from the revenue accounting policies of Bombardier Inc., an aviation manufacturing entity, is an example of an accounting policy, disclosed under the IAS 1 requirements applicable prior to the 2021 amendments, which appears to provide entity-specific information. This information might be useful to the primary users of financial statements as it describes the impact of a significant financing component on interest expense and the amount of revenue to be recognised. It also explains that most of their revenue contracts do not include a significant financing component.

Practical example 3: Bombardier Inc. (2021)

2021 Financial Report [extract]

CONSOLIDATED FINANCIAL STATEMENTS [extract]

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [extract]

Revenue recognition [extract]

...

The Corporation accounts for a significant financing component on orders where timing of cash receipts and revenue recognition differ substantially. Most of the Corporation's contracts do not have a significant financing component. However, there are certain orders related to aircraft where advances were received well before expected delivery and therefore a financing component has been accounted for separately. The result is that interest expense is accrued during the advance period and the transaction price will be increased by a corresponding amount.

...

3.2.3 Loyalty points programme

Illustration 3-4: Extract from Good Group 2022: Loyalty points programme policy

Loyalty points programme

The Group has a loyalty points programme, GoodPoints, which allows customers to accumulate points that can be redeemed for free products. The loyalty points give rise to a separate performance obligation as they provide a material right to the customer.

A portion of the transaction price is allocated to the loyalty points awarded to customers based on relative stand-alone selling price and recognised as a contract liability until the points are redeemed. Revenue is recognised upon redemption of products by the customer.

20 IFRS 15.129.

Illustration 3-4:	Extract from Good Group 2022: Loyalty points programme policy (cont.)

When estimating the stand-alone selling price of the loyalty points, the Group considers the likelihood that the customer will redeem the points. The Group updates its estimates of the points that will be redeemed on a quarterly basis and any adjustments to the contract liability balance are charged against revenue.

The disclosures of significant estimates and assumptions relating to the estimation of the stand-alone selling price of the loyalty points are provided in Note 3.

This extract from Good Group 2022 provides entity-specific information about the Group's loyalty points programme and is an example of the need to provide context to significant judgements and estimates that are disclosed under IAS 1[21] (refer to section 2.3.4 above).

The first paragraph, which introduces the Group's loyalty programme, is an example of entity-specific accounting policy information, as required by IFRS 15[22], about the customer's option to obtain additional goods or services in exchange for the redeemed points received under the programme and how the loyalty points give rise to a separate performance obligation, providing a material right to the customer.

In some circumstances, it could be helpful for the reader if such disclosures explain how an entity distinguishes a customer option from a variable consideration.[23]

The second paragraph duplicates the requirements of the standard and could, in some circumstances, be omitted without impacting the users' understanding of the other material information provided in the financial statements. If it is deemed to be immaterial, it could be removed to 'cut the clutter' and to draw attention to accounting policy information relying on entity-specific information. In making such an assessment, an entity would need to consider the guidance on disclosing standardised information discussed in section 2.5 above.

The third paragraph explains the estimation process in the context of the loyalty points programme in accordance with IFRS 15[24] more generally, before the application of the requirement is further elaborated in the following disclosure:

Illustration 3-5:	Extract from Good Group 2022: Estimates and assumptions - Revenue recognition - Estimating stand-alone selling price – GoodPoints loyalty programme

Revenue recognition - Estimating stand-alone selling price – GoodPoints loyalty programme

The Group estimates the stand-alone selling price of the loyalty points awarded under the GoodPoints programme. The stand-alone selling price of the loyalty points issued is calculated by multiplying the estimated redemption rate and the monetary value assigned to the loyalty points.

21 IAS 1.122 and IAS 1.125.

22 IFRS 15.119.

23 Also refer to *International GAAP 2022*: Question 4-17 in section 4.6 of Chapter 27.

24 IFRS 15.126(c).

Illustration 3-5:	Extract from Good Group 2022: Estimates and assumptions - Revenue recognition - Estimating stand-alone selling price – GoodPoints loyalty programme (cont.)

In estimating the redemption rate, the Group considers breakage which represents the portion of the points issued that will never be redeemed. The Group applies statistical projection methods in its estimation using customers' historical redemption patterns as the main input. The redemption rate is updated quarterly and the liability for the unredeemed points is adjusted accordingly. In estimating the value of the points issued, the Group considers the mix of products that will be available in the future in exchange for loyalty points and customers' preferences. The Group ensures that the value assigned to the loyalty points is commensurate to the stand-alone selling price of the products eligible for redemption (i.e., the value of each point is equivalent to the stand-alone selling price of any products eligible for redemption divided by number of points required).

As points issued under the programme do not expire, estimates of the stand-alone selling price are subject to significant uncertainty. Any significant changes in customers' redemption patterns will impact the estimated redemption rate. As at 31 December 2022, the estimated liability for unredeemed points was €900,000 (2021: €678,000). If the estimated redemption rate used had been higher by 1% than management's estimate, the carrying amount of the estimated liability for unredeemed points as at 31 December 2022 would have been higher by €7,000 (2021: €5,000).

The preparation of financial statements requires management to make judgements, estimates and assumptions that would affect the reported amounts of revenues. Information in relation to these is material if it adds to a reader's understanding of the estimates made and, in particular, the inherent uncertainty embedded into them.

The extract above from Good Group 2022 provides entity-specific information of how the entity has estimated a stand-alone selling price of the loyalty points awarded under the loyalty programme and the carrying amount of the estimated liability for unredeemed points as at the reporting date.

In some circumstances, it could be that the third paragraph of Illustration 3-4 represents an immaterial accounting policy disclosure, when considered together with the more entity-specific disclosure of the same in Illustration 3-5.

Entity-specific practical example 4: Tesco PLC

The extract below, from the accounting policy information, disclosed under the IAS 1 requirements applicable prior to the 2021 amendments, by Tesco PLC, an entity in the retail industry, is an example of an accounting policy disclosure that appears to provide entity-specific information. This information might be useful to the primary users of financial statements as it explains that a portion of the sales price of goods purchased by loyalty programme members, adjusted for breakages based on the expected redemption rates, is allocated to a material right to future discounts and deferred until this material right is redeemed. Furthermore, it also describes where this deferred amount is included in the statement of financial position.

Practical example 4:	Tesco PLC (2022)

Annual Report and Financial Statements 2022 [extract]

Financial statements [extract]

Notes to the Group financial statements [extract]

Note 1 Accounting policies, judgements and estimates [extract]

Revenue [extract]

Clubcard (customer loyalty programme)

Clubcard points issued by Tesco when a customer purchases goods are a separate performance obligation providing a material right to a future discount. The total transaction price (sales price of goods) is allocated to the Clubcard points and the goods sold based on

their relative standalone selling prices, with the Clubcard points standalone price based on the value of the points to the customer, adjusted for expected redemption rates (breakage). The amount allocated to Clubcard points is deferred as a contract liability within trade and other payables. Revenue is recognised as the points are redeemed by the customer.

Entity-specific practical example 5: Accor

In the extract below, Accor, an entity in the hospitality industry, provides information about its loyalty programme, in its revenue accounting policy under the IAS 1 requirements applicable prior to the 2021 amendments, that appears to be entity specific. This information might be useful to the primary users of financial statements as it describes how the loyalty programme fees are assessed and when they are recognised as revenue.

Practical example 5:	Accor (2021)

Consolidated financial statements and notes [extract]

Note 4. Operating activities [extract]

4.2 Revenue [extract]

ACCOUNTING POLICY [extract]

Loyalty program

Accor manages the loyalty program on behalf of the Group's hotels. This service is considered as a single distinct performance obligation, which is satisfied in full when the reward points and other advantages are redeemed for a stay by members or expire. Loyalty program fees invoiced to hotel owners are deferred in an amount that reflects the stand-alone selling price of the future benefit to the member. They are recognized as revenue when the reward points and other advantages are redeemed or when they expire.

The Group acts as an agent for hotel owners to the extent that it does not control the services rendered to members upon redemption. Accordingly, revenue is presented net of the redemption cost paid to the hotel that is providing the service to the member.

3.2.4 Contract balances

Illustration 3-6: Extract from Good Group 2022: Contract balances
Contract assets A contract asset is initially recognised for revenue earned from installation services because the receipt of consideration is conditional on successful completion of the installation. Upon completion of the installation and acceptance by the customer, the amount recognised as contract assets is reclassified to trade receivables. Contract assets are subject to impairment assessment. Refer to accounting policies on impairment of financial assets in section p) Financial instruments – initial recognition and subsequent measurement. **Trade receivables** A receivable is recognised if an amount of consideration that is unconditional is due from the customer (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets in section p) Financial instruments – initial recognition and subsequent measurement. **Contract liabilities** A contract liability is recognised if a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

The "Contract assets" policy disclosure is an example of entity-specific disclosure explaining when, and why, a contract asset is recognised (i.e., when the consideration for the installation services is conditional) under IFRS 15, as well as when the contract asset is reclassified to trade receivables.

The "Trade receivables" and "Contract liabilities" policy disclosures in the extract from Good Group 2022 above provide examples of accounting policy information that could be considered standardised descriptions of the IFRS 15 requirements for these contract balances and could, in some circumstances, be omitted without affecting the users' understanding of the other material information provided in the financial statements (refer to section 2.5 above).

However, entities need to consider whether such standardised information is material as the accounting for contract balances could be complex (refer to section 2.3.5 above), in particular, considering
the interaction between the requirements of IFRS 15 and IFRS 9 *Financial Instruments* when the contract asset is transferred to a trade receivable.

4 Transition and effective date

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023. Earlier application is permitted as long as this fact is disclosed. Since the amendments to the PS provide non-mandatory guidance on the application of the definition of material to accounting policy information, the Board concluded that transition requirements and an effective date for these amendments are not necessary.

4.1 Comparative information

Since the amendments relate to narrative and descriptive information, comparative information would only be required where it is relevant to the understanding of the current period's financial statements.[25] In the Board's view,[26] comparative accounting policy information is unnecessary in most circumstances since:

- If the accounting policy is unchanged from the comparative periods, the disclosure of the current period's accounting policy will likely provide users with all the relevant information to understand the current period's financial statements

  Or

- If the accounting policy has changed from the comparative periods, the IAS 8 disclosures[27] will likely provide any relevant information about the comparative period's accounting policies

25 IAS 1.38.

26 IAS 1.BC76AB.

27 IAS 8.28-29.

Appendix 1 Revenue from contracts with customers accounting policy from Good Group 2022

The extract from the accounting policies of Good Group 2022 below has been included to provide context to the subset of the accounting policy information for revenue extracted and discussed in section 3.

e) Revenue from contracts with customers *IFRS 15.2* *IFRS 15.B34*

The Group is in the business of providing fire prevention and electronic equipment and installation services. Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements, except for the procurement services below, because it typically controls the goods or services before transferring them to the customer.

Commentary

IFRS 15.123 requires an entity to disclose the judgements, and changes in the judgements, made in applying the standard that significantly affect the determination of the amount and timing of revenue from contracts with customers.

The Group included in its accounting policy disclosures those judgements that significantly affect the determination of the amount and timing of its revenue from contracts with customers. Entities will need to apply judgement to ensure the information disclosed is sufficient to meet the disclosure objective.

Sale of fire prevention and electronic equipment

Revenue from sale of fire prevention and electronic equipment is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the equipment at the customer's location. The normal credit term is 30 to 90 days upon delivery. *IFRS 15.31* *IFRS 15.32* *IFRS 15.38*

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g., warranties, customer loyalty points). In determining the transaction price for the sale of fire prevention and electronic equipment, the Group considers the effects of variable consideration, existence of a significant financing component, non-cash consideration, and consideration payable to the customer (if any). *IFRS 15.22* *IFRS 15.48*

(i) Variable consideration

If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. Some contracts for the sale of electronic equipment provide customers with a right to return the goods within a specified period. The Group also provides *IFRS 15.50* retrospective volume rebates to certain customers once the quantity of electronic equipment purchased during the period exceeds the threshold specified in the contract. The rights of return and volume rebates give rise to variable consideration.

- *Rights of return* *IFRS 15.51*

The Group uses the expected value method to estimate the variable consideration given the large number of contracts that have similar characteristics. The Group then applies the requirements on constraining estimates of variable consideration in order to determine the amount of variable consideration that can be included in the transaction price and recognised as revenue. A refund liability is recognised for the goods that are expected to be returned (i.e., the amount not included in the transaction price). A right of return asset (and corresponding adjustment to cost of sales) is also recognised for the right to recover the goods from the customer. *IFRS 15.53* *IFRS 15.55* *IFRS 15.56*

- *Volume rebates* *IFRS 15.51*

The Group applies either the most likely amount method or the expected value method to estimate the variable consideration in the contract. The selected method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the contract. The most likely amount is used for those contracts with a single volume threshold, while the expected value method is used for those with more than one volume threshold. The Group then applies the requirements on constraining estimates of variable consideration in order to determine the amount of variable consideration that can be included in the transaction price and recognised as revenue. A refund liability is recognised for the expected future rebates (i.e., the amount not included in the transaction price). *IFRS 15.53* *IFRS 15.56*

The disclosures of significant estimates and assumptions relating to the estimation of variable consideration for returns and volume rebates are provided in Note 3.

Commentary

The Group recognised refund liabilities for the goods expected to be returned and the expected volume rebates. While the most common form of refund liabilities may be related to sales with a right of return, the refund liability requirements also apply if an entity expects to have to provide retrospective price reductions to a customer.

Entities must assess whether volume rebates are to be accounted for as variable consideration or as customer options to acquire additional goods or services at a discount. Generally, if a volume rebate is applied prospectively, the rebate would be accounted for as a customer option. Entities will need to evaluate whether the volume rebate or discount provides the customer with an option to purchase goods or services in the future at a discount that represents a material right (and is, therefore, accounted for as a performance obligation). However, a volume rebate that is applied retrospectively is accounted for as variable consideration, because the final price of each good or service sold depends upon the customer's total purchases that are subject to the rebate programme.

Entities need to determine whether a refund liability should be characterised as a contract liability based on the specific facts and circumstances of the arrangement. A refund liability will not typically meet the definition of a contract liability. When an entity concludes that a refund liability is not a contract liability, it would present the refund liability separate from any contract liability (or asset) and it would not be subject to the disclosure requirements in IFRS 15.116-118. The Group has determined that its refund liabilities are not contract liabilities.

(ii) Significant financing component

The Group receives advance payments from customers for the sale of customised fire prevention equipment with a manufacturing lead time of two years after signing the contract and receipt of payment. There is a significant financing component for these contracts considering the length of time between the customers' payment and the transfer of the equipment, as well as the prevailing interest rate in the market. As such, the transaction price for these contracts is discounted, using the interest rate implicit in the contract (i.e., the interest rate that discounts the cash selling price of the equipment to the amount paid in advance). This rate is commensurate with the rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. *IFRS 15.60* *IFRS 15.64*

The Group applies the practical expedient for short-term advances received from customers. That is, the promised amount of consideration is not adjusted for the effects of a significant financing component if the period between the transfer of the promised good or service and the payment is one year or less. *IFRS 15.63*

(iii) Non-cash consideration

The Group receives moulds and other tools from certain customers to be used in manufacturing fire prevention equipment to be sold to them. The fair value of such non-cash consideration received from the customer is included in the transaction price and measured when the Group obtains control of the equipment. *IFRS 15.66*

The Group estimates the fair value of the non-cash consideration by reference to its market price. If the fair value cannot be reasonably estimated, the non-cash consideration is measured indirectly by reference to the stand-alone selling price of the fire prevention equipment. *IFRS 15.67*

Commentary

IFRS 15.48 requires that an entity considers the effects of: variable consideration; constraining estimates of variable consideration; the existence of significant financing component in the contract; non-cash consideration; and consideration payable to a customer in determining the transaction price.

The Group did not incur any consideration payable to a customer. Consideration payable to a customer includes cash amounts that an entity pays, or expects to pay, to the customer. The consideration payable to a customer is accounted for as a reduction of the transaction price unless the payment to the customer is in exchange for a distinct good or service that the customer transfers to the entity (IFRS 15.70). Entities need to include this in their accounting policy disclosures if significant.

Warranty obligations

IFRS 15.B28

The Group typically provides warranties for general repairs of defects that existed at the time of sale, as required by law. These assurance-type warranties are accounted for as warranty provisions. Refer to the accounting policy on warranty provisions in section w) Provisions. *IFRS 15.B30*

The Group also provides a warranty beyond fixing defects that existed at the time of sale. These service-type warranties are sold either separately or bundled together with the sale of fire prevention equipment. Contracts for bundled sales of equipment and service-type warranty comprise two performance obligations because the equipment and service-type warranty are both sold on a stand-alone basis and are distinct within the context of the contract. Using the relative stand-alone selling price method, a portion *IFRS 15.B29* *IFRS 15.B32* *IFRS 15.74* *IFRS 15.76* of the transaction price is allocated to the service-type warranty and recognised as a contract liability. Revenue for service-type warranties is recognised over the period in which the service is provided based on the time elapsed.

Commentary

If the customer has the option to purchase the warranty separately or if the warranty provides a service to the customer, beyond fixing defects that existed at the time of sale, IFRS 15.B29 states that the entity is providing a service-type warranty that is a separate performance obligation. Otherwise, it is an assurance-type warranty, which provides the customer with assurance that the product complies with agreed-upon specifications. In some cases, it may be difficult to determine whether a warranty provides a customer with a service in addition to the assurance that the delivered product is as specified in the contract. To help entities make that assessment, IFRS 15.B31-33 provides relevant application guidance.

Loyalty points programme

The Group has a loyalty points programme, *GoodPoints,* which allows customers to accumulate points that can be redeemed for free products. The loyalty points give rise to a separate performance obligation as they provide a material right to the customer.

IFRS 15.B39
IFRS 15.B40
IFRS 15B.42
IFRS 15.74
IFRS 15.76

A portion of the transaction price is allocated to the loyalty points awarded to customers based on relative stand-alone selling price and recognised as a contract liability until the points are redeemed. Revenue is recognised upon redemption of products by the customer.

When estimating the stand-alone selling price of the loyalty points, the Group considers the likelihood that the customer will redeem the points. The Group updates its estimates of the points that will be redeemed on a quarterly basis and any adjustments to the contract liability balance are charged against revenue.

The disclosures of significant estimates and assumptions relating to the estimation of the stand-alone selling price of the loyalty points are provided in Note 3.

Installation services

The Group provides installation services that are either sold separately or bundled together with the sale of equipment to a customer. The installation services do not significantly customise or modify the fire prevention equipment. *IFRS 15.22*

Contracts for bundled sales of equipment and installation services are comprised of two performance obligations because the equipment and installation services are both sold on a stand-alone basis and are distinct within the context of the contract. Accordingly, the Group allocates the transaction price based on the relative stand-alone selling prices of the equipment and installation services.

IFRS 15.74
IFRS 15.76

The Group recognises revenue from installation services over time because the customer simultaneously receives and consumes the benefits provided to them. The Group uses an input method in measuring progress of the installation services because there is a direct relationship between the Group's effort (i.e., based on the labour hours incurred) and the transfer of service to the customer. The Group recognises revenue on the basis of the labour hours expended relative to the total expected labour hours to complete the service.

IFRS 15.39
IFRS 15.41
IFRS 15.B18

Procurement services

The Group has contracts with customers to acquire, on their behalf, special fire prevention equipment produced by foreign suppliers. Under these contracts, the Group provides procurement services (i.e., coordinating the selection of suitable suppliers and managing the ordering and delivery of the imported equipment). The Group does not have control of the equipment before it is being transferred to the customer. The Group is acting as an agent and recognises revenue at the net amount that is retained for these arrangements. Revenue is recognised at a point in time (i.e., upon receipt of the customer of the equipment) because this is when the customer benefits from the Group's procurement services.

Contract balances

IFRS 15.105

Contract assets

A contract asset is initially recognised for revenue earned from installation services because the receipt of consideration is conditional on successful completion of the installation. Upon completion of the installation and acceptance by the customer, the amount recognised as contract assets is reclassified to trade receivables. *IFRS 15.107*

Contract assets are subject to impairment assessment. Refer to accounting policies on impairment of financial assets in section p) Financial instruments – initial recognition and subsequent measurement.

Trade receivables

A receivable is recognised if an amount of consideration that is unconditional is due from the customer (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets in section p) Financial instruments – initial recognition and subsequent measurement. *IFRS 15.108*

Contract liabilities

A contract liability is recognised if a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer). *IFRS 15.106*

Assets and liabilities arising from rights of return

Right of return assets

A right-of-return asset is recognised for the right to recover the goods expected to be returned by customers. The asset is measured at the former carrying amount of the inventory, less any expected costs to recover the goods and any potential decreases in value. The Group updates the measurement of the asset for any revisions to the expected level of returns and any additional decreases in the value of the returned products. *IFRS 15.B21(c) IFRS 15.B25*

Refund liabilities

A refund liability is recognised for the obligation to refund some or all of the consideration received (or receivable) from a customer. The Group's refund liabilities arise from customers' right of return and volume rebates. The liability is measured at the *IFRS 15.B21(b) IFRS 15.B24* amount the Group ultimately expects it will have to return to the customer. The Group updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period.

Cost to obtain a contract

IFRS 15.8

IFRS 15.91
IFRS 15.94

The Group pays sales commission to its employees for each contract that they obtain for bundled sales of equipment and installation services. The Group applies the optional practical expedient to immediately expense costs to obtain a contract if the amortisation period of the asset that would have been recognised is one year or less. As such, sales commissions are immediately recognised as an expense and included as part of employee benefits.

Commentary

IFRS 15 requires incremental costs of obtaining a contract and certain costs to fulfil a contract to be recognised as an asset if certain criteria are met. Any capitalised contract costs assets must be amortised on a systematic basis that is consistent with the entity's transfer of the related goods or services to the customer. The Group does not incur any costs to obtain a contract and costs to fulfil a contract that are eligible for capitalisation.

Entities with costs to obtain a contract and costs to fulfil a contract recognised as an asset will need to consider the requirement in IFRS 15.128 to separately disclose the closing balances and the amount of amortisation and impairment losses recognised during the period.

Considering the nature of costs to obtain a contract and the lack of guidance in IFRS, an entity may present these costs in the statement of financial position as either a separate class of asset similar in nature to work in progress or 'inventory', (with the amortisation within cost of goods sold, changes in contract costs or similar), or a separate class of intangible asset (with the amortisation in the same line item as amortisation of intangible assets within the scope of IAS 38 *Intangible Assets*). The presentation as a separate class of intangible assets would only be appropriate if the asset capitalised is similar in nature to an intangible asset.

An entity will need to consider the requirements in IAS 7 (e.g., IAS 7.16(a)), when determining the classification of cash flows arising from costs to obtain a contract, i.e., either as cash flow from operating activities or investing activities.

In contrast, the nature of costs to fulfil a contract is such that they directly impact the entity's performance under the contract. Therefore, costs to fulfil a contract should be presented as a separate class of asset in the statement of financial position and its amortisation within cost of goods sold, changes in contract costs or similar.

Regardless whether costs to fulfil a contract meet the criteria for capitalisation in IFRS 15.95 or are expensed as incurred, the presentation of such costs in the statement of profit or loss and the presentation of related cash flows in the statement of cash flows needs to be consistent (i.e., operating).

Capitalised contract costs are subject to an impairment assessment at the end of each reporting period. Impairment losses are recognised in profit or loss, but the standard is silent on where to present such amounts within the primary financial statements. It would be appropriate for the presentation of any impairment losses to be consistent with the presentation of the amortisation expense.

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