



asian-oceanian
standard-setters group

THE 15th ANNUAL AOSSG MEETING

Joining hands in regional cooperation and the development of IFRS
November 21-22, 2023, in Brisbane, Australia.

Request for Information on PIR of IFRS 15

Jiseong, Yu

Technical Manager of KASB

2023.11.21

CONTENTS

Request for Information
on PIR of IFRS 15



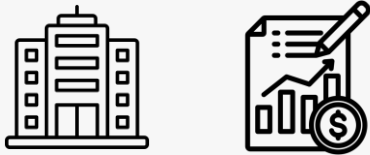
01 Overall Assessment of IFRS 15 in Korea

02 Identified Issues of IFRS 15 in Korea

03 Stakeholders' Feedback on RFI
(PIR of IFRS 15) in Korea

Generally working well in practice, but some application challenges exist

1 Preparers & Accounting Firms



- IFRS 15 works well in practice as the IASB intended
- The five-step revenue recognition model is well-structured and does not have any fatal flaws
- Additional clarification and illustrative examples are needed for some application issues

2 Investor Outreach



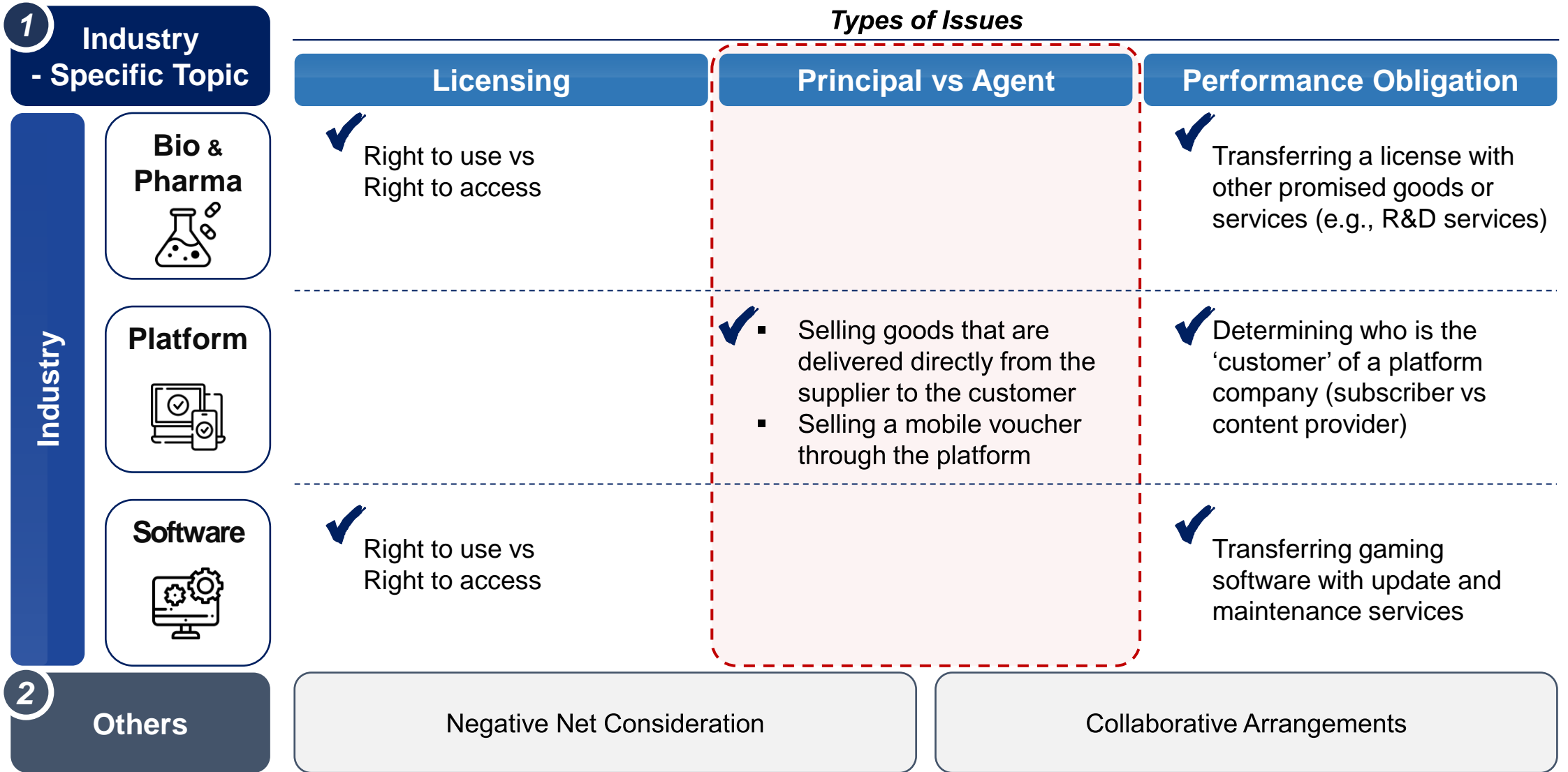
- The consistent application of a revenue recognition approach enhanced the comparability of financial reports across different countries and industries
- Greater disclosure of disaggregated information enhanced users' understandability of companies' performances

3 Academic Research



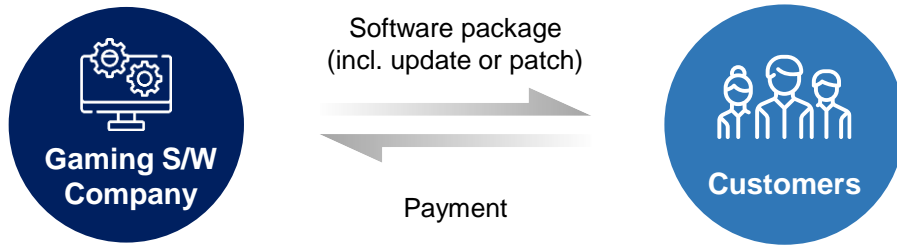
- IFRS 15 enhances usefulness of sales information
 - Level of abnormal sales decreased
 - Value relevance of sales information on stock prices increased

Identified Issues of IFRS 15 in Korea



Q1. Identifying performance obligations in a contract

1 Gaming Software Company



- Diversity exists, in practice, in the case of determining whether the transfer of a software package, that includes gaming software and an update or a patch, is a single performance obligation or separate performance obligations

2 Platform Company



- Different views exist on who should be considered customers when platform companies transfer goods or services that have been provided by suppliers
(Contents providers versus the end-customers)

Q2. Determining the transaction price

1

Negative Net Consideration

- Different views exist on how to account for the amount payable to customers when the payable exceeds the amount that is expected to be received from them

- (View 1)

Subtract from total revenue (consideration payable to customer)

- (View 2)

Subtract from the relevant revenue, and if no relevant revenue exists, the amount should be accounted as an expense

2

Constraining Estimates of Variable Consideration

- Diversity exists, in practice, regarding the application of the estimation method
- Additional guidance is needed in relation to the term *'to the extent that is highly probable that a significant reversal in the amount of cumulative revenue recognized'* (see paragraph 56 of IFRS 15)

Q3. Determining when to recognize revenue

Different views exist on whether the control of raw materials should be transferred to the third party when they are sold



Should the control of raw materials be transferred to the outsourcing companies?

Companies are facing difficulties in determining when control of raw materials should be transferred in relation to outsourcing contracts.

Business Snapshot



(A) Manufacturers (ordering companies)

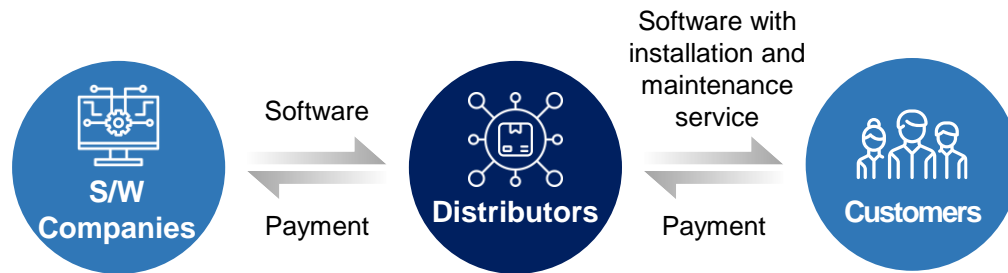
- Not exposed to the 'risks and benefits' of raw materials after selling the raw materials to outsourcing companies

(B) Outsourcing Companies (third party)

- Have discretion to dispose of the raw materials and are responsible for their management (incl. obsolescence) under a contract with manufacturers
- Do not have the ability to make other products from the raw materials and there is no market for those materials

Q4. Principal versus agent considerations

1 Software Distributors



- Differing views exist on whether software distributors should be considered the 'principal' for the above transaction. Indicators in paragraph 37 of IFRS 15 point to different conclusions

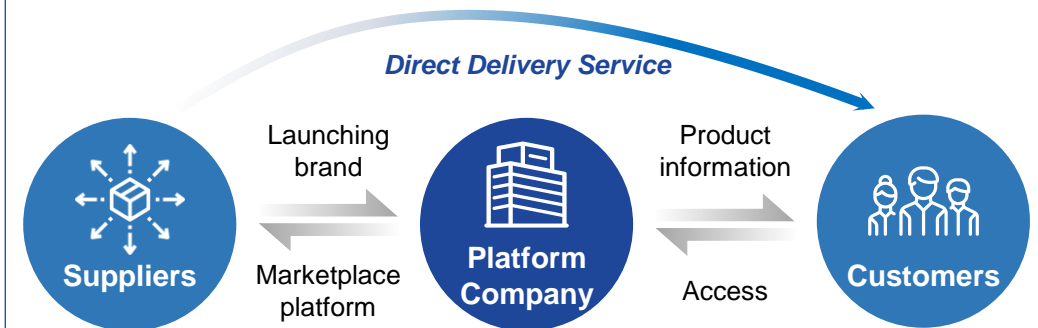
(A) S/W Companies

- Exposed to inventory risks before the specified goods are transferred to customers
- Have discretion in establishing the price for the specified goods

(B) Distributors

- Have primary responsibility for fulfilling the promise to provide the specified goods and services

2 Platform Company



- Difficulties arise in judging whether the platform company (e.g., online e-commerce marketplace) is the principal or the agent when goods are delivered directly from the suppliers to the end customers

Q5. Licensing

01

Determining whether Contracts are Considered Licensing Agreements

- In some cases, questions arise as to whether contracts can be considered licensing agreements.
- *Illustrative Example*
Transferring the exclusive right to sell in a particular territory including a performance obligation to supply the medicine, but not the technology related to the medicine

02

Right to Use vs Right to Access

- Difficulties in distinguishing the nature of licensing exist
- Additional guidance on transferring IP with an update or an assistance service is required

03

Identifying Performance Obligations

- Difficulties in determining whether granting a license for a medicine and transferring other promised goods or services are separate performance obligations
- *Illustrative Example*
Company A grants Company B a license for a certain medicine and performs a service by carrying out the third phase of a clinical trial for that medicine

Q6. Applying IFRS 15 with other IFRS Accounting Standards

1 IFRS 9 'Financial Instruments'

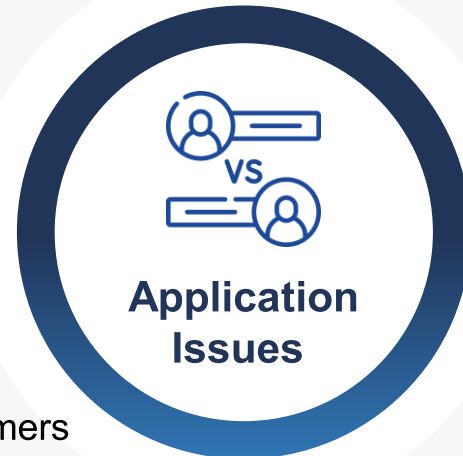
- Contract liabilities under IFRS 15 versus Financial liabilities under IFRS 9
- Contract modifications under IFRS 15 versus IFRS 9

IFRS 16 'Leases' 2

- Accounting for subsequent changes regarding finance lease receivables held by lessors who are manufactures or sellers
 - Adjustment under IFRS 15 versus IFRS 16

3 IAS 2 'Inventories'

- Accounting for seller's discounts towards customers
 - Transaction price under IFRS 15 versus Inventory cost under IAS 2



Collaborative Arrangement 4

- Challenges arise regarding which accounting standard should be applied if a contract is considered a collaborative arrangement
- Detailed judgement guidelines on collaborative arrangement should be provided

Q7. Convergence with Topic 606

Overall Feedback

- Convergence with Topic 606 is considered to be one of the key issues among stakeholders in Korea
- Some user needs have been identified for introducing specific guidance in US GAAP to clarify the application of IFRS

Illustrative



Thank you

