

May 6, 2019

Ms. Sue Lloyd, Chair
International Financial Reporting Standards Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Ms. Lloyd,

Tentative Agenda Decision—Costs to Fulfil a Contract (IFRS 15)

The Financial Accounting Issues Task Force of the Taiwan Financial Reporting Standards Committee (TFRSC) of Accounting Research and Development Foundation in Taiwan appreciates the opportunity to respond to the above tentative agenda decision.

The attachments (Attachment 1) are our comments to this tentative agenda decision. The comments are those of the Financial Accounting Issues Task Force and do not necessarily represent official opinions of the TFRSC.

If you have any question about our comments, please contact me (via my email: ccliu@management.ntu.edu.tw) or Ms. Margaret Tsui (via her email: margaret@ardf.org.tw).

Sincerely Yours,



Chi-Chun Liu, Ph.D.

Chairman,

Taiwan Financial Reporting Standards Committee,

Accounting Research and Development Foundation, Taiwan

Attachment 1

Comments from ARDF Taiwan on Tentative Agenda Decision—Costs to Fulfil a Contract (IFRS 15)

Tentative Agenda Decision—Costs to Fulfil a Contract (IFRS 15)

Tentative Agenda Decision

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

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

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

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

Attachment 1

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The Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity to determine how to recognise costs incurred in fulfilling a contract in the fact pattern described in the request. Consequently, the Committee [decided] not to add this matter to its standard-setting agenda.

Response to the above Tentative Agenda Decision:

We agree with the conclusion that the costs to fulfil a contract in the fact pattern described in the request meet the criteria in paragraph 98(c) of IFRS 15, and therefore should be recognised as expenses. We also agree with that the principles and requirements in IFRS15 provide an adequate basis for an entity to determine the recognition of those costs. However, the reason why those costs do not meet the criteria in paragraph 95 of IFRS 15 to be recognised as an asset is not mentioned in the tentative agenda decision. In our opinion, clarify why those costs do not meet the criteria in paragraph 95 of IFRS 15 would be quite helpful for an entity to do such determinations.

Therefore, we suggest the Committee add the explanation described in paragraph 9 of the Agenda Paper 2 for the IFRS Interpretations Committee meeting held in March 2019, which explains the reasons for concluding that those costs do not meet the criteria in paragraph 95(b) of IFRS15. We believe that it would provide clarity in this respect.