Training Costs to Fulfil a Contract (IFRS 15 Revenue from Contracts with Customers)—March 2020

The Committee received a request about training costs incurred to fulfil a contract with a customer. In the fact pattern described in the request:

a. an entity enters into a contract with a customer that is within the scope of IFRS 15. The contract is for the supply of outsourced services.
b. to be able to provide the services to the customer, the entity incurs costs to train its employees so that they understand the customer’s equipment and processes. The training costs are as described in paragraph 15 of IAS 38 Intangible Assets—the entity has insufficient control over the expected future economic benefits arising from the training to meet the definition of an intangible asset because employees can leave the entity’s employment. Applying IFRS 15, the entity does not identify the training activities as a performance obligation.
c. the contract permits the entity to charge to the customer the costs of training (i) the entity’s employees at the beginning of the contract, and (ii) new employees that the entity hires as a result of any expansion of the customer’s operations.

The request asked whether the entity recognises the training costs as an asset or an expense when incurred.

Which IFRS Standard applies to the training costs?
Paragraph 95 of IFRS 15 requires an entity to recognise an asset from the costs incurred to fulfil a contract with a customer if the costs are not within the scope of another IFRS Standard, and only if those costs meet all three criteria specified in paragraph 95. Consequently, before assessing the criteria in paragraph 95, the entity first considers whether the training costs incurred to fulfil the contract are within the scope of another IFRS Standard.

Paragraphs 2–7 of IAS 38 describe the scope of that Standard—paragraph 5 explicitly includes expenditure on training within IAS 38’s scope, stating that IAS 38 ‘applies to, among other things, expenditure on advertising, training, start-up, research and development activities’. Accordingly, the Committee concluded that, in the fact pattern described in the request, the entity applies IAS 38 in accounting for the training costs incurred to fulfil the contract with the customer.

Application of IAS 38
Paragraph 69(b) of IAS 38 includes expenditure on training activities as an example of expenditure that is incurred ‘to provide future economic benefits to an entity, but no intangible asset or other asset is acquired or created that can be recognised’. Consequently, paragraph 69 states that such expenditure on training activities is recognised as an expense when incurred. Paragraph 15 of IAS 38 explains that ‘an entity usually has insufficient control over the expected future economic benefits arising from a team of skilled staff and from training for these items to meet the definition of an intangible asset’.

In addition, in explaining the requirements in IFRS 15 regarding costs to fulfil a contract, paragraph BC307 of IFRS 15 states that ‘if the other Standards preclude the recognition of any asset arising from a particular cost, an asset cannot then be recognised under IFRS 15’.

Accordingly, the Committee concluded that, in the fact pattern described in the request, the entity recognises the training costs to fulfil the contract with the customer as an expense when incurred. The Committee noted that the entity’s ability to charge to the customer the costs of training does not affect that conclusion.

The Committee concluded that the principles and requirements in IFRS 15 and IAS 38 provide an adequate basis for an entity to determine its accounting for training costs incurred to fulfil a contract with a customer. Consequently, the Committee decided not to add the matter to its standard-setting agenda.