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TOP:	08 – IASB/FASB DP Revenue Recognition
Thema:	Diskussion des IASB DP RR
Papier:	08b_RR_Präsentation

BACKGROUND

IASB/FASB Project *Revenue Recognition*

- IASB/FASB address the issue of revenue recognition **starting from the Framework definition of income.**

- That is: **"Income is measurable changes in assets and liabilities" (= Assets and Liabilities Approach).**

- Original idea: this approach shall **not be overridden by notions of realisation and completion of the earnings process**.

Revenue (proposed approach):

Revenue shall reflect measurable changes in net assets under contracts with customers

= Contractual Asset ./. Contractual Liability

= Expected consideration ./. Performance obligation

Resulting questions:

- Does signing of a contract lead to (measurable) changes in net assets?
- Recognition of selling revenue?
- Measurement of performance obligations?

Revenue = Expected Consideration ./. Performance Obligation

Measurement of performance obligation: **legal layoff amount**

Remeasurement: yes

Recognition:

IASB (2005)

- Selling revenue at contract inception
- Changes of value (re-measurement)
- At extinguishment of performance obligation

Information:

- Profitability of separate parts of a contract
- Efficiency of entity in comparison with market

Revenue = Expected Consideration ./. Performance Obligation

Measurement of performance obligation: **customer consideration amount**

Remeasurement: no

Recognition:

IASB (proposed)

- No selling revenue at contract inception
- No changes of value (re-measurement)
- At extinguishment of performance obligations

Information:

- Profitability of contract

THE DISCUSSION PAPER

Scope

Scope

- Proposed model would apply to contracts with customers

Contract

- Agreement between two or more parties that creates enforceable obligations
- Does not need to be in writing

Customer

- Party that has contracted with an entity to obtain an asset (such as a good or a service) that represents an output of the entity's ordinary activities

Possible scope exclusions

No particular type of contract excluded, yet, but **exclusion discussed for**:

- **Financial instruments** and some non-financial instrument contracts that otherwise would be in the scope of standards such as IAS 39 *Financial Instruments: Recognition and Measurement* and SFAS 133 *Accounting for Derivative Instruments and Hedging Activities.*
- **Insurance contracts** that are in the scope of IFRS 4 *Insurance Contracts* and SFAS 60 *Accounting and Reporting by Insurance Enterprises* (and other related US GAAP).
- **Leasing contracts** that are in the scope of IAS 17 *Leases* and SFAS 13 *Accounting for Leases* (and other related US GAAP).

Future deliberations regarding scope

- **Implications** of the proposed model **for entities that recognise revenue or gains in the absence of a contract** (as is the case for entities which recognise revenue or gains from increases in inventory before obtaining a contract with a customer (in accordance with IAS 41 *Agriculture* and AICPA SOP 85-3 *Accounting by Agricultural Producers and Agricultural Cooperatives*).

- The boards plan to consider whether any **contracts** with customers should be **excluded** from the proposed model **after reviewing comments** on this discussion Paper.

Recognition

Contract based revenue recognition principle

- **Revenue** should be recognised on the basis of **increases in an entity's net position** in a contract with a customer.
- When an entity becomes a party to a contract with a customer, the **combination of the rights and the obligations** in that contract gives rise to a **net contract position**.
- Whether that net **contract position** is a contract asset, a contract liability or a net nil position **depends on** the **measurement of the remaining rights and obligations** in the contract.
- In the proposed model, **revenue** is **recognised** when a **contract asset increases** or a **contract liability decreases** (or some combination of the two).
- That occurs when an entity **performs by satisfying an obligation** in the contract.

Identification of a performance obligation

- **Performance obligation**: promise in a contract with a customer to transfer an asset (such as a good or a service) to that customer.
- A contractual promise can be **explicit or implicit**.
- The promise to provide a **good** is a promise to **transfer an asset** to the customer.
- A promise to provide a **service** is similarly a promise to **transfer an asset**, even though the customer may consume that asset immediately.

Identification of performance obligations:

Multiple element arrangements

- Performance obligations are accounted for separately if the promised assets (goods or services) are **transferred** to the customer **at different times**.

- Performance obligations are separated to ensure that an entity's **revenue faithfully represents the pattern of the transfer of assets** to the customer over the life of the contract.

Satisfaction of performance obligations

General Principle

- **Revenue is recognised on satisfaction of a performance obligation.**
- A performance obligation is satisfied when the entity **transfers** a **promised asset** to the customer.
- An entity has transferred that promised asset when the **customer obtains control** of it.

Satisfaction of performance obligations:

Sale of goods

- A performance obligation is satisfied when the **customer obtains control** of the goods so that the goods are the *customer's* assets.

- Typically, that occurs when the customer takes **physical possession** of the goods.

Satisfaction of performance obligations:

Services

- A performance obligation is satisfied when the **service is the customer’s asset**.
- That occurs when the customer has **received the promised service**.
- In some cases, that service **enhances an existing asset** of the customer.
- In other cases, that service is **consumed immediately** and would not be recognised as an asset.

Satisfaction of performance obligations:

Construction contracts

- **Activities** that an entity undertakes in fulfilling a contract result in **revenue** recognition only if they **simultaneously transfer assets to the customer**.
- In a contract to construct an asset for a customer, an entity satisfies a performance obligation during construction only if **assets** are **transferred to the customer throughout the construction process**.
- That would be the case if the **customer controls the partially constructed asset** so that it is the customer's asset as it is being constructed.

Measurement

Measurement

Objective of measuring performance obligations

- To recognise a contract, an entity **measures its rights and its performance obligations** in the contract.
- The boards have **not yet expressed a preliminary view** on how an entity would measure the rights.
- However, measurement of the rights would be **based on the amount of the transaction price** (ie the promised consideration).

Measurement

Initial measurement of performance obligations

- The boards propose that performance obligations initially should **be measured at the transaction price** – the customer's promised consideration.

- If a contract comprises **more than one performance obligation**, an entity would **allocate the transaction price** to the performance obligations on the basis of the relative stand-alone selling prices of the goods and services underlying those performance obligations.

Measurement

Subsequent measurement of performance obligations

- Subsequent measurement of the performance obligations should depict the **decrease in the entity's obligation to transfer goods and services** to the customer.
- When a performance obligation is satisfied, the **amount of revenue recognised is the amount of the transaction price** that was allocated to the satisfied performance obligation at contract inception.
- Consequently, the **total amount of revenue** that an entity recognises over the life of the contract is **equal to the transaction price**.

Measurement

Remeasurement of performance obligations

- The boards propose that after contract inception, the **measurement of a performance obligation should not be updated** unless that performance obligation is deemed onerous.
- A performance obligation is **deemed onerous** when an entity's **expected cost** of satisfying the performance obligation **exceeds the carrying amount** of that performance obligation.
- In that case, the performance obligation is **remeasured to the entity's expected cost** of satisfying the performance obligation and the entity would **recognise a contract loss**.

Potential effects on present practice

Use of a contract-based revenue recognition principle

- Revenue is recognised if an increase in a net position occurs in a contract with a customer as a result of satisfying a performance obligation.

- **Increases in other assets** such as cash, inventory in the absence of a contract with a customer, and inventory under a contract with a customer (but not yet transferred to the customer) would **not trigger revenue recognition**.

- For instance, entities that at present recognise **revenue for construction-type contracts** would recognise revenue during construction only if the customer controls the item as it is constructed.

Identification of performance obligations

- In **present practice**, entities sometimes account for similar contractual promises differently.

- For example, some **warranties** and other **post-delivery services** are accounted for as **cost accruals** rather than as ‘deliverables’ in or ‘components’ of a contract.

- In the proposed model, entities would **account for those obligations as performance obligations** and would **recognise revenue as they are satisfied**.

Use of estimates

- Some **existing standards limit the use of estimates** more than the boards' proposed model would.

- For example, entities sometimes do not recognise revenue for a **delivered item** if there is **no objective and reliable evidence of the selling price** of the undelivered items (eg EITF Issue No. 00-21 *Revenue Arrangements with Multiple Deliverables* and AICPA SOP 97-2 *Software Revenue Recognition).*

- In contrast, in the proposed model, entities would **estimate the stand-alone selling prices** of the undelivered goods and services and recognise revenue when goods and services are delivered to the customer.

Capitalisation of costs

- At present, entities sometimes capitalise the **costs of obtaining contracts**.
- In the proposed model, costs are **capitalised only** if they **qualify for capitalisation** in accordance with other standards.
- For example, **commissions paid to a salesperson** for obtaining a contract with a customer **typically do not create an asset** qualifying for recognition in accordance with other standards.
- As a result, an entity would **recognise** such costs **as expenses** as incurred, which may not be in the same period in which revenue is recognised.

Examples

ToolCo – Case I

ToolCo sells power tools. To encourage customers to make purchases, ToolCo allows them to return the tools within 30 days of purchase and to receive a full refund of the purchase price.

- customer controls the tool at the point of delivery
- tool is the customer’s asset and ToolCo no longer has enforceable rights to it
- customer bears some risks of owning the tool, such as the risk of loss or theft
- ToolCo bears other risks, such as the risk that the tool will be returned

→ Nevertheless, asset transferred to the customer

→ Revenue to be recognised upon delivery regardless of the possible return

ToolCo – Case II

ToolCo sells power tools. To encourage customers to make purchases, ToolCo allows them to use the tools on a trial basis for 30 days. ToolCo can take possession of a tool at any time during the trial period and is entitled to full payment if the tool is not returned within 30 days.

- ➢ tool is ToolCo's asset until the expiry of the 30-day trial period (enforceable right)
- ➢ not likelihood of return that determines which entity has the asset
- ➢ decision rather based on which entity controls the tool

→ Tool not transferred

→ No revenue to be recognized

Note: judgement could vary among jurisdictions

Discussion of proposed model against PAAinE DP on RR

Assets/Liabilities-Approach

= revenue is measurable changes in assets and liabilities

Critical events approach
(similar to IAS 18)

revenue = arises when the supplier fulfils the performance obligations arising under a contract

Continuous approach
(similar to IAS 11)

revenue = measured progress towards contract completion (percentage of completion)

Approach I_A

fulfils all performance obligations

Approach I_B

fulfils all performance obligations under a part-contract (part-contract as defined by contract)

Approach I_C

substantively fulfils performance obligations of part-contract (part-contract as defined by economic measures)

Approach II

recognised continuously over the course of contract, as the contract progresses and the entity perfoms

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