155. DSR-Sitzung am 05.04.2011

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International Financial Reporting Standards

Revenue from Contracts with Customers

Update March 2011

The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation.

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Agenda

- Summary of the exposure draft
- Feedback on the exposure draft
- Developments since the exposure draft
- Project timeline

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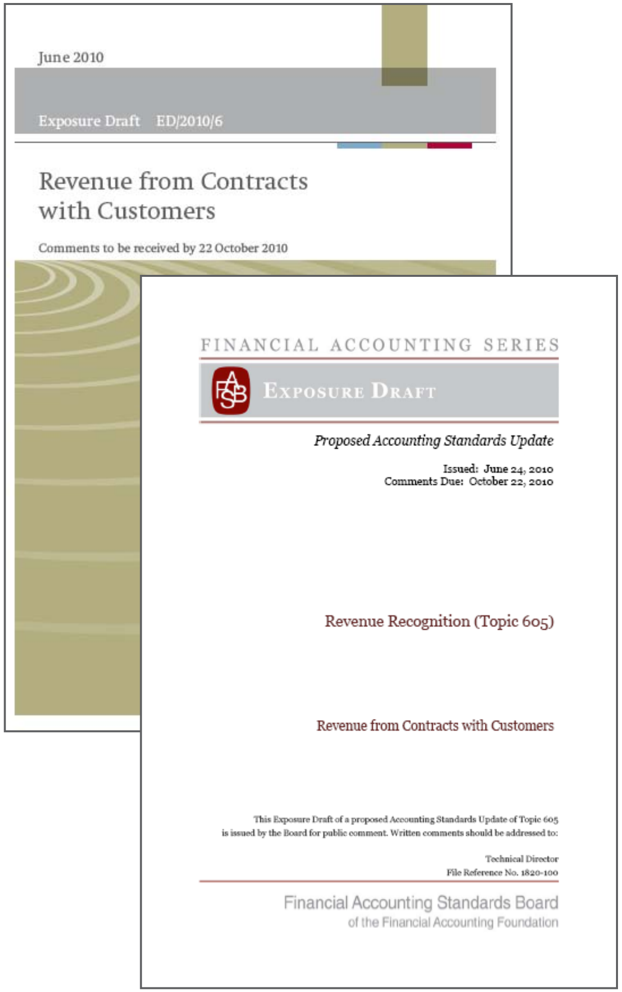
The exposure draft



- Converged proposal with unanimous support of both the IASB and the FASB
- Improves financial reporting:
  - Single model based on clear principles
  - Robust framework for addressing revenue issues
  - Comparability across industries and markets
  - Enhanced disclosure requirements

ED - Summary of the revenue proposals

Core principle:

Recognise revenue to depict the *transfer* of goods or services in an amount that reflects the consideration expected to be received in exchange for those goods or services

Steps to apply the core principle:

1. Identify the contract(s) with the customer
2. Identify the separate performance obligations
3. Determine the transaction price
4. Allocate the transaction price
5. Recognise revenue when a performance obligation is satisfied

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Feedback on the exposure draft

- Comment letter period ended 22 October, 2010
- Good level of responses
- Overall support for project objective: to create a single, joint revenue standard for use across various industries and capital markets

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Re-deliberated proposals

Proposal	Comments
Recognise revenue when a good or service transfers to the customer	Transfer based on control works well for goods, but not services. Key question for service contracts - when is transfer continuous?
Identify separate performance obligations if goods and services distinct	Clarify ‘distinct’. Concerns that a large number of separate of performance obligations will be identified.
Contracts are combined if independently priced; contract modifications are accounted for as new contracts if independently priced	Contracts will be combined too frequently. The cumulative catch-up in accounting for modifications will apply too frequently.

Re-deliberated proposals

Proposal	Comments
Separate segments within a contract based on standalone selling price	Two step approach to segmentation is complicated and unnecessary
Contract acquisition costs should be recognised as an expense as incurred	Acquisition costs should not always be expensed
Distinguish two warranties, both defer revenue based on a selling price	'Statutory' warranties should be cost accruals
The onerous test should be performed at the level of each performance obligation	Onerous contract test should be at contract level

Further feedback

Proposals	Comments
Estimate uncertain consideration at probability weighted amount	Probability weighted is not useful or relevant except for portfolio-type transactions. Prefer 'best estimate' for most transactions.
The transaction price includes the effects of the time value of money and collectibility	Measurement is too complicated
Allocate transaction price on stand alone selling price	Many agreed – other suggestions based on margin; residual method; allow for judgement
Licences based on exclusivity	'Exclusivity' is not right concept for licences
Disclosure objective and detailed requirements	Disclosure is burdensome on preparers; cost benefits?

Separate performance obligations

Key proposal ED: distinct goods or services

- performance obligation is a promise to transfer a *distinct* good or service to the customer
- a good or service is distinct if it:
  - is sold separately, or
  - has a distinct function and a distinct profit margin

Separate performance obligations

Key proposal still distinct goods or services

- One performance obligation if a bundle of highly inter-related goods and services and the contract includes significant integration of those goods & services into the item for which customer has contracted
- Otherwise separate performance obligations if:
  - the good or service is distinct and
  - pattern of transfer of the good or service is different from that of other goods or services in the contract

Recognise revenue

Key proposal ED: transfer based on control

- recognise revenue when a performance obligation is satisfied by transferring a good or service to customer
- transferred when customer obtains control
  - ability to direct the use of and receive the benefit from
- revenue is recognised continuously only if service is transferred continuously ie customer controls WIP

Recognise revenue

Key proposal still transfer to customer

- Transfer of goods based on control
  - carry forward guidance in exposure draft about control
  - add ‘risks and rewards’ as indicator
  - eliminate ‘design or function’ indicator

Recognise revenue

Key proposal still transfer to customer

- Transfer of services is continuous if:
  - entity's performance creates or enhances an asset customer controls or
  - entity's performance does not create an asset with alternative use to the entity and one of:
    - customer receives benefit as entity performs, or
    - task would not need to be re-performed (without the benefit of any inventory transfer), or
    - entity has right to payment

Combining and segmenting contracts

- Segmentation within contracts removed
- Combine two or more contracts that are entered into at the same time with the same customer if one or more criteria met:
  - negotiated as a package with a single commercial objective
  - amount of consideration in one contract depends on the other
  - goods and services in the two contracts are interrelated in terms of design, technology or function

Contract modifications

- If a contract modification results only in the addition of a distinct good or service at a price commensurate with the additional good or service, account for as a separate contract
- Otherwise, re-evaluate the performance obligation and reallocate the transaction price to each separate performance obligation

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Acquisition costs

- ED proposed all acquisition costs recognised as an expense
- Tentative decision – recognise an asset for the incremental costs of obtaining a contract (eg commissions) and recoverable in that contract
- Incremental costs are those costs which are not incurred unless the contract is obtained
- Present the asset separately
- Amortise the asset on a systematic basis consistent with performance of the contract

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Warranties distinguished

- ED distinguished two types of warranty – latent defect and insurance. Both ‘deferred’ revenue.
- Tentative decisions:
  - account for warranty as a separate performance obligation if the customer has the option to purchase the warranty separately
  - account for warranty as a cost accrual if the customer has no option to purchase warranty separately and the assurance given to the customer is only that past performance was as specified in contract

Time value of money

- Adjust transaction price for time value of money if the contract includes a financing component that is significant to the contract
- Significant financing component if:
  – consideration would be substantially different if paid cash at the time of transfer
  – significant timing difference between transfer of goods and services and payment
  – contract contains an implicit or explicit interest rate

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Collectibility

- An entity should not reflect customer's credit risk in the measurement of transaction price or revenue
- Recognise an allowance for any expected impairment in contracts with customers
- Corresponding amount in profit and loss presented as a separate line item adjacent to revenue ie contra revenue

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Onerous test

- ED proposed onerous test at level of individual performance obligation
- Tentative decision to test at the level of the remaining performance obligations in the contract
- Costs confirmed as those relating directly to satisfying the remaining performance obligations (as described in the exposure draft)

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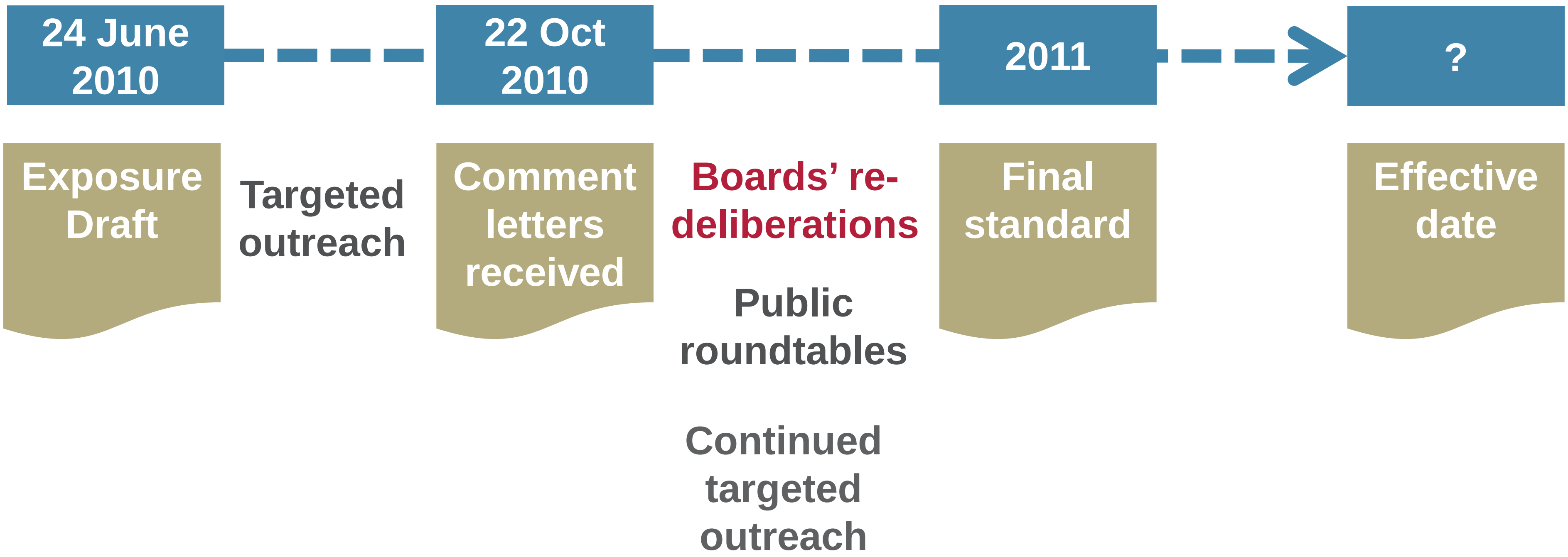
Timeline


24 June 2010
22 Oct 2010
2011
?
Exposure Draft
Targeted outreach
Comment letters received
Boards' re-deliberations
Public roundtables
Continued targeted outreach
Final standard
Effective date

Where to get more information

Find out more at:
http://go.iasb.org/revenue+recognition

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Expressions of individual views by members of the IASB and its staff are encouraged.
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and deliberation.