ED/2011/6
Revenue from Contracts with Customers

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Public Discussion

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2. The core principle of revenue recognition
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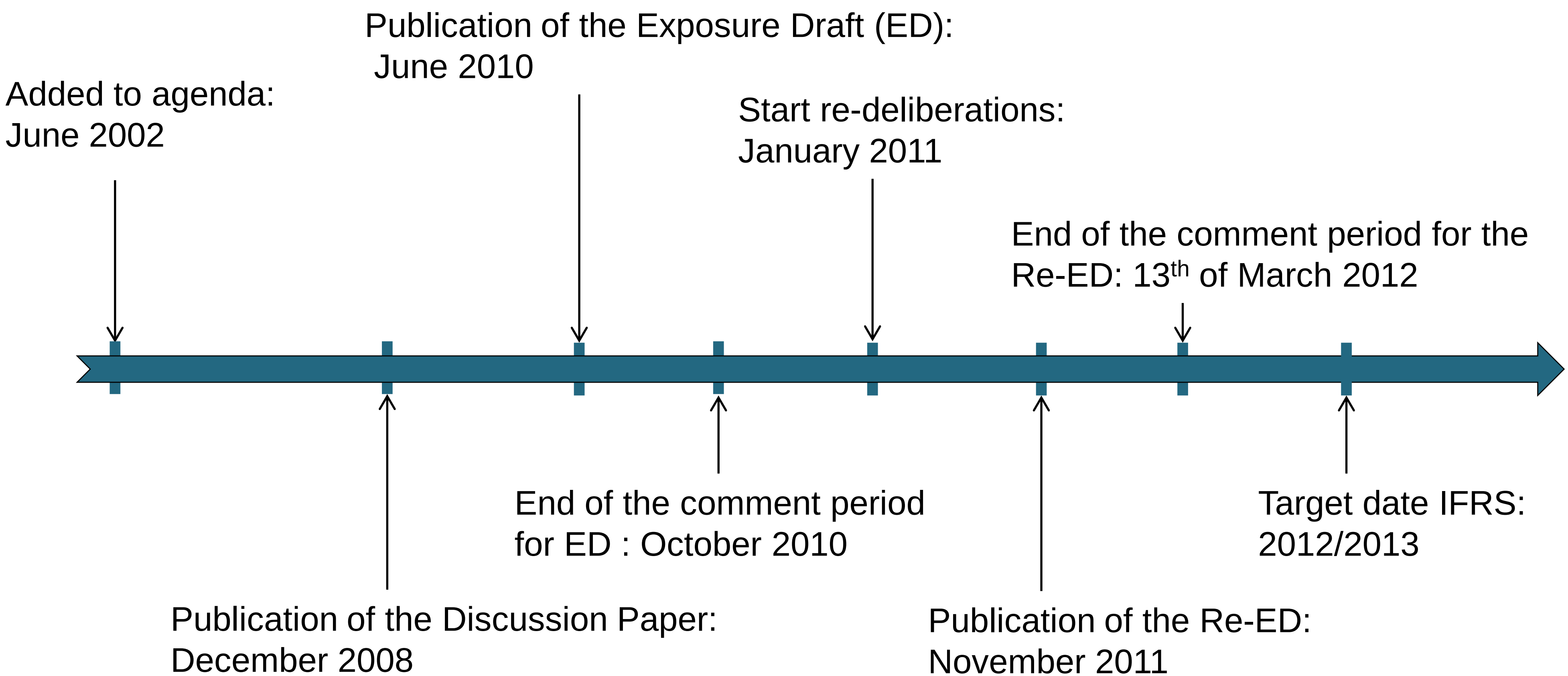
4. Presentation and disclosure
5. Amendments to other IFRSs
6. Effective date and transition method

1. Project background and scope (1/3)



1. Project background and scope (2/3)

	Excluded	Included
Contracts with customers	Lease contracts	All other contracts with customers Including unbundled services from lease and insurance contracts
	Insurance contracts	
	Financial instruments	

1. Project background and scope (3/3)

Tentative opinion of the IFRS Committee:

Paragraph 10 of the ED requires that the proposal does not apply to a contract with a collaborator or a partner. Differentiating between whether a counterparty in a contract is a customer or a collaborator can be difficult and additionally the accounting treatment is different in both cases.

Therefore: A need for definition and criteria for the distinction between the terms: 'customer' and 'collaborator'.

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2. The core principle of revenue recognition

Core principle:

Revenue is recognised when the control of goods or services is transferred to the customer

5 steps for implementing the core principle:

1. Identifying the contract(s) with the customer
2. Identifying the separate performance obligations
3. Determining the transaction price
4. Allocating the transaction price
5. Satisfaction of performance obligations

2.1 Identifying the contract

1. 2. 3. 4. 5.

Proposal IASB (ED 2010):

Proposal IASB (Re-ED 2011):

Segmenting a contract

A single contract should be segmented into two or more contracts, if some goods or services within the contract are independently priced from other goods or services in that contract

The contract segmentation guidance has been removed from the proposed standard

2.2 Identifying separate performance obligations (1/2)

1. 2. 3. 4. 5.

Proposal IASB (ED 2010):

Good or service is **distinct**, if either:

The entity, or another entity, sells an identical or similar good or service separately

or

The entity could sell the good or service separately because the good or service has

– a distinct function and

– a distinct profit margin

2.2 Identifying separate performance obligations (2/2)

1. 2. 3. 4. 5.

Proposal IASB (Re-ED 2011):

Good or service is distinct if:

- The entity regularly sells the good or service separately **or**
- The customer can benefit from the good or service either on its own, or together with other resources that are readily available to the customer

A bundle of goods or services is accounted for as one performance obligation if:

- They are highly interrelated and the entity provides a significant service of integrating goods or services into the combined item **and**
- The bundle of goods or services is significantly modified or customised

2.3 Determining the transaction price (1/4)

1. 2. 3. 4. 5.

Proposal IASB (ED 2010):

Proposal IASB (Re-ED 2011):

1. Variable consideration

Proposal IASB (ED 2010)	Proposal IASB (Re-ED 2011)
Variable consideration of the transaction price is based on the probability-weighted estimate	Variable consideration of the transaction price is based on: – the probability-weighted estimate **or** – the most likely amount depending on which is most predictive of the amount to which the entity is entitled Revenue on variable consideration is only recognised when the entity is 'reasonably assured' to be entitled to it

2.3 Determining the transaction price (2/4)

1. 2. 3. 4. 5.

Proposal IASB (ED 2010):	**Proposal IASB (Re-ED 2011):**
2. Collectibility	
In determining the transaction price, an entity shall reduce the amount of promised consideration to reflect the customer‘s credit risk (net revenue)	The transaction price is presented without adjustment for credit risk (gross revenue); The expected impairment loss on receivables is presented in a separate line item adjacent to the revenue line item
3. Time value of money	
The transaction price reflects the time value of money whenever the contract includes a material financing component	The Re-ED provides factors an entity should consider in making the determination whether the financing component is significant or not

2.3 Determining the transaction price (3/4)

1. 2. 3. 4. 5.

Question Re-ED 2011:

Question 2:
Paragraphs 68 and 69 state that an entity would apply IFRS 9 (or IAS 39, if the entity has not yet adopted IFRS 9) or ASC Topic 310 to account for amounts of promised consideration that the entity assesses to be uncollectible because of a customer's credit risk. The corresponding amounts in profit or loss would be presented as a separate line item adjacent to the revenue line item. Do you agree with those proposals? If not, what alternative do you recommend to account for the effects of a customer's credit risk and why?

2.3 Determining the transaction price (4/4)

1. 2. 3. 4. 5.

Tentative opinion of the IFRS Committee:

– *Disagreement with the proposal to present impairment losses as a separate line item adjacent to the revenue line; instead recommendation to provide this amount in the notes to financial statements*

– *Recommendation that the IASB modify the proposed guidance on impairment in IFRS 9 if its application should be required for measuring impairment losses of trade receivables*

2.4 Allocating the transaction price

1. 2. 3. 4. 5.

Proposal IASB (ED 2010): | **Proposal IASB (Re-ED 2011):**

Allocation of the transaction price to all separate performance obligations is based on the relative stand-alone selling price of the goods or services

Proposal IASB (ED 2010):

Management needs **to estimate** the selling price if a stand-alone selling price is not available.
Possible estimation methods include:
- Expected cost plus reasonable margin
- Assessment of market prices for similar goods or services

An entity **may not use the residual method** to allocate the transaction price

Proposal IASB (Re-ED 2011):

Management needs to estimate the selling price if a stand-alone selling price is not available.
Possible estimation methods include:
- Expected cost plus reasonable margin
- Assessment of market prices for similar goods or services
- **Residual approach, when** there is significant variability or uncertainty in the selling price of a good or service

2.5 Satisfaction of performance obligations (1/7)

1. → 2. → 3. → 4. → 5.

Revenue is recognised when control of the good or service is transferred to the customer = satisfaction of the performance obligation

Proposal IASB (ED 2010):

1. Satisfying performance obligation over time:

- No specific guidance is provided

2. Satisfying performance obligation at a point in time

- The customer has an unconditional obligation to pay
- The customer has legal title
- The customer has physical possession
- The customer has specified the design or function of the good or service

2.5 Satisfaction of performance obligations (2/7)

1. | 2. | 3. | 4. | 5.

Proposal IASB (Re-ED 2011):

1. Satisfying performance obligation over time:

- The entity’s performance creates or enhances an asset that the customer controls **or**
- The entity’s performance does not create an asset with alternative use to the entity and certain other criteria are met

2. Satisfying performance obligation at a point in time

- The customer has an unconditional obligation to pay
- The customer has legal title
- The customer has physical possession
- The customer has the risk and rewards of ownership of the good

2.5 Satisfaction of performance obligations (3/7)

1. 2. 3. 4. 5.

Question Re-ED 2011:

Question 1:
Paragraphs 35 and 36 specify when an entity transfers control of a good or service over time and, hence, when an entity satisfies a performance obligation and recognises revenue over time. Do you agree with that proposal? If not, what alternative do you recommend for determining when a good or service is transferred over time and why?

2.5 Satisfaction of performance obligations (4/7)

1. 2. 3. 4. 5.

Tentative opinion of the IFRS Committee:

General agreement with the proposal to recognise revenue over time, if some performance obligations result in the transfer of goods and services to the customer on a continuous basis. Nonetheless, some clarification is needed:

- Definition and distinction criteria of the terms: 'good' and 'service'

- Accounting treatment of granting a customer rights to use a licence of an intangible assets with an indefinite useful life for specified period of time and with fixed licence fee

- Accounting for a bundle as a single performance obligation, in particular when a warranty, which the customer can purchase separately, is a part of such a bundle

2.5 Satisfaction of performance obligations (5/7)

1. 2. 3. 4. 5.

Constraining the cumulative amount of revenue recognised

Proposal IASB (ED 2010):

The transaction price includes only the amount that the entity can **reasonably estimate**

- No specific guidance is provided

Proposal IASB (Re-ED 2011):

Variable consideration included in the transaction price is recognised as revenue only when the entity is **reasonably assured** to be entitled to that amount

- The entity has experience with similar types of contracts **and**
- The experience is predictive of the outcome of a contract

2.4 Satisfaction of performance obligations (6/7)

1. 2. 3. 4. 5.

Question Re-ED 2011:

Question 3:
Paragraph 81 states that if the amount of consideration to which an entity will be entitled is variable, the cumulative amount of revenue the entity recognises to date should not exceed the amount to which the entity is reasonably assured to be entitled. An entity is reasonably assured to be entitled to the amount allocated to satisfied performance obligations only if the entity has experience with similar performance obligations and that experience is predictive of the amount of consideration to which the entity will be entitled. Paragraph 82 lists indicators of when an entity's experience may not be predictive of the amount of consideration to which the entity will be entitled in exchange for satisfying those performance obligations. Do you agree with the proposed constraint on the amount of revenue that an entity would recognise for satisfied performance obligations? If not, what alternative constraint do you recommend and why?

2.4 Satisfaction of performance obligations (7/7)

1. 2. 3. 4. 5.

Tentative opinion of the IFRS Committee:

General agreement with the proposed requirements regarding a constraint on revenue recognition

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3.1 Licensing and rights to use

Proposal IASB (ED 2010):

Proposal IASB (Re-ED 2011):

Licences and rights to use

Exclusive licences and rights to use:

– an entity recognises revenue over the term of the licence

Non-exclusive licences and rights to use:

– an entity recognises revenue when the customer is able to use and benefit from the licence

The Re-ED eliminates the accounting model for exclusive licences and rights to use:

– an entity recognises revenue at the point in time when the customer obtains control of those rights (i.e. the customer is able to use and benefit from those rights)

3.2 Warranties (1/2)

Proposal IASB (ED 2010):

Quality assurance warranty:

- Provides a customer with coverage for latent defects in the product
- Does not give rise to a separate performance obligation
- No recognition of revenue before the defective product is transferred to the customer

Insurance warranty:

- Provides a customer with coverage beyond defects that existed at the time of the sale
- Gives rise to a separate performance obligation
- The entity must determine the appropriate period of recognition, e.g. continuously over the warranty period.

3.2 Warranties (2/2)

Proposal IASB (Re-ED 2011):

Warranty that the customer has **the option to purchase separately**:

- Gives rise to a separate performance obligation

Warranty that is **not sold separately** and it does not provide a service in addition to a standard warranty:

- Does not give rise to a separate performance obligation

3.3 Onerous performance obligations (1/3)

A performance obligation is onerous if the direct costs to satisfy the obligation exceed the amount of the transaction price allocated to that performance obligation.

	Proposal IASB (ED 2010):	Proposal IASB (Re-ED 2011):
Unit of account for onerous test is:	Separate performance obligation	Separate performance obligation
Application of the test:	All performance obligations	Performance obligations that are satisfied over a period of time greater than one year
Measurement of the liability:	At the present value of the probability-weighted direct costs	At the lowest cost of settlement the performance obligation

3.3 Onerous performance obligations (2/3)

Question Re-ED 2011:

Question 4:
For a performance obligation that an entity satisfies over time and expects at contract inception to satisfy over a period of time greater than one year, paragraph 86 states that an entity should recognise a liability and a corresponding expense if the performance obligation is onerous. Do you agree with the proposed scope of the onerous test? If not, what alternative scope do you recommend and why?

3.3 Onerous performance obligations (3/3)

Tentative opinion of the IFRS Committee:

Disagreement with the proposal:

- that the onerous test should be performed at the performance obligation level

and

- to limit the scope of the onerous test to performance obligations that are satisfied over time

Inhalt

4. Presentation and disclosure: Annual report

Proposal IASB (ED 2010):

Disclosure requirements of following:

- Disaggregation of revenue
- Reconciliation of contract assets and liabilities
- Analysis of remaining performance obligations
- Information on onerous performance obligations
- Information on assets from contract acquisition or fulfilment costs

Proposal IASB (Re-ED 2011):

Disclosure guidance in the original ED would be broadly retained

4. Presentation and disclosure: interim financial report (1/3)

New – Question Re-ED 2011

Question 5:

The boards propose to amend IAS 34 and ASC Topic 270 to specify the disclosures about revenue and contracts with customers that an entity should include in its interim financial reports. The disclosures that would be required (if material) are:

- *The disaggregation of revenue (paragraphs 114 and 115)*
- *A tabular reconciliation of the movements in the aggregate balance of contract assets and contract liabilities for the current reporting period (paragraph 117)*
- *An analysis of the entity's remaining performance obligations (paragraphs 119 - 121)*
- *Information on onerous performance obligations and a tabular reconciliation of the movements in the corresponding onerous liability for the currents reporting period (paragraphs 122 and 123)*

4. Presentation and disclosure: interim financial report (2/3)

New – Question Re-ED 2011 (continued):

Question 5 (continued):

•*A tabular reconciliation of the movements of the assets recognised from the costs to obtain or fulfil a contract with a customer (paragraph 128).*

Do you agree that an entity should be required to provide each of those disclosures in its interim financial reports? In your response, please comment on whether those proposed disclosures achieve an appropriate balance between the benefits to users of having that information and the cost to entities to prepare and audit that information. If you think that the proposed disclosures do not appropriately balance those benefits and costs, please identify the disclosures that an entity should be required to include in its interim financial reports.

4. Presentation and disclosure: interim financial report (3/3)

Tentative opinion of the IFRS Committee:

Disagreement with the proposed disclosure requirements in the interim financial reports, which include most of the disclosures required in the annual financial reports. There should be a clear distinction between requirements for interim and annual reporting.

The appropriate disclosure for interim financial statements should include only the following:

- the disaggregation of revenue and

- information on onerous performance obligations

General disagreement with the proposed disclosure requirements in annual financial reports, which are too excessive

Concerns about the cost-benefit relationship

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5. Amendments to other IFRSs (1/2):

Transfer of non-financial assets

Question Re-ED 2011:

Question 6:

For the transfer of a non-financial asset that is not an output of an entity's ordinary activities (for example, property, plant and equipment within the scope of IAS 16 or IAS 40, or ASC Topic 360), the boards propose amending other standards to require that an entity apply (a) the proposed requirements on control to determine when to derecognise the asset, and (b) the proposed measurement requirements to determine the amount of gain or loss to recognise upon derecognition of the asset. Do you agree that an entity should apply the proposed control and measurement requirements to account for the transfer of non-financial assets that are not an output of an entity's ordinary activities? If not, what alternative do you recommend and why?

5. Amendments to other IFRSs (2/2):

Transfer of non-financial assets

Tentative opinion of the IFRS Committee:

General agreement that the principles included in the proposed standard should be applied to the transfer of a non-financial asset that is not an output of an entity's ordinary activities

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6. Effective date and transition method (1/2)

Transition

Proposal IASB (ED 2010):

Full **retrospective** application:
an entity shall apply the proposed standard retrospectively in accordance with IAS 8

Proposal IASB (Re-ED 2011):

No significant changes compare to original ED

6. Effective date and transition method (2/2)

Tentative opinion of the IFRS Committee:

Disagreement with the full retrospective application of the proposed ED, which can be

- *difficult to apply*
- *in some cases impracticable*

If full retrospective application is required, preparers will need more time, than currently scheduled, to implement the proposed requirements

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