

International Accounting Standards Board

Financial Accounting Standards Board



# Exposure Draft Revenue from Contracts with Customers

This presentation has been prepared by the staff of the IASB and the FASB to help constituents understand the proposals in the Exposure Draft *Revenue from Contracts with Customers*. The views expressed in this presentation are those of the presenters, not necessarily those of the IFRS Foundation, the IASB, the Financial Accounting Foundation, or the FASB. Official positions of the IASB and the FASB are reached only after extensive due process and deliberations.



# Housekeeping items

- Slides can be downloaded by clicking on the button below the slides window
- To ask a question, type into the designated text box on your screen and click “submit”
- Remember to turn off your pop-up blocker
- A recording of the webcast will be available online at [www.ifrs.org](http://www.ifrs.org) and [www.fasb.org](http://www.fasb.org)
- CPE credit is not available for this webcast

# Presenters

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## FASB

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# Agenda

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- Background to the project
- Summary of the proposals
- Project timeline
- Questions and answers

# Why are we doing the project?

- IFRSs and US GAAP are different. Both need improvement:
  - US GAAP: broad concepts and numerous requirements by industry or transaction which can result in inconsistent accounting
  - IFRSs: two main standards; lack of clear guidance on key topics which can make the standards difficult to apply
- Objective: create a single, joint revenue standard for use across various industries and capital markets
  - Would replace IASs 18 & 11 and most existing revenue recognition requirements in US GAAP (ASC Topic 605)

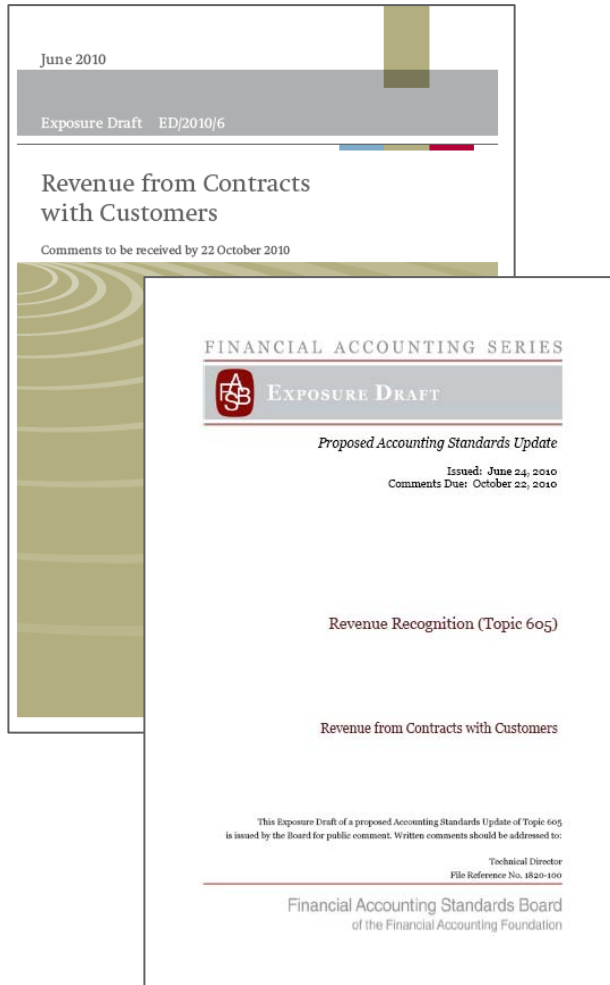
# Improvements to financial reporting

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- Single model based on clear principles
- Robust framework for addressing revenue issues
- Comparability across industries and markets
- Enhanced disclosure requirements
- Clarification of accounting for contract costs

# The exposure draft



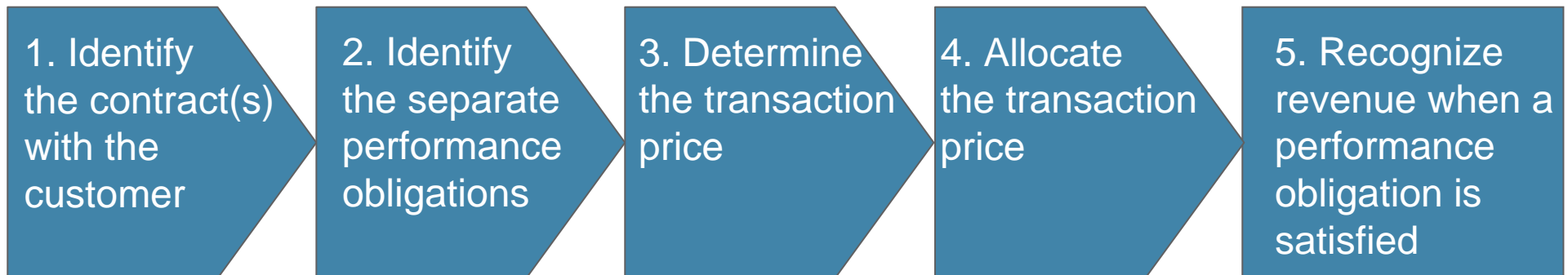
- Converged proposal with unanimous support of both the IASB and the FASB
- Published for public comment on 24 June 2010. Comments due 22 October 2010
- Based on further development of the principles proposed in the December 2008 discussion paper
- Developed using feedback from over 220 comment letters and input from other outreach activities

# Summary of the revenue proposals

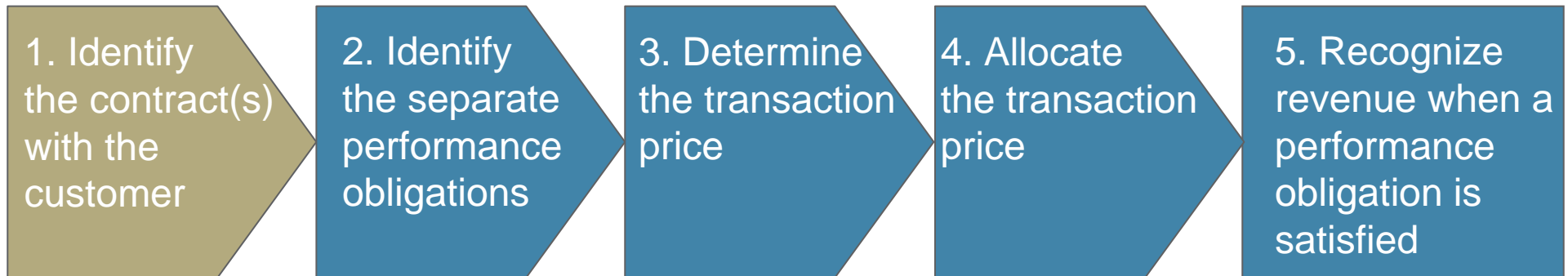
## Core principle:

Recognize 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:



# Step 1

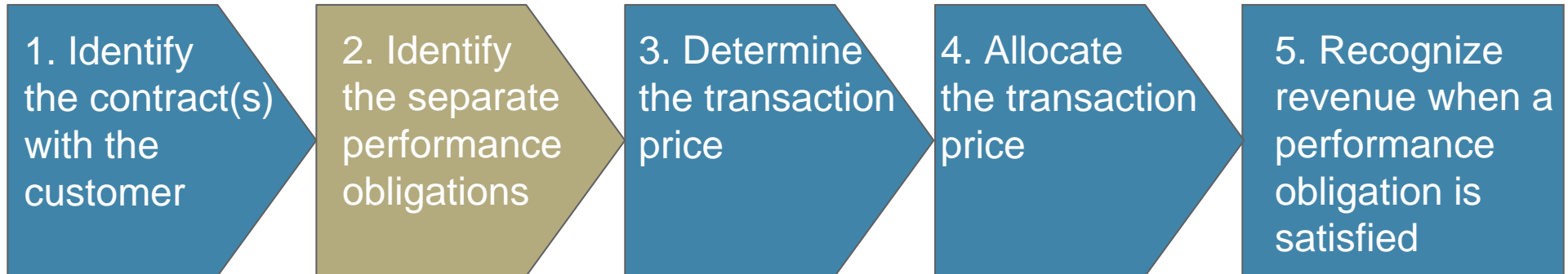


## Key proposal: price interdependence

- combine contracts if prices are interdependent
- segment a contract if prices are independent
- contract modifications accounted for separately if priced independently

# Step 2

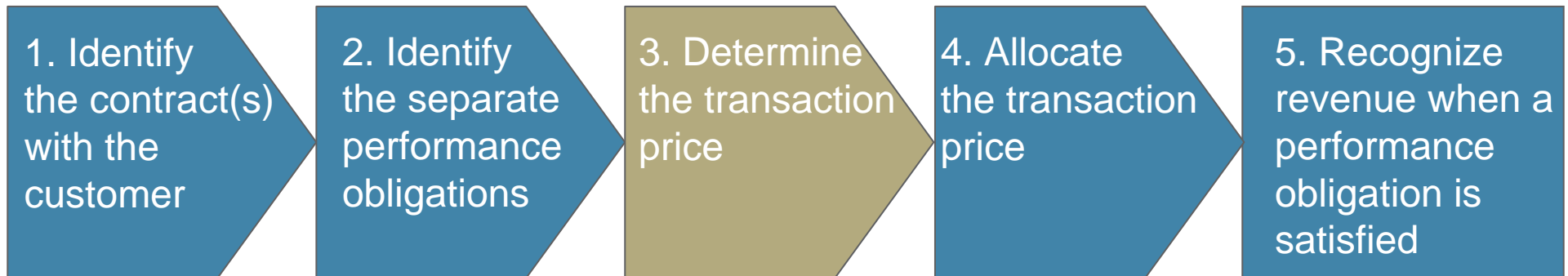
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## Key proposal: distinct goods or services

- separate 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
  - has a distinct function and a distinct profit margin

# Step 3

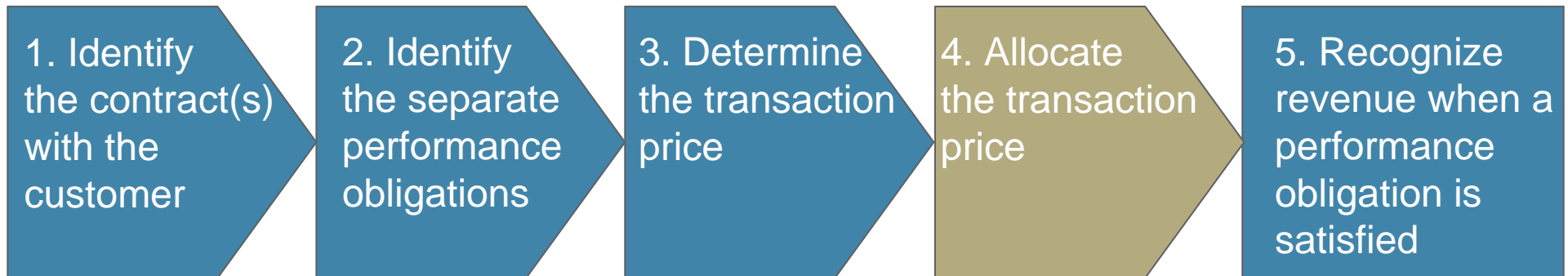


## Key proposal: expected amount

- transaction price is the expected (probability-weighted) consideration from the customer, and reflects:
  - reasonable estimates of contingent amounts
  - credit risk
  - implicit financing

# Step 4

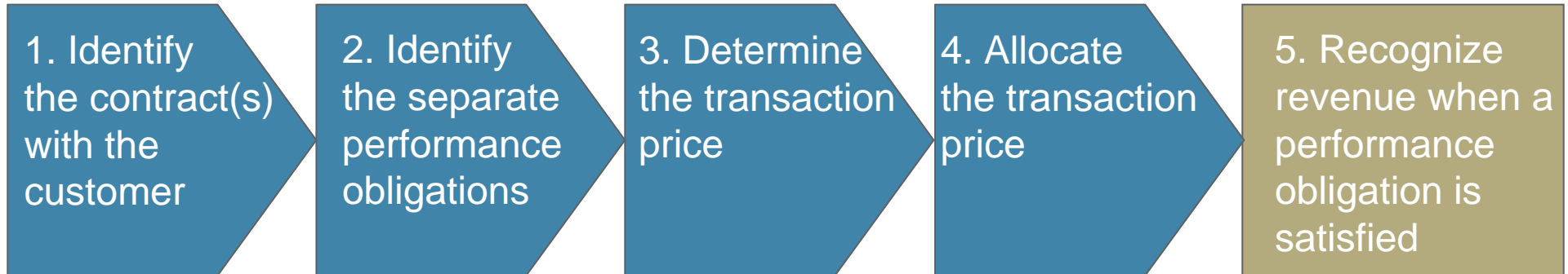
12



## Key proposal: relative selling price allocation

- transaction price allocated to the separate performance obligations on relative selling price basis
- selling prices estimated if necessary
- no residual method

# Step 5



## Key proposal: transfer based on control

- recognize revenue when a performance obligation is satisfied by transferring a good or service to the customer
- for development or construction contracts, revenue is recognized continuously only if the customer controls WIP

# Summary of the cost proposals

- Recognize liability for onerous performance obligation
  - onerous if expected costs exceed its carrying amount
- Expense all costs of obtaining a contract
- Capitalize costs incurred in fulfilling a contract if:
  - relate directly to a contract (or a contract under negotiation)
  - generate or enhance a resource used to satisfy performance obligations in the future
  - are expected to be recovered

Disclose qualitative and quantitative information to help users understand the amount, timing and uncertainty of revenue and cash flows from contracts with customers

- Disaggregation of revenue
- Reconciliation of contract balances
- Maturity analysis of remaining performance obligations for contracts exceeding one year
- Judgments in applying the requirements

- Identifying performance obligations
  - products sold with a right of return
  - warranties
  - licensing and rights to use
- Determining and allocating the transaction price
  - consideration payable to the customer
  - customer options for additional goods or services
- Satisfying performance obligations
  - customer acceptance
  - bill and hold arrangements

# Example - equipment manufacturer

17

## Scenario 1

Contract to build highly customized equipment

- Customer has unconditional obligation to pay throughout contract
- Customer specifies design and has involvement in manufacturing
- Customer has ability to take possession during construction

Customer controls equipment as built—contract is for manufacturing services. Revenue recognised continuously.

## Scenario 2

Contract for standard equipment built to order

- Customer makes payments on account throughout contract
- Customer specifies only minor aspects of design
- Customer cannot take possession until built

Customer controls equipment on delivery—contract is for manufactured equipment. Revenue recognised on delivery.

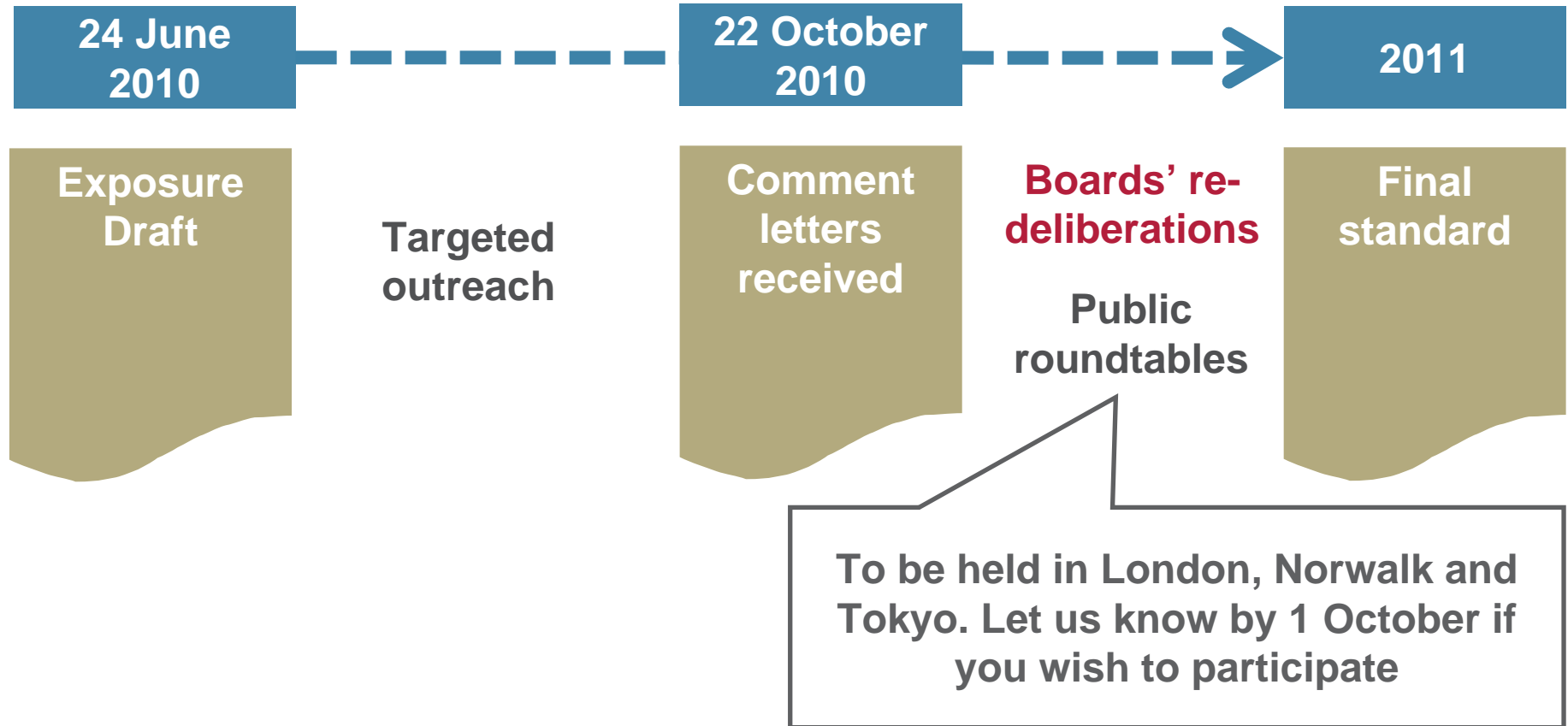
# Example - accounting for warranties

- Two types of warranties:
  - cover for latent defects: not a performance obligation
  - cover for faults arising after delivery: performance obligation

Company sells 1,000 products for CU1,000 each. Required by law to warrant its products for 90 days against defects at time of sale. 1% of products expected to be replaced. Returned products scrapped.

- recognize revenue for 990 products: CU990,000
  - recognize contract liability for 10 unsatisfied perf obligs: CU10,000
  - remaining CU10,000 revenue recognized when customers obtain products without defects
- Both result in the deferral of some revenue

# Project timeline



# Questions and answers

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# Conclusion

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Submit a comment letter on the proposals by  
**22 October 2010**

Additional information about the exposure draft and the revenue recognition project is available at [www.ifrs.org](http://www.ifrs.org) and [www.fasb.org](http://www.fasb.org)