IFRS Accounting

Staff paper

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IASB® meeting

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Project	**Post-implementation Review of IFRS 15**
Topic	**Determining when to recognise revenue**
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Purpose and structure

1. This paper provides a summary of the feedback and staff analysis on question 4 *Determining when to recognise revenue* of the Request for Information: *Post-implementation Review of IFRS 15* Revenue from Contracts with Customers (the RFI).

2. At this meeting, the IASB will be asked to decide whether to take further actions on application matters related to determining when to recognise revenue and if so, how to prioritise those matters, applying its framework for responding to the matters identified in a post-implementation review (PIR).[1]

3. This paper provides:

   (a) summary of staff recommendations;

   (b) background to IFRS 15 requirements on determining when to recognise revenue;

   (c) overview of the feedback; and

[1] See Agenda Paper 6 for the framework.

(d) summary of the feedback and staff analysis of specific application matters.

Summary of staff recommendations

4. Based on the analysis in this paper, the staff recommend the IASB take no further action on the matters raised by respondents related to:

   (a) applying the concept of control and the criteria for recognising revenue over time;

   (b) measuring progress for performance obligations satisfied over time; and

   (c) other aspects of determining when to recognise revenue described in Appendix A.

Background

5. IFRS 15 requires an entity to recognise revenue when (or as) the entity transfers goods or services to a customer, which is when (or as) the customer obtains control of that good or service.[2] This requirement is a change from the previous revenue recognition requirements, which were based on an entity assessing the transfer of the risks and rewards of ownership. The reason for this change was to enable entities to make more consistent decisions about when goods or services are transferred.[3] However, in making the change, the IASB acknowledged that some judgements, especially those related to construction-type contracts and contracts for service, could remain challenging.

6. IFRS 15 requirements on determining when to recognise revenue, except for revenue for licence renewals discussed in Agenda Paper 6C for the February IASB meeting, are converged with the requirements in the FASB ASC Topic 606, Revenue from Contracts with Customers.

[2] See paragraph 31 of IFRS 15.

[3] See paragraph BC118 of the Basis for Conclusions on IFRS 15.

Overview of the feedback

7. Most respondents commented on the requirements for determining when to recognise revenue. Many respondents said that generally IFRS 15 provides a clear and sufficient basis for determining when to recognise revenue. Some respondents (mostly standard-setters and accounting firms) said they have identified no significant matters related to this topic to raise in this PIR. However, many respondents reported challenges in determining when to recognise revenue. A few respondents from South and Latin America and Asia-Oceania identified challenges in determining when to recognise revenue as a major application matter.

8. Most of the challenges related to:

   (a) applying the concept of control and the criteria for recognising revenue over time in paragraph 35 of IFRS 15; and

   (b) measuring progress for performance obligations satisfied over time.

9. Users of financial statements did not provide much feedback on the information provided by entities on the timing of revenue recognition. One user group who commented on the RFI said that, in their view, the Standard clearly defines when to recognise revenue based on the transfer of control and that entities generally report revenue adequately following the implementation of the Standard. In outreach meetings, some users said that although they did not notice much difference in the timing of revenue recognition after IFRS 15 was implemented, they have more confidence in reported numbers because they get better quality disclosures. Revenue disaggregation based on the timing of revenue recognition (point in time versus over time) was seen as particularly useful, although a few users said entities do not always provide this information.

10. A few users said that information provided by some entities is too generic and they need more detailed information about judgements made by entities in determining when to recognise revenue. A few users said they observed some diversity in the timing of revenue recognition, for example, by software companies.

11. In its post-implementation review, the FASB identified challenges in determining when to recognise revenue for short-cycle manufacturing contracts as a major application matter—see Appendix B.

Summary of the feedback and staff analysis of specific application matters

12. Based on the feedback the staff have identified two main application matters:

    (a) applying the concept of control and the criteria for recognising revenue over time in paragraph 35 of IFRS 15; and

    (b) measuring progress for performance obligations satisfied over time.

13. This section analyses whether to take action in response to these application matters based on whether the feedback provides evidence that:

    (a) there are fundamental questions about the clarity and suitability of the requirements;

    (b) the benefits to users of financial statements of the information arising from applying the requirements are significantly lower than expected (for example, there is significant diversity in application); or

    (c) the costs of applying the requirements and auditing and enforcing their application are significantly greater than expected (or there is a significant market development since the requirements were issued for which it is costly to apply the requirements consistently).

14. In addition, Appendix A summarises feedback on other matters raised by one or a few respondents and provides our responses. The staff do not recommend acting on any of these matters because the feedback does not provide evidence of fundamental questions about the clarity and suitability of the principles in the requirements, of significant diversity in application or significant ongoing costs. The feedback received does not suggest that the matters are pervasive or have substantial consequences on revenue information provided in financial statements.

Applying the concept of control and the criteria for recognising revenue over time

Summary of IFRS 15 requirements
Paragraph 31 states that an entity recognises revenue when (or as) the entity transfers a promised good or service to a customer, which is when (or as) the customer obtains control of that good or service. An entity transfers control of a good or service over time and, hence, recognises revenue over time, if one of the following criteria in paragraph 35 is met: (a) the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs; (b) the entity's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or (c) the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date. Paragraph 38 states that if a performance obligation is not satisfied over time, an entity satisfies the performance obligation at a point in time. Paragraph B6 states that in assessing whether an asset has an alternative use to an entity, an entity considers the effects of contractual restrictions and practical limitations on the entity's ability to readily direct that asset for another use, such as selling it to a different customer. Paragraph B8 states that a practical limitation exists if an entity would incur significant economic losses to direct the asset for another use. A significant economic loss could arise because the entity either would incur significant costs to rework the asset or would only be able to sell the asset at a significant loss.

Feedback

15. Some respondents said applying the requirements in paragraph 35(c) of IFRS 15 is challenging:

    (a) most challenges related to assessing whether the right to payment is enforceable:

        (i) a few respondents (mostly standard-setters, accounting bodies and accounting firms) said making judgements on enforceability can be complex and costly, particularly for smaller entities, because the assessment requires consideration of laws and legal precedence as well as historical business practice. Some of those respondents suggested the judgement involved in such assessments could result in diversity in practice.

        (ii) a few standard-setters and a regulator expressed a view that application of this criterion can lead to outcomes not reflecting the economic substance of transactions, for example, in multi-unit real estate development in Brazil. These respondents said that users of financial statements do not analyse performance using the revenue recognised from real estate development contracts in Brazil at a point in time based on IFRS 15 and instead analyse performance based on revenue recognised over the construction period. These respondents suggested making targeted amendments, providing additional illustrative examples and/or educational materials to align the accounting with local practice. However, a few respondents from other jurisdictions (mostly standard-setters) said that the IFRS Interpretations Committee's (the Committee's) March 2018 Agenda Decisions *Revenue recognition in a real estate contract* and *Right to payment for performance completed to date* were helpful and suggested adding guidance based on those agenda decisions into the Standard.

(iii) a few standard-setters and a regulator asked the IASB to clarify specific issues, for example, how to consider a customer's right to terminate the contract when assessing whether the right to payment is enforceable and whether an entity should reassess its continued right to payment if laws or legal practice change.

(b) a few respondents (mainly standard-setters) reported challenges related to making judgements on whether an asset has an alternative use—for example, for complex assets developed to a customer's specification or in determining the unit of account for the 'alternative use' assessment when components are sold under purchase orders related to a master supply agreement.

16. A few respondents made other comments on applying the criteria in paragraph 35 of IFRS 15, including:

(a) the significant judgement required to apply the requirements in paragraph 35(c) of IFRS 15 might create opportunities for earnings management.

(b) strengthening the guidance on enforceability in paragraph 35(c) of IFRS 15 might be beneficial for other IFRS Accounting Standards that use the notion of enforceability.

(c) the language used in paragraph 35 of IFRS 15 is difficult to understand, in particular, the combination of 'the entity's performance does not create an alternative use to the entity' and 'the entity has an enforceable right to payment for performance completed to date'. The respondents suggested the IASB consider redrafting paragraph 35 using simpler language.

17. We received only a few comments on challenges with the criteria in paragraphs 35(a) and 35(b) of IFRS 15 (see paragraphs 19(d)–(e) and items 1–2 in Appendix A).

18. Some respondents (mostly standard-setters and accounting bodies) said that entities' subjective judgements in relation to the criteria in paragraph 35 of IFRS 15 lead to diversity in practice.

19. Some respondents gave examples of specific fact patterns, for which they find determining when to recognise revenue challenging. Most commonly they referred to complex arrangements in technology, software, gaming and construction industries. The examples provided by one or a few respondents included:

    (a) an entity having a conditional obligation to repurchase fungible assets, such as crypto currencies or commodities, at fair value after the assets are sold;

    (b) an entity supplying automotive parts to an equipment manufacturer under purchase orders relating to a master supply agreement—with the main challenge relating to whether the decision on 'alternative use' must be taken at the level of the full purchase order or smaller units of account, such as a component part;

    (c) a contract requiring a customer to pay the entity for the work performed to date, but granting the customer a right to terminate the contract and requiring the entity to take some mitigating actions, such as reselling some of the materials, to reduce the customer's obligations—with the main challenge relating to how to consider the entity's mitigation obligations in assessing the enforceability of the customer's payment;

    (d) a hotel determining whether to recognise room revenue over a guest's stay applying the criteria in paragraph 35(a) of IFRS 15 or at the date the room is occupied;

    (e) an entity performing a project design on its own site—with the main challenge relating to assessing whether a customer can control the output of such a design under paragraph 35(b) of IFRS 15;

    (f) 'bill and hold' arrangements, in particular involving 'homogenous' materials;

    (g) an installer determining when to recognise revenue if it received the payments for the goods, but the customer is delaying the entity's delivering and installing the goods;

(h) arrangements involving intangibles and services, including in modern business models, such as virtual currencies in video games—with challenges relating to determining when control transfers for such items; and

(i) arrangements in which an agent's commission is linked to sale of goods with a right of return.

20. The respondents asked for additional guidance, illustrative examples and/or educational materials for their industries or types of contracts. Two respondents suggested the examples should be updated regularly.

Staff analysis

Clarity and suitability of requirements

21. The respondents' concerns about challenges with assessing whether an entity has an enforceable right to payment for performance completed to date and whether an asset the entity creates has an alternative use (see paragraph 35(c) of IFRS 15), are not new. The IASB and the FASB (the boards) considered these challenges in developing the Standard and:

(a) explained the reasons for the requirements (see paragraphs BC134–BC148 of the Basis for Conclusions on IFRS 15). Specifically:

(i) paragraph BC142 of the Basis for Conclusions on IFRS 15 explains the link between the assessment of control and the notions of 'no alternative use' and 'a right to payment':

> …if an asset that an entity is creating has no alternative use to the entity, the entity is effectively constructing the asset at the direction of the customer. Consequently, the entity will want to be economically protected from the risk of the customer terminating the contract and leaving the entity with no asset or an asset that has little value to the entity. That protection [is] established by requiring that if the contract is terminated, the

> customer must pay for the entity's performance completed to date… Consequently, the fact that the customer is obliged to pay for the entity's performance (or, in other words, is unable to avoid paying for that performance) suggests that the customer has obtained the benefits from the entity's performance.

(ii) paragraph BC143 of the Basis for Conclusions on IFRS 15 explains the boards' objective for the 'right to payment' criterion:

> The boards intended the term 'right to payment' to refer to a payment that compensates an entity for its performance completed to date rather than, for example, a payment of a deposit or a payment to compensate the entity for inconvenience or loss of profit. This is because the underlying objective of the criterion is to determine whether the entity is transferring control of goods or services to the customer as an asset is being created for that customer. Consequently, assuming there is rational behaviour and that there are no broader perceived economic benefits that might exist outside the scope of the contract with the customer, the entity would only agree to transfer control of the goods or services to the customer if the entity is compensated for the costs associated with fulfilling the contract and it receives a profit margin that includes a return on those costs.

(b) provided application guidance and illustrative examples to help entities make the assessments.

22. The following examples, accompanying IFRS 15, illustrate the application of paragraph 35(c) in assessing:

(a) Example 14—'alternative use' and 'enforceable right to payment' for a consulting service contract;

(b) Example 15—'alternative use' for a contract with a government agency to build a specialised satellite;

(c) Example 16—'enforceable right to payment' for performance completed to date; and

(d) Example 17—'enforceable right to payment' for building a multi-unit residential complex in three different scenarios.

23. In addition, as some of the respondents noted, in March 2018 the Committee published Agenda Decisions *Revenue recognition in a real estate contract* and *Right to payment for performance completed to date*, which illustrate an assessment of whether to recognise revenue from real estate contracts at a point in time or over time, which some respondents found helpful.

24. In the staff's view, the agenda decisions, as well as the application guidance in IFRS 15 and illustrative examples accompanying IFRS 15, should enable entities to apply judgement to various contracts and analyse specific facts and circumstances.

25. The concerns raised by respondents in paragraph 15(a)(ii) about accounting for multi-unit real estate development are also not new. In developing the requirements in IFRS 15 the boards considered feedback from some respondents to the Exposure Drafts who said that although the entities were able to conclude that their performance does not create an asset with an alternative use, they were unable to meet the 'right to payment for performance completed to date' criterion in paragraph 35(c) of IFRS 15, which meant that they were able to recognise revenue only at the point in time when each unit is transferred to the customer. The respondents stated such revenue recognition was an inappropriate depiction of their performance (see paragraph BC151 of the Basis for Conclusions on IFRS 15). However, having considered the feedback, the boards concluded that if either of the criteria in paragraph 35(c) of IFRS 15 is not met, recognising revenue over time would not faithfully depict the entity's performance and the entity's and the customer's respective rights and obligations in the contract (see paragraph BC152 of the Basis for Conclusions on IFRS 15).

26. The feedback on the RFI suggests that respondents generally agree with the principles for determining when to recognise revenue. The suggestion by a standard-setter to 'expand the concept of control' to achieve the revenue reporting that stakeholders in Brazil regard as more relevant would result in a major change to the principles and cause major disruption for entities in other industries and jurisdictions.

27. We acknowledge the questions in paragraph 15(a)(iii) on how to consider a customer's right to terminate the contract when assessing whether the right to payment is enforceable and whether an entity is required to reassess its continued right to payment if laws or legal practice change. The staff suggest no action because an entity should be able to conclude on the matters applying paragraphs 37 and B12 of IFRS 15, which require an entity to determine whether at all times throughout the duration of a contract the entity is entitled to an amount that at least compensates it for performance completed to date. To make the assessment the entity considers the contractual terms, including the termination rights, as well as the legislation and legal precedent.

28. We acknowledge respondents' requests for additional guidance and illustrative examples. However, those requests relate to more complex fact patterns involving various types of contracts and specific terms and conditions. We think judgement is inherent in applying principle-based requirements and adding examples for specific complex fact patterns is unlikely to help many stakeholders and might result in unintended consequences.

29. For the reasons discussed in paragraphs 21–28, the staff think that the feedback provides insufficient evidence to suggest that there are fundamental questions about applying the concept of control and the criteria for over time revenue recognition or that the requirements are not working as intended.

Benefits to users of financial statements

30. Some respondents said there is diversity in accounting for revenue resulting from the challenges with applying the concept of control and the criteria for recognising revenue over time. However, diversity in this matter is difficult to establish without

carefully considering the terms and conditions of each arrangement, especially where contracts are complex. Observed diversity could be due to differences in contract terms rather than entities reaching different conclusions on the same fact pattern.

31. Although a few respondents said that in Brazil users did not find information on revenue from selling multi-unit real estate recognised at a point in time useful, no similar concerns were raised by other users in our outreach meetings or comment letters.

32. For the reasons discussed in paragraphs 30–31, the staff think that the feedback provides insufficient evidence that the benefits to users of financial statements of the revenue information resulting from the application of the concept of control and the criteria for recognising revenue over time are significantly lower than expected.

Costs of applying the requirements

33. The feedback received from a few respondents suggests that applying the concept of control and the criteria for recognising revenue over time is costly, in particular for complex contracts and for smaller entities. Accounting for complex contracts would be expected to require a certain degree of complex judgement, and therefore be more costly than accounting for simple transactions.

34. A few respondents raised concerns about the challenges and costs of considering legal precedence when assessing the enforceability of an entity's right to payment. In March 2018 Agenda Decision *Revenue recognition in a real estate contract* the Committee observed that, although an entity need not undertake an exhaustive search for evidence, it would be inappropriate for an entity to either ignore evidence of relevant legal precedent available to it or anticipate evidence that may or may not become available in the future. The staff also expect that an entity would normally want to be economically protected from the risk of the customer terminating the contract, so regardless of the requirements of the Standard, it would assess its right to payment, including relevant laws and legal precedent, before deciding to enter into a contract.

35. For the reasons discussed in paragraphs 33–34, the staff think that there is insufficient evidence to suggest that the costs of applying the requirements and auditing and enforcing their application are significantly greater than expected.

Staff recommendation and question for the IASB

36. Based on the analysis in paragraphs 21–35, the staff think the findings from the RFI provide insufficient evidence that the characteristics to take further action described in the PIR framework are present. Therefore, the staff recommend the IASB take no further action on application matters raised by respondents in relation to applying the concept of control and the criteria for recognising revenue over time.

Question 1 for the IASB
Do IASB members agree with the staff recommendation in paragraph 36 of this paper?

Measuring progress for performance obligations satisfied over time

Summary of IFRS 15 requirements

For performance obligations satisfied over time, paragraphs 39–45 of IFRS 15:

(a) require an entity to recognise revenue by measuring progress towards complete satisfaction of a performance obligation; and

(b) require an entity to consider the nature of the promised good or service in determining the appropriate method for measuring progress.

Paragraphs B14–B19 provide guidance for using output and input methods for measuring progress:

(a) output methods recognise revenue on the basis of direct measurements of the value to the customer of the goods or services transferred to date relative to the remaining goods or services promised under the contract. Output methods include methods such as surveys of performance completed to date, appraisals of results achieved, milestones reached, time elapsed and units produced or units delivered.

Summary of IFRS 15 requirements
(b) input methods recognise revenue on the basis of the entity's efforts or inputs to the satisfaction of a performance obligation (for example, resources consumed, labour hours expended, costs incurred, time elapsed or machine hours used) relative to the total expected inputs to the satisfaction of that performance obligation.

Feedback

37. A few respondents (mostly standard-setters) said that in some cases entities struggle with selecting the appropriate method for measuring progress—especially in the construction and software industries—and this might lead to entities applying different methods for similar transactions. The respondents suggested adding guidance and/or illustrative examples to clarify how to apply judgement when selecting which method to use for measuring progress.

38. A few of those respondents also asked the IASB to clarify specific aspects of the guidance on measuring progress, including:

    (a) the purpose of the practical expedient in paragraph B16 of IFRS 15 (recognising revenue as invoiced) and how to apply it if during the contract term circumstances change and invoicing no longer matches the performance profile;

    (b) the treatment of disproportionate costs, such as land, and volatile costs, such as costs dependent on foreign currency exchange rates and commodity prices; and

    (c) the meaning of 'significant' in paragraph B19(b) of IFRS 15 that explains the application of a costs-based input method and refers to 'the cost of the transferred good is significant' and 'the entity procures the good from a third party and is not significantly involved in designing and manufacturing the good'.

Staff analysis

Clarity and suitability of requirements

39. Paragraph BC159 of the Basis for Conclusions on IFRS 15 explains that:

> …the boards decided that it would not be feasible to consider all possible methods and prescribe when an entity should use each method. Accordingly, an entity should use judgement when selecting an appropriate method of measuring progress. That does not mean that an entity has a 'free choice'. The requirements state that an entity should select a method of measuring progress that is consistent with the clearly stated objective of depicting the entity's performance—that is, the satisfaction of an entity's performance obligation—in transferring control of goods or services to the customer.

40. To assist entities with application of the requirements on measuring progress the IASB included two examples, accompanying IFRS 15:

    (a) Example 18 illustrates how an entity determines the measure of progress when an entity provides a customer access to a health club for a year; and

    (b) Example 19 illustrates how an entity determines the measure of progress when it has delivered but has not installed elevators, which are part of a single performance obligation of refurbishing a building.

41. Considering that only a few respondents found the guidance on measuring progress challenging and suggested adding guidance on specific aspects of the requirements and/or examples, it appears that entities mostly find the existing requirements in paragraphs 39–45 of IFRS 15, application guidance in paragraphs B14–B19 of IFRS 15 and Illustrative Examples 18–19, accompanying IFRS 15, sufficient. Adding examples for specific complex fact patterns is unlikely to help many stakeholders and might result in unintended consequences.

42. For the reasons discussed in paragraphs 39–41, the staff think the feedback to the RFI provides insufficient evidence that there are fundamental questions about the clarity and suitability of the requirements of IFRS 15 on measuring progress for performance obligations satisfied over time.

Benefits to users of financial statements

43. We received no evidence of significant diversity in practice resulting from measuring progress for performance obligations satisfied over time. Diversity in this matter is difficult to establish without carefully considering the terms and conditions of each arrangement—observed diversity could be due to differences in facts and circumstances rather than entities reaching different conclusions on the same fact pattern.

44. For the reasons discussed in paragraph 43, the staff think that the feedback does not indicate that the benefits to users of financial statements of the information resulting from measuring progress for performance obligations satisfied over time are significantly lower than expected.

Costs of applying the requirements

45. We received no feedback that measuring progress for performance obligations satisfied over time is more costly than expected. The challenges raised by a few respondents imply the exercise can be more costly for complex arrangements. However, the concerns raised were not widespread.

46. For the reasons discussed in paragraph 45, the staff think that there is no evidence that the costs of applying the requirements and auditing and enforcing their application are significantly greater than expected.

Staff recommendation and question for the IASB

47. Based on the analysis in paragraphs 39–46, the staff think the findings from the RFI provide insufficient evidence that the characteristics to take further action described in

the PIR framework are present. Therefore, the staff recommend the IASB take no further action on application matters raised by respondents in relation to measuring progress for performance obligations satisfied over time.

Question 2 for the IASB
Do IASB members agree with the staff recommendation in paragraph 47 of this paper?

Question 3 for the IASB
As explained in paragraph 14, the staff recommend taking no action in relation to the matters discussed in Appendix A. Do you agree with the staff recommendation?

Appendix A—Other application matters raised by a few respondents

	Application matter	Staff response
1	A few respondents suggested the IASB add guidance or illustrative examples to clarify whether an entity might conclude on the assessment of criterion in paragraph 35(a) of IFRS 15 without making the assessment described in paragraph B4 of IFRS 15. The respondents said there is diversity in practice which results in different outcomes depending on whether an entity considers paragraph B4 of IFRS 15 or not in its assessment. Paragraph B4 of the application guidance states that if assessment of the criterion in paragraph 35(a) is not straightforward, the performance obligation is satisfied over time if the entity determines that another entity would not need to substantially re-perform the work that the entity has completed to date if that other entity were to fulfil the remaining performance obligation to the customer.	The staff suggest no action because: (a) paragraph B3 of IFRS 15 already explains that for some performance obligations the assessment of whether a customer simultaneously receives and consumes the benefits provided during the entity's performance will be straightforward, for example, for cleaning services; and (b) paragraph B4 of IFRS 15 provides additional guidance for cases when the assessment is not straightforward (see paragraph BC126 of the Basis for Conclusions on IFRS 15 for an example of freight services for delivering goods from A to B or Example 14, accompanying IFRS 15, for consulting services).
2	A standard-setter suggested the IASB move the health club example in paragraph BC160 of the Basis for Conclusions on IFRS 15 to the application guidance to reduce diversity in practice on accounting for 'stand-ready' obligations.	The staff suggest no action, because Illustrative Example 18, accompanying IFRS 15, already includes the health club example.
3	A standard-setter suggested paragraph BC425 of the Basis for Conclusions on	In paragraph BC425 of the Basis for Conclusions on IFRS 15 the IASB

	IFRS 15 contradicts the guidance in paragraph B66 of IFRS 15. Paragraph B66 states that if an entity has an obligation or a right to repurchase an asset, the customer does not obtain control of the asset. Paragraph BC425 states that, theoretically, a customer's obtaining control of an asset is not constrained if an entity agrees to repurchase, at the prevailing market price, the asset from the customer that is substantially the same and is readily available in the marketplace. The respondent suggested the IASB consider clarifying the intended application of paragraph BC425.	commented on a theoretical situation that it expected to be unlikely. The feedback to the RFI does not provide sufficient evidence to suggest that such situations are widespread. The staff suggest no action.
4	A few respondents (mostly accounting bodies) suggested the IASB provide a practical expedient for entities to be able to recognise revenue at a point in time if the control over promised goods or services is expected to be transferred to a customer over a period of less than one year. The respondents said the expedient should help reduce the complexity of assessment and the burden of additional disclosures for over time revenue recognition, in particular for smaller entities.	The staff suggest no action because the feedback does not provide sufficient evidence that the difficulties in recognising revenue over time are widespread. Introducing the expedient might result in revenue amounts that differ materially from revenue amounts that would have been recognised applying the revenue recognition model of IFRS 15. In addition, the expedient might reduce comparability between entities that would choose to apply the expedient and entities that would choose not to do that. The staff have informed the team working on the IASB's Second Comprehensive Review of the IFRS for

		SMEs Accounting Standard project about this feedback.
5	A standard-setter said that applying requirements in paragraph B19(b) of IFRS 15 relating to 'uninstalled materials' and Illustrative Example 19 with revenue from elevators recognised at zero profit margin gives an accounting impact that contradicts the requirements on identifying performance obligations and allocating the transaction price.	The staff suggest no action because the matter is not new, the requirements are working as intended and the boards explained in paragraphs BC173–BC174 of the Basis for Conclusions on IFRS 15 their rationale for recognising a profit margin of zero on the transfer of the uninstalled materials to the customer. The boards concluded that, after the adjustment for profit margin of uninstalled materials, the input method faithfully depicts the entity's performance.
6	A standard-setter suggested the IASB provide additional guidance and/or illustrative examples on accounting for contracts with fixed consideration and variable quantity of goods (for example, carbon credits). The respondent said it is not clear whether revenue should be recognised on a straight-line basis over the contract term (see Illustrative Example 18 of IFRS 15 on monthly health club fees) or based on a proportion of actual quantity of goods transferred to date over the total expected quantity of goods to be transferred as at the reporting date (see Illustrative Example 52 of IFRS 15 on customer loyalty programmes).	The determination would depend on the facts and circumstances. The staff suggest no action because the feedback does not suggest that the matter is widespread.

7	A standard-setter suggested the IASB add guidance and illustrative examples for all stages of a concession contract.	The staff suggest no action because: (a) IFRIC 12 *Service Concession Arrangements* sets out requirements for accounting for concession contracts and includes illustrative examples; and (b) the feedback on the RFI does not provide sufficient evidence that the matter is widespread. We will provide further analysis of the feedback on applying IFRS 15 with IFRIC 12 in a future paper.
8	An accounting body suggested the IASB add guidance for situations when the criteria in paragraph 9 of IFRS 15 are not met (identifying a contract), but a reporting entity is required to perform under a contract (this is prevalent in governmental institutions) or has performed under a contract and no consideration is received at the reporting date.	The staff suggest no action because the feedback does not suggest that the matter is widespread. Paragraph BC148(a) of the Basis for Conclusions on IFRS 15 explains that an entity must have a contract in order to recognise revenue (see paragraph 9 of IFRS 15). Paragraph 10 of IFRS 15 further explains that a contract may be written, oral or implied. Therefore, if an entity concludes that paragraph 9 of IFRS 15 requirements are not met, it cannot account for the contract applying IFRS 15.

Appendix B—FASB PIR of Topic 606: Extracts from the November 2023 Public Roundtable discussion materials and minutes[4]

Discussion materials

Area I: Short-Cycle Manufacturing

60. Stakeholders informed the staff that for short-cycle manufacturing entities, the guidance on transfer of control (that is, determining whether a performance obligation is satisfied over time or at a point in time) in paragraphs 606-10-25-27 through 25-29 can be difficult to apply. In addition, stakeholders observed that applying this guidance to short-cycle manufacturers results in a pattern of revenue recognition that is different from how management views its transactions.

61. Topic 606 fundamentally changed the core principle of revenue recognition to a transfer of control model. The previous revenue guidance required that an entity assess the transfer of a good or service by considering the transfer of risks and rewards of ownership. Under Topic 606, an entity satisfies its performance obligations by transferring control of the promised good or service to a customer and revenue is recognized when or as control of good or service is transferred to the customer.

62. Entities making customer-specific products, including short-cycle manufacturers, generally conclude that such products do not have an alternative use and that the entity has an enforceable right to payment for goods manufactured to date, which results in recognizing revenue over time in accordance with paragraph 606-10-25-27(c). Under the previous guidance, short-cycle manufacturers typically recognized revenue when the products were shipped, and some in this industry view their transactions as economically consistent with sales of products that should be recognized at a point in time rather than as arrangements satisfied over time.

63. The guidance on transfer of control and satisfying performance obligations over time has been widely applied by entities in other industries. The staff observes that one of the objectives of Topic 606 was to eliminate industry-specific guidance and one consequence of that alignment is that short-cycle manufacturers apply the same model as other types of entities that produce customized goods (such as construction contractors).

Minutes

Short-Cycle Manufacturing

A few participants noted that over time revenue recognition for certain arrangements does not align with how short-cycle manufacturers internally view their businesses. As a result, some short-cycle manufacturers chose to change their contracts to recognize revenue at a point in time and some only adjust their revenue at period end to comply with the accounting requirements.

[4] See November 2023 Public Roundtable Discussion Materials and Meeting Minutes.