

## STAFF PAPER

June 2022

IASB<sup>®</sup> meeting

Project	Second Comprehensive Review of the <i>IFRS for SMEs</i> <sup>®</sup> Accounting Standard	
Paper topic	Towards an exposure draft—Additional simplifications to IFRS 15 <i>Revenue from Contracts with Customers</i>	
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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (IASB). This paper does not represent the views of the IASB or any individual IASB member. Any comments in the paper do not purport to set out acceptable or unacceptable application of IFRS<sup>®</sup> Accounting Standards or the *IFRS for SMEs*<sup>®</sup> Accounting Standard. The IASB's technical decisions are made in public and are reported in IASB<sup>®</sup> *Update*.

## Introduction and purpose of the paper

1. This paper discusses:
  - (a) possible simplifications to the requirements of IFRS 15 *Revenue from Contracts with Customers* in aligning Section 23 *Revenue* of the *IFRS for SMEs* Accounting Standard with IFRS 15, in addition to those discussed at the February 2022 IASB meeting; and
  - (b) sweep issues that are consequential to the amendments to Section 23 that the IASB tentatively decided to propose at its February 2022 meeting.
2. In this paper, the term SMEs refers to entities that are eligible to apply the *IFRS for SMEs* Accounting Standard.

## Summary of staff recommendations

3. The staff recommend the IASB propose amendments to the *IFRS for SMEs* Accounting Standard to align Section 23 of the *IFRS for SMEs* Accounting Standard with IFRS 15, with simplifications for:
- (a) *Customer options for additional goods or services*—an SME would be required to:
    - (i) account for an option that provides a material right to the customer (excluding renewal options) as a separate performance obligation when the effect of doing so is significant to the individual contract; and
    - (ii) account for contract renewal options based on the expected contract term and the corresponding expected consideration.
  - (b) *Principal versus agent considerations*—an SME would be determined as acting as a principal if:
    - (i) it controls the distinct good or service (or a distinct bundle of goods or services) to be provided to a customer before the good or service is transferred to the customer; or
    - (ii) it is primarily responsible for fulfilling the promise to provide that good or service.
  - (c) *Warranties*—when a customer does not have the option to purchase a warranty separately, an SME would be required to assess whether the warranty provides the customer with a service in addition to the assurance that the product complies with agreed-upon specifications, only if the warranty is significant to the contract.
  - (d) *Licensing*—a licence would be determined to provide a customer with a right to access an SME’s intellectual property if the SME expects to undertake activities that either:
    - (i) will significantly affect the benefit that the customer obtains from the intellectual property by changing the substance of the intellectual property; or

- (ii) could significantly affect the benefit that the customer obtains from the intellectual property by directly exposing the customer to any positive or negative effects of those activities.

4. The staff also recommend the IASB:

- (a) propose amendments to Section 23 to require an SME to disclose:
  - (i) revenue recognised from contracts with customers disaggregated into categories, showing separately, at a minimum, revenue arising from:
    - (1) the sale of goods;
    - (2) the rendering of services;
    - (3) royalties;
    - (4) commissions; and
    - (5) any other significant types of revenue; and
  - (ii) when the SME typically satisfies its performance obligations (based on paragraph 119(a) of IFRS 15); and
- (b) not introduce into Section 23 disclosure requirements based on paragraphs 89, 90, 93 and 97 of the Exposure Draft *Subsidiaries without Public Accountability: Disclosures*.

5. The staff recommend the IASB propose amendments to the *IFRS for SMEs* Accounting Standard to align Section 23 with IFRS 15, with simplifications for:

- (a) *Allocating discounts and variable consideration*—an SME would be required to allocate discounts and variable consideration to the performance obligations in a contract on a relative stand-alone selling price basis, unless this basis does not depict the amount of consideration to which the SME expects to be entitled in exchange for satisfying each separate performance obligation. In that case, the SME would instead be required to use a method that reflects the amount of consideration to which the SME expects to be entitled in exchange for satisfying each separate performance obligation.

- (b) *Allocating variable consideration*—when an SME promises to transfer a series of distinct goods or services that are identified as a single performance obligation, the SME would be required to allocate variable consideration to all the distinct goods or services that form part of the performance obligation, unless this does not depict the amount of consideration to which the SME expects to be entitled in exchange for transferring the promised goods or services to the customer. In that case, the SME would instead be required to use a method that reflects the amount of consideration to which the SME expects to be entitled in exchange for transferring the promised goods or services to the customer.
6. The staff also recommend the IASB revisit the tentative decision it made in February 2022, and propose amendments to Section 23 to require, rather than permit, an SME to account for a promise to transfer a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer as a separate performance obligation, in line with the requirement of IFRS 15 (ie without any simplification).

### **Structure of the paper**

7. The paper is structured as follows:
- (a) background (paragraphs 9–14 of this paper);
  - (b) introduction to the staff analysis on possible simplifications (paragraphs 15–16 of this paper);
  - (c) staff analysis on possible simplifications for the following topics in IFRS 15:
    - (i) Step 2—Customer options for additional goods or services (paragraphs 17–23 of this paper);
    - (ii) Step 2—Principal versus agent considerations (paragraphs 24–33 of this paper);
    - (iii) Step 2—Determining whether a warranty should be accounted for as a performance obligation (paragraphs 34–42 of this paper);

- (iv) Step 5—Determining the nature of an entity’s promise to grant a licence (paragraphs 43–53 of this paper); and
  - (v) Disclosures (paragraphs 54–57 of this paper); and
  - (d) introduction to the staff analysis on sweep issues (paragraphs 58–59 of this paper);
  - (e) staff analysis on the following sweep issues:
    - (i) Step 4—Allocating discounts and variable consideration (paragraphs 60–70 of this paper); and
    - (ii) Step 2—Series of distinct goods or services (paragraphs 71–75 of this paper); and
  - (f) Appendix A—Staff summary of the IASB’s tentative decisions to propose amendments to Section 23 *Revenue*; and
  - (g) Appendix B—Recommended amendments to the disclosure requirements in the Exposure Draft *Subsidiaries without Public Accountability Disclosures*.
8. This paper includes eight questions for the IASB; questions for the IASB are included at the end of the staff analysis for each topic.

## Background

9. In considering whether and, if so, how to align the *IFRS for SMEs Accounting Standard* with new and amended IFRS Accounting Standards, the IASB decided to apply three ‘alignment principles’—relevance to SMEs, simplicity and faithful representation.
10. At its October 2021 meeting, the IASB considered the feedback on possible approaches to aligning Section 23 with IFRS 15 and the staff analysis of the three ‘alignment principles’. The IASB tentatively decided to develop amendments to the *IFRS for SMEs Accounting Standard* to align it with IFRS 15 by rewriting Section 23 to reflect the principles and language used in IFRS 15. In reaching this tentative decision, the IASB considered that the relevance principle is met because applying the

principles in IFRS 15 would result in information that is more relevant compared to applying current Section 23.

11. At its February 2022 meeting, the IASB considered possible applications of the simplicity principle to the requirements of IFRS 15. The IASB also considered whether simplifications to the requirements of IFRS 15 would result in financial statements that faithfully represent the substance of economic phenomena in words and numbers.<sup>1</sup> The IASB tentatively decided to propose amendments to the *IFRS for SMEs* Accounting Standard to align Section 23 with IFRS 15, with simplifications, for each step of the five-step model for recognising revenue and the incremental costs of obtaining a contract. These simplifications are listed in Appendix A to this paper.
12. At its May 2022 meeting, the IASB tentatively decided to propose transition requirements for entities applying the revised Section 23. The additional simplifications discussed in this paper do not require the IASB to discuss additional transition requirements.
13. The staff note that, as part of developing the Exposure Draft of the Third edition of the *IFRS for SMEs* Accounting Standard, the following amendments will be proposed as a consequence of the amendments included in Appendix A to this paper:
  - (a) including the requirement to account for a series of goods or services as a separate promise in Section 23, rather than within the definition of a promise; and
  - (b) expressing the requirements for determining whether a promised good or service is distinct in paragraphs 27–29 of IFRS 15 more concisely and using simpler language.
14. These two amendments are consistent with the intention to simplify to the language and structure of IFRS 15, as discussed by the IASB at its February 2022 meeting.<sup>2</sup>

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<sup>1</sup> Paragraph 36 of the *Request for Information* Comprehensive Review of the *IFRS for SMEs* Standard, published in January 2020.

<sup>2</sup> See paragraphs 60–64 of [Agenda Paper 30B Towards an Exposure Draft—Simplifications to IFRS 15 Revenue from Contracts with Customers](#) of the February 2022 IASB meeting.

## Staff analysis

### ***Additional simplifications***

15. The staff analysis in this paper discusses possible additional simplifications to the requirements of IFRS 15 that arise from the application of the five-step model for recognising revenue. These simplifications have been identified from further analysis of IFRS 15 and incorporate:
- (a) feedback on the Request for Information *Comprehensive Review of the IFRS for SMEs Standard*, published in January 2020;
  - (b) the discussions of the Joint Transition Resource Group (TRG) for Revenue Recognition and of the IFRS Interpretations Committee regarding the application of IFRS 15; and
  - (c) feedback from meetings with advisors who support:
    - (i) larger entities implementing and applying IFRS 15; and
    - (ii) SMEs applying the *IFRS for SMEs Accounting Standard*.
16. The staff analysis also includes possible simplifications to the disclosure requirements of IFRS 15. The simplifications take into account the IASB's tentative decision to use an approach to develop proposed amendments to the disclosure requirements in the *IFRS for SMEs Accounting Standard* that would result in consistency between these disclosure requirements and the Exposure Draft *Subsidiaries without Public Accountability: Disclosures*.

### ***Step 2—Customer options for additional goods or services***

17. An entity may grant a customer the option to acquire additional goods or services for free or at a discount (for example sales incentives, customer award credits or other discounts on future goods or services). Applying IFRS 15, such an option gives rise to a performance obligation in the contract if the option provides a material right to the customer that it would not receive without entering into that contract (referred to as a 'material right').<sup>3</sup> To account for a material right, IFRS 15 requires an entity to

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<sup>3</sup> Paragraph B40 of IFRS 15.

estimate the stand-alone selling price of the option, allocate the transaction price based on this amount, and recognise revenue when those future goods or services are transferred or when the option expires.<sup>4</sup>

18. Feedback from advisors supporting entities applying IFRS 15 indicated that customer options for additional goods or services are typically low value in proportion to the contract. If those options provide a customer with a material right, accounting for the option typically has no significant effect on the timing of the revenue recognised from the contract (ie the options give a material right to the customer, but are not significant at a contract level). SMEs applying these requirements could incur substantial costs to account for options that are not material to their financial statements.
  
19. For cost-benefit reasons, the staff recommend a simplification so that an SME is only required to account for an option as a separate performance obligation if both:
  - (a) the contract includes an option that provides a customer with a material right; and
  - (b) that option is significant to the contract.
  
20. The staff note that instances could arise when an option is not significant at a contract level, but material at a portfolio level (that is, a group of contracts with similar characteristics). As a result of the recommendation in paragraph 19 of this paper, an SME would not be required to account for such options. The staff believe this outcome is appropriate, as it would be unduly burdensome to require an SME to account for a customer option that does not provide the customer with a material right on an individual contract basis, but may be material to the entity on a cumulative basis. The staff believe this outcome is consistent with the clarification in IFRS 15 that an entity should only consider the *significance* of a financing component at a contract level rather than consider whether the financing is *material* at a portfolio level.<sup>5</sup>

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<sup>4</sup> Paragraphs B40 and B42 of IFRS 15.

<sup>5</sup> Paragraph BC234 of the Basis for Conclusions on IFRS 15.



*Renewal options*

21. Contract renewal options give customers the right to acquire additional goods or services of the same type as those supplied under an existing contract. Under IFRS 15, such options may provide a customer with a material right. When a customer exercises a renewal option, the term of the original contract extends by the renewal period.
22. IFRS 15 distinguishes renewal options from other options to acquire goods or services due to the complexities of determining the stand-alone selling price of renewal options.<sup>6</sup> Entities are provided with a practical alternative to estimating the stand-alone selling price of the option. The practical alternative requires an entity to include the options for goods or services that it expects to provide (and corresponding expected customers consideration) in the initial measurement of the transaction price.<sup>7</sup>
23. The staff believe that renewal options merit separate treatment from other material rights and that the practical alternative described in paragraph 22 of this paper is simpler for SMEs to understand and apply compared to accounting for a contract with renewal options as a series of options and determining the stand-alone selling price of those options. Therefore, the staff recommend requiring SMEs to account for renewal options by using this alternative. This would result in a similar outcome as IFRS 15 and is not considered to impact on faithful representation.

**Question 1 for the IASB**

Does the IASB agree to propose amendments to Section 23 of the *IFRS for SMEs* Accounting Standard so that an SME would be required to:

- (a) account for an option that provides a material right to the customer (excluding renewal options) as a separate performance obligation when the effect of doing so is significant to the individual contract; and
- (b) account for contract renewal options based on the expected contract term and the corresponding expected consideration?

<sup>6</sup> Paragraph BC392 of the Basis for Conclusion to IFRS 15.

<sup>7</sup> Paragraph B43 of IFRS 15.

**Step 2—Principal versus agent considerations**

24. Paragraph B34 of IFRS 15 sets out the principle for determining whether an entity is acting as a principal or an agent, as follows:

When another party is involved in providing goods or services to a customer, the entity shall determine whether the nature of its promise is a performance obligation to provide the specified goods or services itself (ie the entity is a principal) or to arrange for those goods or services to be provided by the other party (ie the entity is an agent).

The term ‘specified goods or services’ is used to refer to distinct goods or services (or a distinct bundle of goods or services) to be provided to the customer.

25. To determine the nature of an entity’s promise, IFRS 15 requires an entity to:
- (a) identify the specified goods or services to be provided to the customer; and
  - (b) assess whether it controls each specified good or service before that good or service is transferred to the customer.<sup>8</sup>
26. Paragraph B35 of IFRS 15 specifies that an entity is a principal if ‘*it controls the specified good or service before that good or service is transferred to a customer*’. Paragraph B37 of IFRS 15 then provides three indicators to help entities assess whether the entity is a principal.
27. To simplify the process of determining whether an SME is acting as a principal or an agent, the staff recommend the *IFRS for SMEs* Accounting Standard reframe the principle in paragraph B35 of IFRS 15 and the indicator in paragraph B37(a) of IFRS 15 as criteria for determining whether an entity is acting as a principal. An SME would be a principal if either of the following are met:
- (a) it controls the specified good or service before that good or service is transferred to a customer; or
  - (b) it is primarily responsible for fulfilling the promise to provide the specified good or service.

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<sup>8</sup> Paragraph B34A(b) of IFRS 15.

If neither of the criteria are met, the SME would be an agent.

28. The recommended approach in paragraph 27 of this paper avoids creating a distinction between the overall principle for determining whether an entity is acting as a principal or agent and indicators which support this assessment.
29. The staff believe that presenting the assessment in a prescriptive way is more suited to the approach taken in the *IFRS for SMEs* Accounting Standard, where specific criteria are used in areas which can involve judgement. Also, including additional indicators might distract SMEs from the requirement to make an overall assessment of control, or risk SMEs using the indicators to override that assessment.
30. The recommended criteria in paragraph 27 of this paper:
  - (a) focus on an SME's role first before the transfer of specified goods or service, and then during and after the transfer. Ordering the criteria in this way creates a logical structure that the staff believe further simplifies the process of determining whether an entity is acting as a principal or an agent.
  - (b) do not require an SME to consider the following indicators in paragraph B37 of IFRS 15:
    - (i) the entity has inventory risk before a specified good or service is transferred to a customer or after transfer of control to the customer (paragraph B37(b) of IFRS 15); and
    - (ii) the entity has discretion in establishing the price for the specified good or service (paragraph B37(c) of IFRS 15).

### *Inventory risk*

31. The staff believe inventory risk is captured by the notion of control in the recommended criterion in paragraph 27(a) of this paper, that is based on paragraph B35 of IFRS 15. The staff observe that requiring an entity to make an assessment based on the risks of ownership is similar to the basis currently used to determine whether an entity has transferred goods to a customer in Section 23, which is based on the transfer of the significant risks and rewards of ownership rather than

the transfer of control.<sup>9</sup> Although the transfer of risks and rewards is an indicator of the transfer of control in IFRS 15, the staff believe that promoting it to a criterion in Section 23 would risk confusing the idea that determining whether an entity is acting as a principal or an agent will be based on the principle of control and might signal a change in the interaction between both factors.

*Discretion in establishing prices*

32. IFRS 15 specifies that there are cases in which an agent has discretion in establishing the price for a specified good or service. As the indicator in paragraph B37(c) of IFRS 15 is not determinative, the staff do not recommend proposing it as a criterion for whether an SME is a principal.
33. As the recommended criteria in paragraph 27 of this paper are based upon the same principle in IFRS 15, it is expected that SMEs would arrive at the same outcome in the absence of criteria set out in paragraph 30(b) of this paper. Therefore, the staff believe the simplification does not impact on faithful representation.

**Question 2 for the IASB**

Does the IASB agree to propose amendments to Section 23 of the *IFRS for SMEs* Accounting Standard so that an SME would be determined as acting as a principal if:

- (a) it controls the distinct good or service (or a distinct bundle of goods or services) to be provided to a customer before the good or service is transferred to the customer; or
- (b) it is primarily responsible for fulfilling the promise to provide that good or service?

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<sup>9</sup> See paragraphs 23.10–23.12 of the *IFRS for SMEs* Accounting Standard.

**Step 2—Determining whether a warranty should be accounted for as a performance obligation**

34. IFRS 15 requires a warranty to be accounted for as a separate performance obligation if a customer has the option to purchase the warranty separately.<sup>10</sup> If a customer does not have the option to purchase a warranty separately, IFRS 15 requires the warranty to be accounted for in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, unless the warranty (or part of the warranty) provides the customer with a service in addition to the assurance that the product complies with agreed-upon specifications.<sup>11</sup>
35. Paragraph B31 of IFRS 15 requires an entity to consider factors such as the following three factors to assess whether a warranty provides the customer with a service in addition to the assurance that the product complies with agreed-upon specifications:
- (a) whether the warranty is required by law—if the entity is required by law to provide a warranty, the existence of that law indicates that the promised warranty is not a performance obligation;
  - (b) the length of the warranty coverage—a longer warranty coverage period increases the likelihood that the warranty is a performance obligation; and
  - (c) the nature of the tasks that the entity promises to perform—if it is necessary for an entity to perform specified tasks to provide the assurance that a product complies with agreed-upon specifications, then those tasks likely do not give rise to a performance obligation.
36. The assessment of whether a warranty provides a customer with an additional service requires an entity to make a judgment based on facts and circumstances. The staff believe this could be challenging for SMEs because:
- (a) activities that an SME performs, or promises to perform, for a customer may imply a length of warranty coverage and type of warranty that is inconsistent with the terms of the contract. Therefore, the assessment may require an SME to consider its common business practice, which may vary between customers.

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<sup>10</sup> Paragraph B29 of IFRS 15.

<sup>11</sup> Paragraph B30 of IFRS 15.

- (b) activities that result in a warranty providing a customer with a service will often be the same as the activities that provide a customer with the assurance that the product complies with agreed-upon specifications (for example, performing repairs). Therefore, the notion of distinguishing warranties based on the nature of the tasks performed may be difficult for an SME to understand and apply in practice.
37. Feedback from advisors supporting entities applying IFRS 15 suggests that there are limited instances where a warranty, or part of a warranty, that an entity does not sell separately provides a customer with an additional service. In these instances, the assessment required by IFRS 15 does not change the outcome determined by whether the customer has the option to purchase the warranty separately or not because warranties included in the original sale will usually be in the scope of IAS 37 on the basis of being assurance-only.
38. The staff expect there will be instances when an SME sells products that include integral warranties which provide customers with a service in addition to the assurance that the product complies with agreed-upon specifications (for example, a motor vehicle sold with a non-optional warranty). If the SME did not account for the service element of the warranty as a separate performance obligation, it would recognise the revenue attributable to the service at the point the product is transferred to the customer, instead of when the service is transferred. If the revenue attributable to the service is significant to the overall contract, this timing difference in the recognition of revenue could impede on faithful representation.
39. To simplify determining whether a warranty is a performance obligation when a customer does not have the option to purchase the warranty separately, the staff recommend that an SME is only required to assess whether a warranty provides a customer with a service in addition to the assurance that the product complies with agreed-upon specifications *if the warranty is significant to the contract*. If the customer does not have the option to purchase the warranty separately and the warranty is not significant to the contract, an SME shall account for the warranty in accordance with Section 21 *Provisions and Contingencies* of the *IFRS for SMEs* Accounting Standard.

40. The recommendation in paragraph 39 of this paper would result in an SME assessing whether a warranty provides a customer with an additional service only in circumstances when the outcome of accounting for the service as a separate performance obligation would significantly change the revenue recognition pattern of the contract. This would limit the instances when an SME would have to make the assessment described in paragraph 36 of this paper.
  
41. To apply the recommended requirement in paragraph 39 of this paper, an SME would be required to determine if a mandatory integral warranty is significant to a contract. SMEs that do not provide customers with an option to purchase a warranty separately would still be expected to separately price this element of the contract. Therefore, the staff believe an SME would have the necessary information to comply with this requirement.
  
42. The simplification would result in SMEs not accounting for the service element of a warranty as a separate performance obligation in circumstances when the warranty is not significant to the contract. As the revenue attributable to the service would not be significant to the contract, doing so would not be expected to significantly change the revenue recognition pattern of the contract and is not considered to impede on faithful representation.

**Question 3 for the IASB**

Does the IASB agree to propose amendments to Section 23 of the *IFRS for SMEs* Accounting Standard so that when a customer does not have the option to purchase a warranty separately, an SME is only required to assess whether the warranty provides the customer with a service in addition to the assurance that the product complies with agreed-upon specifications, if the warranty is significant to the contract?

**Step 5—Determining the nature of an entity’s promise to grant a licence**

43. Appendix B of IFRS 15 includes guidance for determining the timing of revenue recognition from licensing intellectual property. The timing of revenue recognition depends on whether the licence provides the customer with a right:
- (a) to access an entity’s intellectual property as it exists throughout the licence period (in which case, the licence transfers to the customer over time and revenue is recognised over time); or
  - (b) to use the entity’s intellectual property as it exists at the point in time at which the licence is granted (in which case, the licence transfers at a point in time, and revenue is recognised at that time).<sup>12</sup>
44. Paragraph B58 of IFRS 15 sets out three criteria for determining whether a licence provides a customer with a right to access an entity’s intellectual property. The criteria are:
- (a) the contract requires, or the customer reasonably expects, that the entity will undertake activities that significantly affect the intellectual property to which the customer has rights;
  - (b) the rights granted by the licence directly expose the customer to any positive or negative effects of the entity’s activities identified in paragraph 44(a) of this paper; and
  - (c) those activities do not result in the transfer of a good or a service to the customer as those activities occur.

If the criteria are not met, then the licence provides a customer with a right to use the entity’s intellectual property as it exists at the point in time at which the licence is granted.

45. Paragraphs B59–B59A of IFRS 15 support the application of the criteria in paragraph B58 of IFRS 15. Paragraph B59 of IFRS 15 specifies factors that may indicate that a customer could reasonably expect that the entity will undertake activities that significantly affect the intellectual property. Paragraph B59A of IFRS 15 sets out two criteria for determining if an entity’s activities significantly affect the intellectual

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<sup>12</sup> Paragraph B56 of IFRS 15.



property to which the customer has rights, which involve determining whether the intellectual property has significant ‘stand-alone functionality’. The criteria are:

- (a) those activities [of the entity] are expected to significantly change the form (for example, the design or content) or the functionality (for example, the ability to perform a function or task) of the intellectual property; or
  - (b) the ability of the customer to obtain benefit from the intellectual property is substantially derived from, or dependent upon, those activities. For example, the benefit from a brand is often derived from, or dependent upon, the entity’s ongoing activities that support or maintain the value of the intellectual property.
46. Feedback from advisors supporting entities applying IFRS 15 suggests that the application of paragraphs B58–B59A of IFRS 15 can be challenging because:
- (a) entities are required to assess their activities by applying two sets of criteria; and
  - (b) the notion of an asset’s ‘form’ and ‘functionality’ (and the ability for an asset to have ‘stand-alone functionality’) can be subjective.
47. The staff recommend an SME determine whether a licence provides a customer a right to access the entity’s intellectual property based on whether the entity expects to undertake activities that either:
- (a) will significantly affect the benefit that a customer obtains from the intellectual property by changing the substance of the intellectual property; or
  - (b) could significantly affect the benefit that a customer obtains from the intellectual property by directly exposing the customer to any positive or negative effects of those activities.
48. The staff recommend the criteria in paragraph 47 of this paper should be accompanied by paragraphs that:
- (a) specify that activities forming part of the assessment of whether a licence provides a customer a right to access the entity’s intellectual property must not result in the transfer of a good or service to the customer as those activities occur (consistent with paragraph B58(c) of IFRS 15);

- (b) specify that an entity’s expected activities may arise from the terms of the contract or customer’s expectations (consistent with paragraph B58(a) of IFRS 15); and
  - (c) include examples of:
    - (i) activities that could change the substance (ie form or functionality) of the intellectual property (and meet the criterion in paragraph 47(a) of this paper); and
    - (ii) activities that could directly expose a customer to any positive or negative effects of those activities (and meet the criterion in paragraph 47(b) of this paper).
49. The recommended approach in paragraphs 47–48 of this paper:
- (a) simplifies determining whether a licence provides a customer with a right to access the entity’s intellectual property by:
    - (i) requiring SMEs to make a single assessment of their activities by applying two criteria; and
    - (ii) not using the terms ‘form’ or ‘functionality’; and
  - (b) retains:
    - (i) the structure of the requirements in IFRS 15, by including criteria that identify licences that provide customers a right to access the entity’s intellectual property; and
    - (ii) the underlying principles of the requirements in IFRS 15, by focusing on the effect of an entity’s activities on the benefit that a customer obtains from the licence.
50. The recommended criteria in paragraph 47 of this paper reframe the criteria in paragraphs B58 and B59A of IFRS 15, based on the following simplifications:
- (a) an SME is not required explicitly to meet the criterion in paragraph B59A(b) of IFRS 15—the staff believe that when a customer’s ability to obtain benefit from the intellectual property is substantially derived, or dependent upon, an entity’s activities, it is likely that the customer will also be exposed to the

positive or negative effect of those activities (ie the criterion in paragraph B58(b) of IFRS 15 is also met). For example, if a customer’s benefit from a licence of a sports team’s name and logo is derived from the team’s ongoing activities (ie continuing to play and providing a competitive team), the customer is also exposed to the positive or negative effects of those ongoing activities (for example, winning and losing sports matches);

- (b) an SME is not required to meet both the criteria in paragraphs B59A(a) and B58(b) of IFRS 15—the staff believe that when the activities of an entity significantly affect the benefit that a customer obtains from the intellectual property by changing the substance of the intellectual property, the customer will also be exposed to the positive or negative of those activities (ie the criterion in paragraph B58(b) of IFRS 15 is also met). For example, if a customer’s benefit from a licence of software is dependent on an entity’s activities that update the software’s design, the customer is also exposed to the positive or negative effects of those activities (for example, the updates improve the customers protection from viruses); and
- (c) changes to the intellectual property’s ‘form’ and ‘functionality’ are collectively referred to as changes to the intellectual property’s ‘substance’—the staff believe this is a simpler way of describing such changes that retains the notion that the intellectual property has changed from the point that the licence was granted and is consistent with the principle of determining the nature of the entity’s promise described in paragraph 43 of this paper.

51. The recommended criteria in paragraph 47 of this paper also emphasise the difference between activities that:

- (a) change the substance of the intellectual property (thereby significantly affecting the benefit that a customer obtains from the intellectual property); and
- (b) support or maintain the value of the intellectual property (which could significantly affect the benefit that a customer obtains from the intellectual property).

52. As the nature of these activities described in paragraph 51 of this paper are likely to be different, distinguishing between them will help SMEs consider activities that fall into both categories; for example, targeted activities that meet the criterion in paragraph 51(a) of this paper, and ongoing activities that meet the criterion in paragraph 51(b) of this paper.
53. The staff believe the recommended approach in paragraphs 47–48 of this paper does not significantly change the underlying principle for determining whether a licence provides a customer with a right to access the entity’s intellectual property in IFRS 15. Therefore, the simplification is not considered to impact faithful representation.

**Question 4 for the IASB**

Does the IASB agree to propose amendments to Section 23 of the *IFRS for SMEs* Accounting Standard so that a licence would be determined to provide a customer with a right to access an SME’s intellectual property if the SME expects to undertake activities that either:

- (a) will significantly affect the benefit that the customer obtains from the intellectual property by changing the substance of the intellectual property; or
- (b) could significantly affect the benefit that the customer obtains from the intellectual property by directly exposing the customer to any positive or negative effects of those activities.

**Disclosures**

54. At its March 2022 meeting, the IASB tentatively decided on an approach to developing proposed amendments to the disclosure requirements in the *IFRS for SMEs* Accounting Standard that would result in consistency between these disclosure requirements and those included in the Exposure Draft *Subsidiaries without Public Accountability Disclosures* (Exposure Draft).<sup>13</sup> The approach was to align disclosure requirements with the proposals in the Exposure Draft in the sections of the *IFRS for SMEs* Accounting Standard for which the IASB has tentatively decided to propose

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<sup>13</sup> See AP30A *Towards an exposure draft—aligning disclosure requirements with IFRS Accounting Standards* of the March 2022 IASB meeting and the IASB Update March 2022.

alignment of recognition and measurement requirements with IFRS Accounting Standards.

55. At its April 2022 meeting, the IASB tentatively decided to propose amendments to Section 23 based on the approach described in paragraph 54 of this paper.<sup>14</sup> At this meeting, the staff recommend the IASB considers the following exceptions to this approach:

- (a) the amendment of some of the disclosure requirements proposed in the Exposure Draft. These are listed in Appendix B to this paper.
- (b) the addition of a disclosure requirement of IFRS 15 that was not included in the Exposure Draft (see paragraph 56 of this paper).

*Additional disclosure requirement*

56. The staff recommend that an SME should be required to disclose when it typically satisfies its performance obligations (for example, upon shipment, upon delivery, as services are rendered or upon completion of service). This information is required by paragraph 119(a) of IFRS 15 but was not included in the Exposure Draft.

57. The staff believe the disclosure requirement would act as a trigger for an SME to revisit its accounting policy for revenue on the application of the revised Section 23. Without the requirement, there is a risk that if there are limited changes to the amount and timing of revenue recognised by an SME on applying the revised Section 23, the SME would retain its current description of its accounting policy unchanged. The disclosure would require SMEs to provide more descriptive information about an area of significant judgement in the new revenue recognition model, which would not be onerous for SMEs to disclose and would provide useful information for users of SMEs' financial statements.

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<sup>14</sup> See AP30A *Towards an exposure draft—disclosures* of the April 2022 IASB meeting.

**Question 5 for the IASB**

Does the IASB agree to propose amendments to Section 23 of the *IFRS for SMEs* Accounting Standard to require an SME to disclose:

- (a) revenue recognised from contracts with customers disaggregated into categories, showing separately, at a minimum, revenue arising from:
  - (i) the sale of goods;
  - (ii) the rendering of services;
  - (iii) royalties;
  - (iv) commissions; and
  - (v) any other significant types of revenue; and
- (b) when the SME typically satisfies its performance obligations (based on paragraph 119(a) of IFRS 15)?

Does the IASB agree not to introduce in Section 23 disclosure requirements based on paragraphs 89, 90, 93 and 97 of the *Exposure Draft Subsidiaries without Public Accountability: Disclosures*?

***Sweep issues—Application of the simplifications the IASB has tentative decided to propose***

58. The staff analysis in this paper revisits the IASB’s tentative decision to propose simplifications for the following topics in IFRS 15:
- (a) allocating discounts and variable consideration; and
  - (b) series of distinct goods or services.
59. The analysis discusses issues identified with applying the simplifications and considers the scope and interaction between the simplifications.

***Step 4—Allocating discounts and variable consideration***

60. IFRS 15 generally requires a contract’s transaction price to be allocated on a relative standalone selling price basis.<sup>15</sup> The relative standalone selling price basis is used to allocate discounts and variable consideration to all the performance obligations in a contract unless specific criteria are met.

<sup>15</sup> Paragraph 74 of IFRS 15.

61. The criteria in IFRS 15 specify circumstances in which an entity is required to allocate a discount or variable consideration entirely to one or more, but not all, of the performance obligations in the contract.<sup>16</sup> This is restricted to instances in which allocating the transaction price on a relative stand-alone price basis would not faithfully depict the amount of consideration to which an entity is entitled upon satisfying a particular performance obligation (that is, if applying the default method would be inconsistent with the allocation objective in paragraph 73 of IFRS 15).
62. The criteria in IFRS 15 also specify circumstances in which an entity is required to allocate variable consideration entirely to one or more, but not all, distinct goods or services promised in a series of distinct goods or services that forms part of a single performance obligation.<sup>17</sup> This is restricted to instances in which allocating the transaction price to all the distinct goods or services that form part of the performance obligation would not faithfully depict the amount of consideration to which an entity expects to be entitled in exchange for transferring the promised goods or services to the customer.
63. At its February 2022 meeting, the IASB tentatively decided to propose that an SME would be required to allocate discounts and variable consideration on a relative stand-alone selling price basis, *unless an alternative method more faithfully depicts* the amount of consideration to which the entity expects to be entitled in exchange for satisfying each separate performance obligation. This simplification was intended to provide SMEs with a clear and straightforward starting point when allocating discounts and variable consideration and remove the need for entities to consider additional criteria to depart from applying the standalone selling price basis (the default method).
64. The simplification in paragraph 63 of this paper would have required SMEs to identify whether alternative methods of allocating discounts and variable consideration more faithfully depict the amount of consideration to which the entity expects to be entitled in exchange for satisfying each separate performance obligation. Therefore, rather than treating standalone selling price as a default, an SME would have to support its decision by identifying possible alternative methods and assessing

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<sup>16</sup> Paragraphs 82 and 85 of IFRS 15.

<sup>17</sup> Paragraphs 82 and 85 of IFRS 15.

whether these provide a more faithful representation compared to the default method. The extent of possible alternative methods means there could be significant costs associated with this requirement, which could exceed those costs associated with the equivalent requirements of IFRS 15. This is not consistent with the staff’s intention when recommending this simplification.

65. The staff instead recommend that an SME is required to allocate discounts and variable consideration on a relative stand-alone selling price basis, *unless this basis does not depict* the amount of consideration to which the entity expects to be entitled in exchange for satisfying each separate performance obligation. In that case, the SME shall allocate the discount or variable consideration using a method that reflects such an amount. The recommended drafting change would remove the requirement for an SME to identify and assess alternative methods of allocating discounts and variable consideration to support its decision to apply the default method. The simplification would provide SMEs with a starting point for allocating the discount or variable consideration. Before considering alternative methods, an SME would be required to:
- (a) allocate the discount or variable consideration using the default method; and then
  - (b) assess whether this basis depicts the amount of consideration to which the entity expects to be entitled in exchange for satisfying each separate performance obligation.
66. As the revised Section 23 will require SMEs to allocate the transaction price of a contract using the default method, an SME will have the information required to allocate a discount or variable consideration using this method. Therefore, the additional costs associated with the requirements in paragraph 65 of this paper are expected to be limited.
67. Feedback from advisors supporting entities applying IFRS 15 explained that there are limited instances when an entity is required to depart from the default method specified in IFRS 15. In these instances, it is typically clear that allocating a discount or variable consideration proportionately to all the performance obligations would be inappropriate. Therefore, instances when the default method does not depict the amount of consideration to which the entity expects to be entitled in exchange for



satisfying each separate performance obligation are expected to be sufficiently clear to SMEs to trigger them to identify and select an alternative method.

**Question 6 for the IASB**

Does the IASB agree to propose amendments to Section 23 of the *IFRS for SMEs* Accounting Standard so that an SME would be required to allocate discounts and variable consideration to the performance obligations in a contract on a relative stand-alone selling price basis, unless this basis does not depict the amount of consideration to which the SME expects to be entitled in exchange for satisfying each separate performance obligation. In that case, the SMEs would instead be required to use a method that reflects the amount of consideration to which the SME expects to be entitled in exchange for satisfying each separate performance obligation?

*Application to a series of distinct goods or services*

68. The staff recommend that the simplification in paragraph 65 of this paper also applies to a series of distinct goods or services that forms part of a single performance obligation.
69. Expanding the simplification in this way means that an SME would allocate variable consideration to all the distinct goods or services promised in this series, unless this does not depict the amount of consideration to which the SME expects to be entitled in exchange for transferring the promised goods or services to the customer. In that case, the SME shall allocate the variable consideration using a method that reflects such an amount.
70. Permitting an SME to allocate variable consideration to distinct goods or service if those goods or services form a single performance obligation is consistent with IFRS 15. It is necessary to avoid SMEs allocating variable consideration to the entire performance obligation (ie the entire contract) when the variable consideration can be attributed to a specific portion of the contract (for example, the consideration promised for the second year of a two-year cleaning service contract that will increase on the basis of movements in a specified inflation index).

**Question 7 for the IASB**

Does the IASB agree to propose amendments to Section 23 of the *IFRS for SMEs* Accounting Standard so that when an SME promises to transfer a series of distinct goods or services that are identified as a single performance obligation, the SME is required to allocate variable consideration to all the distinct goods or services that form part of the performance obligation, unless this does not depict the amount of consideration to which the SME expects to be entitled in exchange for transferring the promised goods or services to the customer. In that case, the SME would instead be required to use a method that reflects the amount of consideration to which the SME expects to be entitled in exchange for transferring the promised goods or services to the customer?

**Step 2—Series of distinct goods or services**

71. IFRS 15 requires a promise to transfer a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer to be accounted for as *a single performance obligation*.<sup>18</sup> At its February 2022 meeting, the IASB tentatively decided to make this an option rather than a requirement when drafting Section 23 to align with IFRS 15. The option would permit an SME to account for a promise to transfer a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer as *separate performance obligations*, if the amount of consideration varies in a way that corresponds with the value of the distinct goods or services transferred to the customer.
72. The simplification in paragraph 71 of this paper makes it possible for SMEs to account for each year of a multi-year contract as a separate performance obligation when the amount of consideration varies over the contract term (for example, the consideration varies each year in line with a specified inflation index or anticipated increases in costs). The option provides an alternative to accounting for such contracts as a single performance obligation, as would be required by IFRS 15. By accounting for these contracts as a single performance obligation, entities are required to estimate the consideration for the entire contract and recognise this amount evenly over the

<sup>18</sup> Paragraph 22(b) of IFRS 15.

contract term. For SMEs, this may not reflect the economics of a contract for which the amount of consideration has been agreed to increase each year to reflect the value of the goods or services transferred to the customer. Therefore, the option provides scope for an SME to recognise an amount of revenue that corresponds to the value of the distinct goods or services transferred to the customer.

73. The recommendation in paragraph 68 of this paper provides scope for an SME to recognise an amount of revenue for each year of a multi-year contract that corresponds to the value of the distinct goods or services transferred to the customer. It would require an SME to allocate variable consideration to all the distinct goods or services promised in a series of goods or services that forms part of a single performance obligation, unless this does not depict the amount of consideration to which the entity expects to be entitled in exchange for transferring the promised goods or services to the customer. In that case, the SME shall allocate the variable consideration using a method that reflects such an amount. The method of allocating the variable consideration could be based on the value of the distinct goods or services transferred to the customer.
74. This outcome is the same as the outcome of applying the simplification in paragraph 71 of this paper, as described in paragraph 72 of this paper.
75. As the outcome of the simplification in paragraph 71 of this paper can be achieved by applying the recommendation in paragraph 68 of this paper, the staff believe the simplification is not necessary. Therefore, the staff recommend the IASB change its tentative decision made in February 2022 and propose amendments to Section 23 to require an entity to account for the promise to transfer a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer as a single performance obligation, instead of introducing an option to account for the promise as separate performance obligations.

**Question 8 for the IASB**

Does the IASB agree to revisit the tentative decision it made in February 2022 and propose amendments to Section 23 of the *IFRS for SMEs* Accounting Standard to require, rather than permit, an SME to account for the promise to transfer a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer as a separate performance obligation?

## Appendix A—Staff summary of the IASB’s tentative decisions to propose amendments to Section 23 *Revenue* of the *IFRS for SMEs Accounting Standard*

IASB’s tentative decisions	IASB meeting
<p>A1. The IASB tentatively decided to develop amendments to the <i>IFRS for SMEs Accounting Standard</i> to align it with IFRS 15 <i>Revenue from Contracts with Customers</i> by rewriting Section 23 <i>Revenue</i> of the <i>IFRS for SMEs Accounting Standard</i> to reflect the principles and language used in IFRS 15.</p>	<p><a href="#">October 2021</a></p>
<p>A2. The IASB tentatively decided to propose amendments to the <i>IFRS for SMEs Accounting Standard</i> to align Section 23 of the <i>IFRS for SMEs Accounting Standard</i> with IFRS 15, with simplifications for:</p> <ul style="list-style-type: none"> <li>(a) <i>contract modifications</i>—an SME would be required to account for a contract modification either on a prospective basis, following a single approach, or on a cumulative catch-up basis.</li> <li>(b) <i>series of distinct goods or services</i>—an SME would be permitted to account for the promise to transfer a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer as separate performance obligations, if the amount of consideration varies in a way that corresponds with the value of the distinct goods or services transferred to the customer.<sup>19</sup></li> <li>(c) <i>performance obligation terminology</i>—the <i>IFRS for SMEs Accounting Standard</i> would require an SME to identify each ‘promise to transfer a distinct good or service, or bundle of goods or services’.</li> <li>(d) <i>constraining estimates of variable consideration</i>—an SME would be required to recognise variable consideration only to the extent that it is highly probable that the variable amount will be recovered.</li> <li>(e) <i>significant financing components</i>—an SME would be required to recognise the effects of any financing implicit in deferred payment by applying the requirements in Section 11 <i>Basic Financial Instruments</i> of the <i>IFRS for SMEs Accounting Standard</i>. An SME may not apply these requirements if the SME expects, at contract inception, that the period between when the entity transfers a promised good or service to a customer, and when the customer pays for that good or service, will be one year or less.</li> <li>(f) <i>allocating discounts and variable consideration</i>—an SME would be required to allocate discounts and variable consideration to the performance obligations in the contract on a relative stand-alone selling price basis, unless an alternative method more faithfully depicts the amount of consideration to which the entity expects to be entitled in exchange for satisfying each separate performance obligation.<sup>20</sup></li> <li>(g) <i>selecting a method for measuring progress towards complete satisfaction of a performance obligation</i>—the <i>IFRS for SMEs Accounting Standard</i> would include a list of methods frequently used by entities to measure progress and describe circumstances where those methods may be appropriate.</li> <li>(h) <i>incremental costs of obtaining a contract</i>—an SME would be required to recognise as an asset the incremental costs of obtaining a contract with a customer if the SME expects to recover those costs, only when these costs can be identified and assessed as recoverable without undue cost or effort; otherwise the SME would recognise these costs as expenses.</li> </ul>	<p><a href="#">February 2022</a></p>

<sup>19</sup> The staff recommend in this paper that the IASB revisit this tentative decision.

<sup>20</sup> The staff recommend in this paper that the IASB revisit this tentative decision.

IASB's tentative decisions	IASB meeting
<p>A3. The IASB tentatively decided to propose amendments to the <i>IFRS for SMEs</i> Accounting Standard to include the factors in paragraphs 29(a)–(c) of IFRS 15 to help an SME determine whether a promised good or service is separately identifiable.</p> <p>A4. The IASB also tentatively decided to ask for further views on this proposal in the invitation to comment.</p>	<p><a href="#">February 2022</a></p>
<p>A5. The IASB tentatively decided to propose amendments to the <i>IFRS for SMEs</i> Accounting Standard to:</p> <p>(a) permit an SME that applies the revised Section 23 to use either of the following methods:</p> <ul style="list-style-type: none"> <li>(i) retrospectively to each prior reporting period presented, using the same practical expedients in IFRS 15; or</li> <li>(ii) prospectively to contracts that begin after the date of initial application (ie permit SME to continue with their current revenue recognition policy for contracts in progress at the date of initial application);</li> </ul> <p>(b) require an SME that applies the revised Section 23 prospectively to make the following disclosures in periods where they continue to apply their previous revenue recognition policy:</p> <ul style="list-style-type: none"> <li>(i) the accounting policy for the recognition of revenue, including the methods adopted to determine the stage of completion of transactions involving the rendering of services; and</li> <li>(ii) the amount of revenue recognised during the period for contracts where the previous revenue recognition policy is still being applied.</li> </ul> <p>(c) exempt an SME that applies the revised Section 23 prospectively from the disclosure requirements in paragraph 10.13(b) of the <i>IFRS for SMEs</i> Accounting Standard, requiring the SME to instead disclose the adjustment to the profit and loss for the effect of applying the revised Section 23 for the current period.</p>	<p><a href="#">May 2022</a></p>

## Appendix B—Recommended amendments to the disclosure requirements in the Exposure Draft *Subsidiaries without Public Accountability Disclosures*

Disclosure requirement in Exposure Draft	Staff recommendation
<b>General disclosures about revenue from contracts with customers</b>	
<p>89 An entity shall disclose the revenue it recognised from contracts with customers disaggregated into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. Categories that might be appropriate include:</p> <ul style="list-style-type: none"> <li>(a) type of good or service (for example, major product lines);</li> <li>(b) geographical region (for example, country or region);</li> <li>(c) market or type of customer (for example, government and non-government customers);</li> <li>(d) type of contract (for example, fixed-price and time-and-materials contracts);</li> <li>(e) contract duration (for example, short-term and long-term contracts);</li> <li>(f) timing of transfer of goods or services (for example, revenue from goods or services transferred to customers at a point in time and revenue from goods or services transferred over time); and</li> <li>(g) sales channels (for example, goods sold directly to consumers and goods sold through intermediaries).</li> </ul>	<p><b>Recommend not including this requirement.</b></p> <p>This objective-based requirement is not consistent with the <i>IFRS for SMEs</i> Accounting Standard which generally includes transaction-based requirements.</p> <p>In addition, an SME would be required to use judgement to determine categories based on the objective of this paragraph. This could be challenging for SMEs compared to subsidiaries eligible to apply the Exposure Draft. To determine appropriate categories, subsidiaries may refer to the external communications and other information used to evaluate the financial performance of group entities. This source of information may not be available to SMEs.</p> <p><b>Recommend amending to require an SME to disaggregate revenue into categories, showing separately, as at a minimum, revenue arising from:</b></p> <ul style="list-style-type: none"> <li>(a) the sale of goods;</li> <li>(b) the rendering of services;</li> <li>(c) royalties;</li> <li>(d) commissions; and</li> <li>(e) any other significant types of revenue.</li> </ul> <p>The recommended categories are based on the existing categories in paragraph 23.30(b) of the <i>IFRS for SMEs</i> Accounting Standard (revised to align with the scope of the revised Section 23). Retaining these categories ensures a level of consistency for users of financial statements who need to make comparisons between SMEs.</p>
<p>90 If an entity applies IFRS 8 <i>Operating Segments</i>, the entity shall disclose sufficient information to enable users of financial statements to understand the relationship between the disclosure of disaggregated revenue (as required by paragraph 89) and revenue information that is disclosed for each reportable segment.</p>	<p><b>Recommend not including this requirement.</b></p> <p>The <i>IFRS for SMEs</i> Accounting Standard does not address the presentation of segment information.</p>

Disclosure requirement in Exposure Draft		Staff recommendation
<b>Contracts with customers</b>		
91	Unless the amounts are presented separately in the statement of comprehensive income by applying other IFRS Standards, an entity shall disclose the amount of impairment losses recognised (by applying IFRS 9) for the reporting period on any receivables or contract assets arising from an entity's contracts with customers, which the entity shall disclose separately from impairment losses from other contracts for the reporting period.	<b>To include, consistent with the approach described in paragraph 54 of this paper.</b>
<b>Contract balances</b>		
92	An entity shall disclose: <ul style="list-style-type: none"> <li>(a) the opening and closing balances of receivables, contract assets and contract liabilities from contracts with customers, if not otherwise separately presented or disclosed;</li> <li>(b) revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period; and</li> <li>(c) revenue recognised in the reporting period from performance obligations satisfied or partially satisfied in previous periods (for example, changes in transaction price).</li> </ul>	<b>To include, consistent with the approach described in paragraph 54 of this paper.</b>
93	An entity shall explain the significant changes in the contract asset and the contract liability balances during the reporting period.	<b>Recommend not including this requirement.</b>  Providing further qualitative information about an SME's contracts balances is not considered necessary given the existing quantitative disclosures covering these balances in paragraph 92.  This requirement is not consistent with the <i>IFRS for SMEs Accounting Standard</i> , where disclosures required of SMEs are generally quantitative in nature and limited explanations are required.



Disclosure requirement in Exposure Draft		Staff recommendation
<b>Performance obligations</b>		
94	<p>An entity shall disclose information about its performance obligations in contracts with customers, including a description of:</p> <ul style="list-style-type: none"> <li>(a) the significant payment terms (for example, when payment is typically due, whether the contract has a significant financing component, whether the consideration amount is variable and whether the estimate of variable consideration is typically constrained applying paragraphs 56–58 of IFRS 15);</li> <li>(b) obligations for returns, refunds and other similar obligations; and</li> <li>(c) types of warranties and related obligations.</li> </ul>	<b>To include, consistent with the approach described in paragraph 54 of this paper.</b>
<b>Disclosures relating to revenue from contracts satisfied over time</b>		
95	<p>For performance obligations that an entity satisfies over time, an entity shall disclose the methods it used to recognise revenue—for example, a description of the output methods or input methods used and how those methods are applied.</p>	<b>To include, consistent with the approach described in paragraph 54 of this paper.</b>
<b>Transaction price allocated to the remaining performance obligations</b>		
96	<p>An entity shall provide a quantitative or qualitative explanation of the significance of unsatisfied performance obligations and when they are expected to be satisfied. As a practical expedient, an entity need not disclose this information for a performance obligation if either of the following conditions is met:</p> <ul style="list-style-type: none"> <li>(a) the performance obligation is part of a contract that has an original expected duration of one year or less; or</li> <li>(b) the entity recognises revenue from the satisfaction of the performance obligation in accordance with paragraph B16 of IFRS 15.</li> </ul>	<b>To include, consistent with the approach described in paragraph 54 of this paper.</b>

Disclosure requirement in Exposure Draft		Staff recommendation
<b>Determining the transaction price—variable consideration</b>		
97	An entity shall disclose information about the methods, inputs and assumptions used for assessing whether an estimate of variable consideration is constrained.	<b>Recommend not including this requirement.</b>  At its February 2022 meeting, the IASB tentatively decided to propose amendments to Section 23 to require an SME to recognise variable consideration only to the extent that it is highly probable that the variable amount will be recovered. This would simplify the requirements for constraining estimates of variables consideration in the revised Section 23. Therefore, it is not considered necessary to require specific disclosures covering this estimation, above the disclosures required by paragraph 8.7 of the <i>IFRS for SMEs Accounting Standard (Information about key sources of estimation uncertainty)</i> .
<b>Assets recognised from the costs to obtain or fulfil a contract with a customer</b>		
98	An entity shall disclose: <ul style="list-style-type: none"> <li>(a) the closing balances of assets recognised from the costs incurred to obtain or fulfil a contract with a customer (applying paragraphs 91 or 95 of IFRS 15), by main category of asset (for example, costs to obtain contracts with customers, pre-contract costs and setup costs); and</li> <li>(b) the amount of amortisation and any impairment losses recognised in the reporting period.</li> </ul>	<b>To include, consistent with the approach described in paragraph 54 of this paper.</b>
<b>Practical expedients</b>		
99	If an entity elects to use the practical expedient in either paragraph 63 of IFRS 15 (existence of a significant financing component) or paragraph 94 of IFRS 15 (incremental costs of obtaining a contract), the entity shall disclose that fact.	<b>To include, consistent with the approach described in paragraph 54 of this paper.</b>