STAFF PAPER

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Project	Output received by a joint operator (IFRS 11)		
Paper topic	Initial Consideration		
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Introduction

1. The IFRS Interpretations Committee (Committee) received a submission about how a joint operator accounts for output arising from an unincorporated joint operation. Specifically, the submission asked about the accounting when the output a joint operator receives in a reporting period is different from the output to which it is entitled.

2. The objective of this paper is to:

   (a) provide the Committee with a summary of the matter;

   (b) present our research and analysis; and

   (c) ask the Committee whether it agrees with our recommendation not to add the matter to its standard-setting agenda.

Structure of the paper

3. This paper includes:

   (a) background information (paragraphs 5–14);

   (b) outreach (paragraphs 15–24);

   (c) staff analysis (paragraphs 25–59); and

   (d) staff recommendation (paragraph 60).

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4. There are two appendices to this paper:

   (a) Appendix A—Proposed wording of the tentative agenda decision; and

   (b) Appendix B—Submission.

Background information

The fact pattern

5. Appendix B to this paper includes the submission. Below we have reproduced the main facts we considered in our analysis, supplemented by additional information provided by the submitter and through additional research:

   (a) A number of parties establish a joint arrangement by entering into a joint operating agreement (JOA). Each of the parties is a joint operator as defined in IFRS 11 *Joint Arrangements*. The joint arrangement is unincorporated, ie it is not structured through a separate vehicle, and thus applying IFRS 11 is classified as a joint operation[1].

   (b) The JOA sets out the terms upon which the joint operators participate in the joint operation's activities. The JOA specifies that each joint operator has the right to receive a fixed proportion of the output arising from the joint operation. The JOA also specifies each joint operator's proportionate share of the production costs incurred.

   (c) For operational reasons, in any given reporting period the output received by each joint operator may be more or less than its share of the output as specified in the JOA. The joint operators will nonetheless pay for their proportionate share of the production costs incurred in that reporting period—ie the payments made by each joint operator in the period reflect

[1] Paragraph B16 of IFRS 11 states that 'a joint arrangement that is not structured through a separate vehicle is a joint operation'.

its JOA share of production costs and are not adjusted to reflect the output it receives during the period.

(d) Any imbalance between a joint operator's JOA share of output and the output it receives in a reporting period (output imbalance) will be settled through future deliveries of output—ie if a joint operator receives more than its JOA share of the output in one period, the output it receives in future periods will be less than its JOA share and vice versa. Any output imbalance cannot be settled in cash.

(e) Each joint operator transfers any output received to its customers during the reporting period. The joint operator recognises revenue for that output applying IFRS 15 *Revenue from Contracts with Customers*. Having considered the requirements in paragraphs B34–B38 on principal versus agent considerations, the joint operator determines that the nature of its promise in contracts with customers is a performance obligation to provide the output—ie the joint operator is a principal for all the output sold to its customers.

6. We are aware that, in some situations, a joint operator may receive output from the joint operation's activities that it has not transferred to its customers by the end of the reporting period. We have considered whether that change in the fact pattern would change our analysis in paragraphs 54–57 of this paper.

The submission and illustration

7. The submitter asks whether, in the fact pattern described in the submission, a joint operator recognises total revenue in each reporting period that depicts the output to which it is entitled or, instead, recognises total revenue that depicts the output received and sold to its customers. The submission outlines arguments in support of each of those views.

8. To illustrate, consider the following hypothetical and simplified example:

> Operator A and Operator B establish an unincorporated joint operation that is expected to produce output over a 2-year

period. The JOA specifies that Operator A and Operator B each has the right to receive 50% of the output arising from the joint operation's activities over the 2-year period, and each will pay for 50% of the production costs incurred.

The joint operation's activities give rise to output of CU100 in Year 1. However, for operational reasons Operator A has received and sold CU48 of that output and Operator B CU52. In Year 2, the joint operation's activities give rise to output of CU150. Operator A receives and sells CU77 of the output and Operator B CU73. In Years 1 and 2, Operators A and B pay for 50% of the production costs incurred.

Operator A recognises revenue from contracts with customers applying IFRS 15 of CU48 (Year 1) and CU77 (Year 2); Operator B recognises revenue from contracts with customers of CU52 (Year 1) and CU73 (Year 2).

For simplicity, the example assumes that the value of the output and the costs incurred are exactly the same in each year—ie CU100 in Year 1 and CU150 in Year 2. Therefore, Operator A and Operator B each pay for production costs of CU50 in Year 1 and CU75 in Year 2.

9. At the end of Year 1:

(a) Operator A recognises an asset of CU2 (CU50-CU48) to depict its entitlement to output in Year 2 for which it has already paid the production costs.

(b) Operator B recognises a liability of CU2 (CU52-CU50) to depict that it has already received output for which it is obliged to pay the production costs in Year 2.

10. The submitter asks about the presentation of the corresponding debit or credit that each joint operator recognises in profit or loss on recognising that asset or liability—and specifically whether the joint operator recognises that corresponding debit or credit as other revenue or, instead, as part of production expenses.

11. Using the example in paragraph 8, the submitter therefore asks which of the following Operator A recognises:

Year 1	Balance sheet		Profit or loss	
DR. Cash/receivable	CU48			
CR. IFRS 15 revenue				CU48
DR. Production expenses			CU50	
CR. Cash		CU50		
DR. Asset	CU2			
CR. Other revenue				CU2
or				
CR. Production expenses				CU2

Year 2	Balance sheet		Profit or loss	
DR. Cash/receivable	CU77			
CR. IFRS 15 revenue				CU77
DR. Production expenses			CU75	
CR. Cash		CU75		
DR. Other revenue			CU2	
or				
DR. Production expenses			CU2	
CR. Asset		CU2		

12. If the entry highlighted above is made to other revenue, Operator A recognises total revenue of CU50 (IFRS 15 revenue of CU48 plus other revenue of CU2) in Year 1 and CU75 (IFRS 15 revenue of CU77 plus other revenue of (CU2)) in Year 2, depicting the output to which it is entitled under the JOA. If instead that entry is made to production expenses, Operator A recognises total revenue of CU48 (Year 1) and CU77 (Year 2), depicting the output received and sold to its customers.

13. Similarly, the submitter asks whether, in the example in paragraph 8, Operator B recognises:

(a) total revenue in Year 1 of CU50 (CU52 – CU2) and in Year 2 of CU75 (CU73 + CU2); or instead

(b) total revenue in Year 1 of CU52 and in Year 2 of CU73, depicting the output received and sold to its customers.

14. The submitter says the fact pattern is common in the oil and gas industry.

Outreach

15. We sent information requests to members of the International Forum of Accounting Standard-Setters, securities regulators and large accounting firms.

16. The request asked those participating to provide information based on their experience about:

    (a) the prevalence of the fact pattern, including the industries affected and whether any output imbalance is material for entities affected; and

    (b) how an entity accounts for the output imbalance if it applies IFRS 15. If practice applying IFRS 15 had not been observed, we asked participants to provide information about entities applying IAS 18 *Revenue*.

17. We received 16 responses—six from large accounting firms, seven from national standard-setters, two from organisations representing groups of regulators and one from a preparer. The views received represent informal opinions, rather than formal views of those responding.

Prevalence

18. 11 respondents confirmed the fact pattern is common in the oil and gas industry. Seven said output imbalances are typically immaterial for entities engaged in such joint operations; however others said such imbalances can be material especially for mid-sized and smaller independent entities. One respondent said entities engaged in long-term offshore drilling arrangements can have significant output imbalances.

19. Some respondents said the fact pattern may be common in the mining industry and in aluminium production. Two respondents said joint operations are common in the

automotive industry, although neither described a fact pattern that is the same as the fact pattern described in the submission.

20. Four respondents said the fact pattern is not common.

Accounting

21. Ten respondents commented on the application of IFRS 15 to the fact pattern. Those respondents said IFRS 15 does not apply to the output imbalance—an entity recognises as revenue from contracts with customers only amounts relating to output sold to its customers.

22. Respondents identified differences in the accounting for output imbalances, both for entities applying IFRS 15 and when entities had applied IAS 18:

    (a) Four respondents said they are aware of entities that present the imbalance as other revenue in profit or loss and also entities that present it as production expenses. Some said presentation as other revenue is more common whereas others said presentation as production expenses is more common.

    (b) Two respondents said they are aware of one entity that does not recognise an asset or liability for its output imbalance.

23. Two respondents said they are aware of differences in the measurement of output imbalances—they have observed measurement based on cost (ie with reference to the costs incurred in the reporting period) and also based on market value (ie the market value of the output received). The submission does not ask about measurement, and therefore we do not discuss measurement in the remainder of this paper.

24. Some respondents had not observed practice but provided their views on the accounting.

Staff analysis

What does IFRS 11 say?

25. Paragraph 20 of IFRS 11 specifies the requirements for the recognition of assets, liabilities, revenue and expenses in relation to a joint operator's interest in a joint operation:

> A joint operator shall recognise in relation to its interest in a joint operation:
>
> (a) its assets, including its share of any assets held jointly;
>
> (b) its liabilities, including its share of any liabilities incurred jointly;
>
> (c) its revenue from the sale of its share of the output arising from the joint operation;
>
> (d) its share of the revenue from the sale of the output by the joint operation; and
>
> (e) its expenses, including its share of any expenses incurred jointly.

26. Paragraph 21 of IFRS 11 states:

> A joint operator shall account for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses.

27. Accordingly, there are two revenue streams that a joint operator might recognise in relation to a joint operation—(i) revenue from the sale of its share of the output arising from the joint operation (paragraph 20(c) of IFRS 11); and (ii) its share of the revenue from the sale of the output by the joint operation (paragraph 20(d) of IFRS 11).

28. In the fact pattern described in the submission, the joint operation itself does not sell output. Instead, each joint operator receives output arising from the joint operation

and sells the output to its customers. The question in the submission is therefore about the application of paragraph 20(c) of IFRS 11.

29. In analysing the application of that paragraph, we have considered the accounting from the perspective of both a joint operator that has received less output than its JOA share (an underlifter) and a joint operator that has received more output than its JOA share (an overlifter).

Underlifter

30. An underlifter has received less than its JOA share of the output arising from the joint operation in a particular financial reporting period. This means that it is entitled under the JOA to receive output in future reporting periods that is more than its JOA share of output arising in those future periods. When it receives that output in future periods, it transfers it to customers and recognises revenue applying IFRS 15.

31. In the fact pattern described in the submission, the underlifter has already paid for output to which it is entitled but has not yet received. When it receives the additional output in future periods, it will pay production costs only for its JOA share and not for the additional output. The underlifter recognises an asset, which in our view represents a prepayment for output not yet received. The underlifter has a right to future production of the joint operation.

32. We think the underlifter recognises the other side of this entry in profit or loss, presented as part of production expenses and not as other revenue. Paragraph 20(c) of IFRS 11 requires a joint operator to recognise 'its **revenue from the sale** of its share of the output arising from the joint operation' (**emphasis added**). Accordingly, revenue recognised must depict the *sale* of output by the joint operator. The underlifter has not received output from the joint operation beyond that sold to its customers by the end of the financial reporting period. Accordingly, it has not sold the additional output not yet received during that period.

33. Consequently, in the fact pattern described in the submission, the underlifter presents total revenue that depicts its revenue from contracts with customers applying IFRS 15 (paragraph 21 of IFRS 11 requires a joint operator to account for revenues applying

the IFRS Standards applicable to the particular revenues). That revenue represents 'its revenue from the sale of its share of the output arising from the joint operation' (paragraph 20(c) of IFRS 11).

34. Using the example in paragraph 8 of this paper, Operator A is an underlifter in Year 1. Operator A would recognise and present revenue of CU48 and production expenses of CU48 (ie production costs of CU50 in Year 1 less the output imbalance of CU2) in Year 1.

Selling to other joint operators

35. In the fact pattern described in the submission, some might suggest that the underlifter has sold to the other joint operators (that are overlifters) the output to which it is entitled but not received in the period. The joint operators would have together agreed to the amounts and timing of receipt of output by each joint operator over the term of the joint operation, and thus that agreement could be viewed as creating a sale of output by the underlifter to the overlifter. The consideration for that sale would be the receipt of output from the overlifter in future reporting periods.

36. Applying this alternative view, the underlifter would recognise 'its revenue from the sale of its share of output arising from the joint operation' (paragraph 20(c) of IFRS 11) as revenue from contracts with customers plus revenue from the sale of output to the other joint operations. Total revenue would depict the sale of its JOA share of the output produced in that reporting period, regardless of whether that output has been sold to the joint operator's customers. In the example in paragraph 8, this would mean that Operator A sells output of CU2 in Year 1 to Operator B and recognises total revenue of CU50.

37. We do not agree with this view. This is because that same output is sold by the underlifter to its customers in future reporting periods when it receives the additional output. If the underlifter had sold the output to the other joint operators in one period, then that output would no longer exist in future periods to be sold to customers. However, in future periods the underlifter sells all the output it receives to its customers as a principal, and thus applying IFRS 15 recognises revenue for the sale of all that output in future periods. Accordingly, this view would result in an underlifter

recognising other revenue in one period, and revenue from contracts with customers in a future period, for the sale of the same output—in other words, it would recognise revenue twice for the sale of one amount of output.

38. If the logic supporting this alternative view were followed (ie the underlifter in any particular reporting period sells output to the overlifter(s)), then the overlifter would recognise the purchase of that output as inventory, and then as a production expense when the output is sold. It would not recognise it as negative other revenue—see paragraphs 44–48 of this paper.

39. Using the example in paragraph 8 to illustrate, applying this alternative view Operator A would have recognised revenue in Year 1 of CU50 (ie CU48 of revenue from contracts with customer and CU2 of other revenue) and revenue of CU77 (all revenue from contracts with customers) in Year 2. In that example, Operator A has received and sold output of CU125 over the 2-year period of the joint operation, and yet applying this view would recognise revenue of CU127. Operator A would have recognised revenue of CU2 twice (in both Year 1 and Year 2) for the sale of the same output.

40. Our view is supported by the Board's considerations when developing IFRS 15. The Board excluded from the scope of IFRS 15 non-monetary exchanges between entities in the same line of business to facilitate sales to customers. Paragraph 5(d) of IFRS 15 states:

> An entity shall apply this Standard to all contracts with customers, except the following:
>
> …
>
> (d) non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers. For example, this Standard would not apply to a contract between two oil companies that agree to an exchange of oil to fulfil demand from their customers in different specified locations on a timely basis.

41. In the fact pattern described in the submission, if the underlifter were to consider that it has sold the output imbalance to the overlifter(s) in exchange for the receipt of

output in a future period, then that would be a non-monetary exchange between entities in the same line of business to facilitate sales to customers.

42. The Board explained in paragraph BC58 of IFRS 15 the reasons for the scope exclusion in paragraph 5(d) of IFRS 15:

> …in the absence of specific requirements [that exclude from the scope of IFRS 15 the non-monetary exchanges specified in paragraph 5(d)], an entity might recognise revenue once for the exchange of inventory and then again for the sale of the inventory to the end customer. The boards decided that this outcome would be inappropriate for the following reasons:
>
> (a) it would have grossed up revenues and expenses and made it difficult for users of financial statements to assess the entity's performance and gross margins during the reporting period; and
>
> (b) some view the counterparty in those arrangements as also acting as a supplier and not as a customer.

43. Consequently, the Board is of the view that recognising revenue twice for the sale of output is inappropriate—it does not provide useful information to users of financial statements.

Overlifter

44. An overlifter has received more than its JOA share of the output arising from the joint operation in a particular financial reporting period. This means that it is entitled under the JOA to receive output in future reporting periods that is less than its JOA share of output arising in those future periods. The overlifter transfers all output received to its customers and recognises revenue applying IFRS 15.

45. In the fact pattern described in the submission, the overlifter has received output for which it has not yet paid the production costs. In future periods, it will pay for production costs relating to its JOA share of output produced in that period but will receive output that is less than its share. The overlifter recognises a liability, which in

our view represents an accrual for inventory/output received (and sold to customers) but not yet paid for.

46. We think the overlifter recognises the other side of this entry in profit or loss, presented as part of production expenses and not as negative other revenue. The production expenses presented then depict the cost of the output received and sold to customers in the reporting period, and the revenue recognised depicts the overlifter's revenue from contracts with customers applying IFRS 15. This revenue represents the overlifter's 'revenue from the sale of its share of the output arising from the joint operation' (paragraph 20(c) of IFRS 11).

47. Some might question whether the part of the output received and sold beyond the overlifter's JOA share of output produced in the reporting period represents 'revenue from the sale of **its share** of the output arising from the joint operation' (**emphasis added**). In other words, is that additional output sold to customers part of the overlifter's share of output? In our view, yes. In the fact pattern described in the submission, we view all output sold by the overlifter to its customers as the sale of its share of the output—it is simply that the overlifter has received (and sold) more of its share of the output produced by the joint operation in one reporting period and, consequently, will receive less of that share in future periods. Over the entire period of the joint operation, the joint operator will receive (and sell) its JOA share of the output produced. Consequently, in the fact pattern described in the submission 'its revenue from the sale of its share of the output arising from the joint operation' (paragraph 20(c) of IFRS 11) depicts its revenue from contracts with customers applying IFRS 15—IFRS 15 is the applicable IFRS Standard for the particular revenues as specified in paragraph 21 of IFRS 11.

48. Using the example in paragraph 8 of this paper, Operator B is an overlifter in Year 1. Operator B would recognise and present revenue of CU52 and production expenses of CU52 (ie production costs of CU50 in Year 1 plus the output imbalance of CU2) in Year 1.

Selling on behalf of other joint operators

49. In the fact pattern described in the submission, some might suggest that the overlifter sells only its JOA share of output produced in the particular reporting period, and the remaining output sold to its customers in that period is sold on behalf of the other joint operators (that are underlifters). In that particular reporting period, the overlifter has received (and sold) output to which the other joint operators are entitled, on agreement by those other joint operators.

50. Applying this alternative view, an overlifter would present as negative other revenue the amount of output sold to customers in the reporting period beyond its JOA share of output produced in that period. This would result in restricting the amounts presented as revenue to only the overlifter's JOA share of the output produced in that reporting period.

51. We do not agree with this view. The fact pattern specifies that, applying paragraphs B34–B38 of IFRS 15, the joint operator has determined that it is a principal for all the output sold to its customers—it is not an agent that arranges for the output to be provided to the customers by the other joint operators. Consequently, the overlifter has received and controlled the output before that output is transferred to its customers. In this situation, we think it would be inappropriate to present revenue as if the overlifter were an agent for part of the output sold to its customers when that is not the case.

Performance

52. Some support presenting revenue that depicts the joint operator's JOA share of the output produced in the reporting period, rather than revenue that depicts the output sold to customers in that period. This is because, in their view, such presentation better depicts the performance of the entity. They say any output imbalance arises only for operational reasons, and it is meaningful to present revenue that depicts the joint operator's contractually-agreed share of the production of output by the joint operation.

53. However, when developing IFRS 15, the Board considered whether to require entities to recognise revenue to depict production, rather than 'to depict the transfer of promised goods or services to customers' (an extract from the core principle of IFRS 15 specified in paragraph 2 of that Standard). Paragraphs BC22–BC24 of IFRS 15 explain why the Board concluded that recognising revenue based on production does not provide the most useful information to users of financial statements:

> BC22 Nearly all respondents to the Discussion Paper agreed with the boards' view that an entity generally should not recognise revenue if there is no contract with a customer. However, some respondents requested that the boards instead develop an activities model in which revenue would be recognised as the entity undertakes activities in producing or providing goods or services, regardless of whether those activities result in the transfer of goods or services to the customer. Those respondents reasoned that recognising revenue over time, for example, throughout long-term construction or other service contracts, regardless of whether goods or services are transferred to the customer, would provide users of financial statements with more useful information.
>
> BC23 However, the boards noted the following concerns about an activities model:
>
> (a) revenue recognition would not have been based on accounting for the contract. In an activities model, revenue arises from increases in the entity's assets, such as inventory or work-in-progress, rather than only from rights under a contract. Consequently, conceptually, an activities model does not require a contract with a customer for revenue recognition, although revenue recognition could be precluded until a contract exists. However, that would have resulted in revenue being recognised at contract inception for any activities completed to that point.

> (b) it would have been counterintuitive to many users of financial statements. An entity would have recognised consideration as revenue when the customer had not received any promised goods or services in exchange.
>
> (c) there would have been potential for abuse. An entity could have accelerated revenue recognition by increasing its activities (for example, production of inventory) at the end of a reporting period.
>
> (d) it would have resulted in a significant change to previous revenue recognition requirements and practices. In many of those requirements, revenue was recognised only when goods or services were transferred to the customer. For example, previous requirements in IFRS required revenue from the sale of a good to be recognised when the entity transferred ownership of the good to the customer. The boards also observed that the basis for percentage-of-completion accounting in previous revenue recognition requirements could be viewed as similar to the core principle in IFRS 15.
>
> BC24 Accordingly, the boards did not develop an activities model and they maintained their view that a contract-based revenue recognition principle is the most appropriate principle for a general revenue recognition standard for contracts with customers.

Inventory

54. As noted in paragraph 6 of this paper we are aware that, in some situations, the joint operator may receive output from the joint operation's activities that it has not transferred to its customers by the end of the reporting period—in that situation, we assume that the joint operator controls the output at the end of the reporting period and that the output will be sold in the ordinary course of business in a future reporting period. If that is the case, then the joint operator has inventory at the end of the reporting period (applying IAS 2 *Inventories*) for the output received and not yet sold.

55. Such a situation would result in a joint operator reporting different amounts of revenue and production expenses than in the fact pattern described in the submission—those different amounts reported would reflect the different amount of output transferred to customers during the reporting period. Nonetheless, an underlifter would still have a right to receive output in future reporting periods for which it has already paid the production costs (as is the case in the fact pattern described in the submission). Similarly, an overlifter would still have an obligation to pay the production costs for output that it has already received (as is the case in the fact pattern in the submission).

56. For example, using the example in paragraph 8 of this paper assume that, instead of transferring output of CU48 to customers in Year 1, Operator A received (and controlled) output of CU48 from the joint operation but had transferred to its customer only output of CU45 by the end of Year 1. In that case, Operator A would recognise revenue of CU45 and production expenses of CU45. At the end of Year 1, it would also have inventory of CU3 and an asset of CU2 representing its right to obtain output in future reporting periods for which it has already paid the production costs.

57. Accordingly, in this situation we think the analysis of whether the joint operator recognises and presents the corresponding debit or credit as other revenue or, instead, as part of production expenses would be no different from that outlined in paragraphs 25–53 of this paper.

Staff conclusion

58. In the fact pattern described in the submission, a joint operator's 'revenue from the sale of its share of the output arising from the joint operation' (paragraph 20(c) of IFRS 11) in each reporting period depicts its revenue from contracts with customers applying IFRS 15 (paragraph 21 of IFRS 11).

Question 1 for the Committee
Does the Committee agree with our analysis of the requirements in IFRS 11 outlined in paragraphs 25–58 of this paper?

Should the Committee add this matter to its standard-setting agenda?

Is it necessary to add to or change IFRS Standards to improve financial reporting?[2]

59. Based on our analysis, we think the requirements in existing IFRS Standards provide an adequate basis for a joint operator to determine its revenue from the sale of its share of the output arising from a joint operation as described in the submission.

Staff recommendation

60. Based on our assessment of the Committee's agenda criteria in paragraphs 5.16–5.17 of the *Due Process Handbook* (discussed in paragraph 59 of this paper), we recommend that the Committee does not add this matter to its standard-setting agenda. Instead, we recommend publishing a tentative agenda decision that outlines how a joint operator determines its revenue from the sale of its share of the output arising from a joint operation in the fact pattern described in the submission.

Questions 2 and 3 for the Committee

2. Does the Committee agree with our recommendation not to add this matter to its standard-setting agenda?
3. Does the Committee have any comments on the proposed wording of the tentative agenda decision set out in Appendix A to this paper?

[2] Paragraph 5.16(b) of the *Due Process Handbook*

Appendix A—Proposed wording of the tentative agenda decision

Output received by a joint operator (IFRS 11 *Joint Arrangements*)

The Committee received a request about how a joint operator accounts for output arising from a joint operation (as defined in IFRS 11) when the output it receives in a reporting period is different from the output to which it is entitled. In the fact pattern described in the request, the joint operator has the right to receive a fixed proportion of the output arising from the joint operation, and is obliged to pay for a proportionate share of the production costs incurred. For operational reasons, the output received by the joint operator and transferred to its customers in a particular reporting period is different from the output to which it is entitled. That difference will be settled through future deliveries of output arising from the joint operation; it cannot be settled in cash. Applying IFRS 15 *Revenue from Contracts with Customers*, the joint operator recognises revenue as a principal for the sale of all the output transferred to its customers.

The request asks whether, in the fact pattern described, the joint operator recognises revenue to depict the transfer of output to its customers in the reporting period or, instead, to depict its share of the output produced from the joint operation's activities in that period.

In relation to its interest in a joint operation, paragraph 20(c) of IFRS 11 requires a joint operator to recognise its revenue from the sale of its share of the output arising from the joint operation. Accordingly, the revenue recognised by a joint operator depicts the *sale* of its share of output, rather than for example the production of output. The joint operator accounts for the revenues relating to its interest in the joint operation applying the IFRS Standards applicable to the particular revenues (paragraph 21 of IFRS 11).

Consequently, the Committee concluded that, in the fact pattern described in the request, the joint operator recognises revenue that depicts the transfer of output to its customers in each reporting period, ie revenue recognised applying IFRS 15.

The Committee concluded that the principles and requirements in existing IFRS Standards provide an adequate basis for a joint operator to determine its revenue from the sale of its share of output arising from a joint operation as described in the request. Consequently, the Committee [decided] not to add this matter to its standard-setting agenda.

Appendix B—Submission

B1. We have reproduced the submission below, and in doing so deleted details that would identify the submitter of this request.

Suggested agenda item: Repeated recognition of gains and losses in profit or loss

It has come to our attention that there are diverse views on when, if ever, it is acceptable for a gain or loss to be ‘recycled’ out of one item of profit or loss (where it was recognised in a prior period) into another item of profit or loss in the current period. We are seeking clarification by the Committee of the issue detailed below.

Background

In various circumstances, a gain or loss (other than on a designated hedging instrument) may arise that could be thought of as relating to a future transaction. In examples such as [that] detailed below, practices have been observed under which that gain or loss is recognised as it arises but is then reversed and recognised (or ‘recycled’) as an adjustment to the value of a subsequent transaction.

Imbalance in output received from a joint operation

Entity A is party to a joint operation for which it has the right (over the life of the arrangement) to 50 per cent of the output. However, due to varying delivery schedules, each party’s share of the output to date can differ from that agreed proportion. In its first period of operation, the joint operation generates output with a value of CU100, Entity A receives 48 per cent of that output and sells it to external customers (generating revenue from contracts with customers of CU48).

The question then arises as to whether a further entry should or could be posted to reflect Entity A’s right to additional output as the mismatch is corrected through future deliveries.

Dr Entitlement asset CU2

Cr Other revenue CU2

In that first period, total revenue is CU50 (CU48 from revenue from contracts with customers and CU2 from entitlement under the terms of the joint operation agreement).

If in the second period of operation the joint operation again generates output with a value of CU100 and Entity A receives 52 percent of that output, it will generate revenue from sales to external customers of CU52. If the further entry above has been posted, it would then be reversed.

Dr Other revenue CU2

Cr Entitlement asset CU2

In that second period, total revenue is still CU50 (CU52 from revenue with customers and CU(2) on reversal of the other revenue recognised in first period).

In [this] example, recognition of the 'further entry' illustrated results in recognition of the same value in profit or loss in two different reporting periods and two different line items.

- … the value of the 'mismatched' output is first recognised as other revenue in one period and then 'recycled' in a subsequent period and recognised as revenue from contracts with customers.

Question – Is the 'recycling' of gains and losses in profit or loss and their recognition in more than one reporting period appropriate?

View 1 – Yes.

Under this view, none of the entries illustrated above are explicitly prohibited by either IAS 1 *Presentation of Financial Statements* or IFRSs specific to the transaction in question. As such they should, de facto, be considered acceptable.

In addition, the 'further entry' … is intended to provide a faithful representation of the transaction in question (…to show the value of the right to additional output in future periods).

View 2 – No.

Under this view, in the absence of specific provisions in IFRSs the criteria for recognition of income or expense in the Conceptual Framework for Financial Reporting can be met only once. Repeated recognition must by definition result in recognition of an item of income or expense that does not meet those criteria and, therefore, in misstatement of profit or loss in at least one reporting period. Where such a possibility is addressed by individual IFRS it is only to restrict such practice (for example, IAS 38 *Intangible Assets* precludes the capitalisation of costs that have previously been expensed and IFRS 15 *Revenue from Contracts with Customers* does not allow interest income from contracts with a significant financing component to be recognised subsequently as revenue).

…

Reasons for the Committee to address the issue

We believe that these practices are common and are concerned that the inconsistent use of 'recycling' of gains and losses outside the strict confines of hedge accounting permitted by IFRS 9 result in significant distortions of revenue and other key measures of performance, undermining the comparability of financial statements.

For these reasons, we believe that this issue is urgent and meets the criteria for acceptance onto the Committee's agenda.