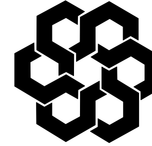

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These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

Board Meeting: **March 2009, London**

Project: **Revenue recognition**

Subject: **Effects of uncertain consideration (Agenda paper 6B)**

OBJECTIVE OF THE PAPER

1. In the boards' proposed revenue recognition model, an entity initially measures its contractual rights and performance obligations at the original transaction price—i.e. the promised customer consideration amount. In developing the model to date, the boards have assumed that the promised customer consideration amount is fixed. However, in many contracts the promised consideration amount is uncertain. Existing revenue recognition standards provide little guidance on accounting for uncertain customer consideration in contracts with customers.

2. Therefore, this paper considers the effects of uncertain customer consideration on the measurement of an entity's net contract position. This paper does not consider the effects of (a) the time value of money, (b) the customer's credit risk, and (b) changes in the contractual terms and conditions.

SUMMARY OF RECOMMENDATIONS

3. The staff recommends:

   a. At contract inception, the transaction price is the amount of consideration that an entity expects to receive from the customer. The expected

consideration is the entity's probability-weighted estimate of consideration from the customer.

b. After contract inception, the entity should update the measurement of rights to reflect the current transaction price. Changes in the transaction price should be allocated to all performance obligations. Consequently, the entity recognizes those changes in profit or loss only to the extent that they relate to satisfied performance obligations.

4. The basis for the staff recommendations is organized as follows:

   a. Determining the transaction price at contract inception (paragraphs 5 – 13)

   b. Determining the transaction price subsequently (paragraphs 14 – 29)

   c. Consequences of an expected consideration approach (paragraphs 30 – 34)

   d. Alternatives to an expected consideration approach (paragraphs 35 – 51)

   e. Uncertainty relating to only a segment of a contract (paragraphs 52 – 60)

DETERMINING THE TRANSACTION PRICE AT CONTRACT INCEPTION

5. The transaction price of many contracts is uncertain at contract inception because of contractual features such as contingent consideration, variable pricing, performance bonuses/penalties, and milestone payments. In some contracts, the consideration amount is affected by the customer's behavior (e.g. prices based on the customer's future sales) or the entity's behavior (e.g. bonuses for timely delivery). In other contracts, the consideration amount might be affected by external factors such as market data, indexes, or the behavior of other parties.

6. The boards must specify what the transaction price is when the consideration amount is uncertain at contract inception. In other words, the boards must specify what amount an entity should allocate to its performance obligations at contract inception. Although the boards' discussion paper does not address the issue, the staff thinks that the boards' preliminary view on the initial measurement of performance obligations suggests that an entity would determine the transaction price initially at the expected customer consideration amount. That amount is the entity's probability-weighted estimate of customer consideration.

7. According to the boards' revenue recognition discussion paper, a useful measurement of a performance obligation reflects the entity's expected costs of providing the promised goods and services plus a required margin. Hence, for the transaction price to be a useful measurement of an entity's performance obligations at contract inception, that price must reflect the entity's expectations.

8. At contract inception, an entity's expectations reflect a full range of possible cash flow scenarios in the contract. The entity's estimated outcome of all those

possibilities is the basis for the entity's negotiation in the exchange. That negotiated exchange is one reason for the boards' decision to allocate the transaction price to performance obligations at contract inception. In other words, the staff thinks that implicit in the boards' decision to initially measure rights and obligations at the transaction price is the view that at contract inception, an entity's expected costs plus a margin are equal to its expected consideration.

9. Some might think that an entity's expected consideration at contract inception is the most likely consideration to be received from the customer. However, entities often enter into contracts in which the most likely consideration would not faithfully depict the entity's expected costs of providing the promised goods and services plus a margin. In those contracts, the most likely customer consideration amount is not a useful measurement of the entity's performance obligations.

10. Consider the following example in which the consideration amount is uncertain. The example is analogous to various transactions such as an attorney with legal fees contingent on winning a lawsuit, a fund manager with some fees contingent on a fund's performance as of a future date, or an investment banker with fees contingent on the completion of a deal.

A company promises to provide services to a customer for two months in exchange for CU100 per month plus an uncertain amount to be determined in two months' time. The total consideration is due when the company has performed in full.

Suppose the performance obligations to provide services are satisfied continuously and evenly over the two months, and the performance obligations do not change throughout the contract for reasons other than their satisfaction.

At contract inception, the company expects consideration of CU1,000 based on three possible scenarios for the uncertain consideration:

	Potential uncertain consideration	Probability	Probability weighted amount
Scenario 1	CU 1,000	60%	CU 600
Scenario 2	CU 0	30%	CU 0
Scenario 3	CU 2,000	10%	CU 200

Expected amount of uncertain consideration	CU 800
Certain consideration (CU100 per month × 2 months)	CU 200
Total expected consideration at contract inception	CU 1,000

11. If the company measures its rights at the expected consideration amount of CU1,000, then that amount would be allocated to the performance obligations in accordance with the approach in the revenue recognition discussion paper.

(Alternative approaches to measuring the rights are considered later in this paper.) The initial measurement of CU1,000 reflects the company's expectations of the promises exchanged with the customer at contract inception.

12. If the expected consideration amount does not change subsequently, the company would report the following in accordance with the boards' preliminary views:

	Inception	Month 1	Month 2
Rights	CU 1,000	CU 1,000	CU 1,000
Performance obligations	(CU 1,000)	(CU 500)	(CU 0)
Net contract position	CU 0	CU 500	CU 1,000
Revenue	CU 0	CU 500	CU 500

Staff recommendation

13. The staff recommends that the transaction price at contract inception is the amount of consideration that an entity expects to receive from the customer. The expected consideration amount is the entity's probability-weighted estimate of consideration from the customer.

DETERMINING THE TRANSACTION PRICE SUBSEQUENTLY

14. After contract inception, the carrying amount of an entity's rights changes for various reasons; the most obvious of which is the decrease in rights from customer payment. The measurement of rights also is affected by changes in the transaction price throughout the contract as uncertainties are resolved.

15. As uncertainties are resolved and more information becomes available, an entity changes its estimate of consideration to be received from the customer. If the transaction price at contract inception is the expected consideration amount, then a consistent approach for determining the transaction price subsequently also would be based on the expected consideration amount at each reporting date.

16. An expected consideration approach to determine the transaction price is similar to approaches in existing standards such as IAS 11 *Construction Contracts* and SOP 81-1 *Accounting for Performance of Construction-Type and Certain Production-Type Contracts*. Those standards rely on current estimates of the total consideration when determining revenue for a particular reporting period. For example, paragraph 12 of IAS 11 states:

> The measurement of contract revenue is affected by a variety of uncertainties that depend on the outcome of future events. The estimates often need to be revised as events occur and uncertainties are resolved. Therefore, the amount of contract revenue may increase or decrease from one period to the next.

Similarly, paragraph 54 of SOP 81-1 states:

> The major factors that must be considered in determining total estimated revenue include the basic contract price, contract options, change orders, claims, and contract provisions for penalties and incentive payments, including award fees and performance incentives. All those factors and other special contract provisions must be evaluated throughout the life of a contract in estimating total contract revenue to recognize revenues in the periods in which they are earned under the percentage-of-completion method of accounting.

Staff recommendation

17. The staff thinks that the measurement of the rights should be updated to reflect changes in the transaction price throughout a contract. First, reflecting current information would provide more useful information to users, especially in long-term contracts with frequent changes in estimates. Second, if existing standards such as IAS 11 and SOP 81-1 are to be replaced by a new standard, that new standard must provide clear guidance on how to account for changes in the transaction price throughout a contract. Moreover, the staff thinks that updating the measurement of rights is consistent with the boards' tentative decision in the leases project to update the measurement of a lessee's obligation to pay contingent rent.

18. If the transaction price is updated throughout a contract as uncertainties are resolved, the boards must decide whether an entity should:

    a. recognize changes in the transaction price in profit or loss when those changes occur, or

    b. allocate changes in the transaction price to all performance obligations.

Recognize changes in the transaction price in profit or loss when those changes occur

19. If an entity updates the measurement of rights to reflect changes in the transaction price, the entity could recognize those changes immediately in profit or loss. Those changes could be presented either as revenue or as a contract gain (or loss). Suppose that in the example in paragraph 10, the company receives consideration of CU1,200 (Scenario 1) but the expected consideration amount changes throughout the contract as follows:

	Expected consideration amount
At contract inception	CU 1,000
At end of Month 1	CU 900
At end of Month 2	CU 1,200

20. The company would report the following if it recognizes changes in the transaction price entirely in profit or loss when those changes occur:

	Inception	Month 1	Month 2
Rights	CU 1,000	CU 900	CU 1,200
Performance obligations	(CU 1,000)	(CU 500)	(CU 0)
Net contract position [1]	CU 0	CU 400	CU 1,200
[1] Change in net contract position:	CU 0	CU 400	CU 800
-from satisfaction of POs	CU 0	CU 500	CU 500
-from changes in expected consideration	CU 0	CU (100)	CU 300

21. If the company recognizes changes in the transaction price immediately as a contract gain or contract loss when those changes occur, the company would recognize revenue of CU500 each month. That pattern of revenue recognition arguably is consistent with the boards' preliminary view of measuring performance obligations at the original transaction price and recognizing that amount as revenue when the performance obligations are satisfied. However, the total revenue recognized in the contract would not equal the amount the customer ultimately pays for the services. The staff thinks that the boards' intentions in the revenue recognition discussion paper are for an entity to recognize total revenue in an amount equal to what the customer pays.

22. If the company recognizes changes in the transaction price immediately as revenue when those changes occur, the company would recognize total revenue equal to what the customer pays. However, the staff thinks that recognizing revenue immediately and entirely for a change in estimated consideration is prone to abuse in practice. Moreover, the staff thinks that it would introduce volatility in revenue that does not depict faithfully the transfer of goods and services to the customer.

Allocate changes in the transaction price to all performance obligations

23. The staff thinks that allocating a change in the transaction price to the performance obligations would result in a pattern of revenue recognition that better depicts the transfer of goods and services to the customer. If an entity allocates a change in the transaction price to all performance obligations, the entity would recognize revenue for only the portion of the change that relates to satisfied performance obligations.

24. The staff thinks that the basis for allocating the current transaction price at each reporting date should be the same as at contract inception (i.e. relative standalone selling prices at contract inception). Hence, the cumulative revenue recognized at each reporting period date would depict the revenue that the entity would have recognized if at contract inception it had the information that is available at the subsequent reporting date. In other words, cumulative revenue would be "caught up" at each reporting date.

25. In the example in paragraph 10, the company would report the following:

	Inception	Month 1	Month 2
Rights	CU 1,000	CU 900	CU 1,200
Performance obligations	(CU 1,000)	(CU 450)	(CU 0)
Net contract position	CU 0	CU 450	CU 1,200
Revenue [1]	CU 0	CU 450	CU 750

[1] Revenue for Months 1 and 2 is determined as follows:
Month 1: CU450 = CU900 transaction price at the end of Month 1 × 50% of the performance obligations that have been satisfied at the end of Month 1.
Month 2: CU750 = CU1,200 transaction price at the end of Month 2 × 100% of the performance obligations that have been satisfied at the end of Month 2 – revenue recognized previously of CU450.

26. The company's cumulative revenue at the end of Month 1 (CU450) reflects that the entity is 50% complete with the contract and at that point expects to receive consideration of CU900. Similarly, the CU1,200 (CU450 + CU750) cumulative revenue at the end of Month 2 reflects that the company is 100% complete and at that time expects to receive consideration of CU1,200. The staff notes that the pattern of revenue recognition in this approach depicts the continuous transfer of services to the customer better than an approach that recognizes all changes in the transaction price as revenue when those changes occur (paragraph 22).

27. The carrying amount of the performance obligations at the end of Month 1 is CU50 lower (CU500 amount in paragraph 20 – CU450) as a result of allocating the updated transaction price at that time. Arguably, that decrease in the performance obligation is counterintuitive because the company's expected costs and required margin to satisfy the remaining performance obligations have not changed. In other words, although the transaction price changes after contract inception, that change does not necessarily relate to a change in the measurement of the performance obligations.

28. However, in some cases a change in the transaction price might correspond to a change in the performance obligations. For example, suppose an entity promises to provide consulting services to a client in exchange for consideration in the amount of a percentage of a potential deal that the client is trying to close. If the entity's expected consideration decreases because the probability of the deal closing becomes remote, the entity also might decrease the amount of its input into the contract, which would reduce the expected costs of providing consulting services (i.e. the consultants might not expect to work as many hours if they don't think the efforts will be successful).

Staff recommendation

29. The staff thinks that after contract inception, the entity should update the measurement of rights to reflect the current transaction price. Changes in the transaction price should be allocated to all performance obligations. Consequently,

the entity recognizes those changes in profit or loss only to the extent that they relate to satisfied performance obligations.

CONSEQUENCES OF AN EXPECTED CONSIDERATION APPROACH

30. The previous sections suggest that an entity should determine the transaction price both initially and subsequently at the expected consideration amount. However, some might be concerned with an unconstrained expected consideration approach because it could result in an entity recognizing revenue that is reversed subsequently.

31. Some have that concern when accounting for contingent consideration such as for trailing commissions (an issue the IFRIC considered in 2008 but did not add to its agenda). Service providers such as brokers, agents and advisors often distribute the products of another party and receive ongoing (trailing) commissions from that other party after satisfying its performance obligations to the customer. Consider the following:

> A financial advisor directs its client's funds to an investment manager's product. The advisor receives an initial commission of CU1,000 for the placement of the business with the investment manager and an ongoing commission if the client's funds remain invested in the product for a specified time. The amount of future commissions is uncertain because it depends on the client's decision to remain invested. Suppose the advisor expects uncertain consideration of CU9,000 at the time of placing the business with the investment manager.

32. Upon placement of the business with the investment manager, the advisor receives CU1,000 and has remaining rights to an uncertain consideration amount. At that time, the advisor does not have remaining performance obligations because the advisor already has provided the promised service of directing the client's funds to an investment manager's product.

33. The expected consideration amount at contract inception is CU10,000 (CU1,000 certain amount + CU9,000 uncertain amount). Hence, the advisor would allocate the CU10,000 transaction price to the performance obligations and recognize revenue of CU10,000 when those obligations are satisfied by directing the client's funds to the investment manager. Suppose the client withdraws the funds before the advisor receives an additional commission. In that case, the advisor's remaining rights would be extinguished and advisor would derecognize the contract asset and reverse revenue of CU9,000 (CU10,000 original transaction price – commission received of CU1,000).

34. Arguably, the CU9,000 reversal of revenue is consistent with existing standards. IAS 18 requires that an entity recognize revenue at the fair value of the consideration received or receivable. At the time of providing the promised services, the "fair value" of the promised consideration would be based on the advisor's expected total consideration of CU10,000. After providing the promised

services, the advisor has a financial asset that is similar to other financial instruments that are remeasured at each reporting date in accordance with IAS 39.

ALTERNATIVES TO AN EXPECTED CONSIDERATION APPROACH

35. To minimize (or avoid) the possibility of revenue reversals, the boards could specify an alternative approach of determining the transaction price. This paper discusses three alternatives:

    a. Alternative 1: limit the transaction price to scenarios of a specified probability

    b. Alternative 2: limit cumulative revenue to certain consideration

    c. Alternative 3: limit the transaction price to certain consideration

Alternative 1: limit the transaction price to scenarios of a specified probability

36. One way to constrain an expected consideration approach would be to limit the transaction price to scenarios of a specified probability. That constrained amount would be allocated to the performance obligations.

37. Consider again the example in paragraph 10 of an entity that expects consideration of CU1,000 based on three potential scenarios for the uncertain consideration. If the transaction price was limited to the most likely scenario (Scenario 1), the company would allocate CU1,200 (CU1,000 most likely uncertain consideration + CU200 certain consideration) to the performance obligations and would report the following:

	Inception	Month 1	Month 2
Rights [1]	CU 1,200	CU 1,200	CU 1,200
Performance obligations	(CU 1,200)	(CU 600)	(CU 0)
Net contract position	CU 0	CU 600	CU 1,200
Revenue	CU 0	CU 600	CU 1,200

38. Because the most likely consideration in this example is the amount of consideration the company actually received, the pattern of revenue recognition depicts the continuous transfer of services to the customer.

39. However, the staff notes a few disadvantages of limiting the expected consideration to scenarios of a specified probability. First, any specified probability could be viewed as subjective. Second, limiting the transaction price might result in an amount being allocated to performance obligations that is not a useful measurement of the performance obligations. Suppose that in this example, the most likely scenario for the uncertain consideration was CU0 (Scenario 2). In that case, the transaction price would be limited to CU200 (CU0 most likely uncertain consideration + CU200 certain consideration). Allocating CU200 would not be a useful measurement of the performance obligations. Third, if the

company recognizes revenue of CU1,200 throughout the contract based on the most likely consideration and then receives only CU200 (Scenario 2) at the end of the contract, the company still would reverse revenue that was recognized in a previous period.

Alternative 2: limit cumulative revenue to certain consideration

40. Another way to constrain an expected consideration approach would be to limit the cumulative revenue recognized in a contract to the certain consideration amount to be received. In other words, an entity would allocate the total expected consideration to performance obligations and recognize revenue as those performance obligations are satisfied. However, an entity would be precluded from recognizing cumulative revenue in excess of the certain consideration in the contract. Hence, an entity would avoid the possibility of reversing revenue from changes in expectations.

41. In the example in paragraph 10, at contract inception the company would measure contractual rights at the expected consideration to be received from the customer (CU1,000). The company would allocate that amount to the performance obligations and recognize revenue as the performance obligations are satisfied. However, the cumulative revenue recognized at any time during the contract would not exceed the certain consideration (CU200).

42. The company would report the following under Alternative 2:

	Inception	Month 1	Month 2
Rights [1]	CU 1,000	CU 650	CU 1,200
Performance obligations	(CU 1,000)	(CU 450)	(CU 0)
Net contract position	CU 0	CU 200	CU 1,200
Revenue	CU 0	CU 200	CU 1,000

[1] The measurement of rights is determined as follows:
Inception: CU1,000 = expected consideration at contract inception.
Month 1: When revenue recognized in Month 1 reaches the amount of certain consideration in the arrangement (CU200), the measurement of rights is capped at the measurement of the performance obligations (CU450) + the certain consideration to be received (CU200).
Month 2: When revenue recognized in Month 1 reaches the amount of certain consideration in the arrangement (CU200), the measurement of rights is capped at the measurement of the performance obligations (CU450) + the certain consideration to be received (CU200).

43. An entity reducing the measurement of rights in some cases could be viewed as consistent with an entity increasing the measurement of performance obligations in some cases (i.e. when they are deemed onerous).

44. In the trailing commission example in paragraph 31, the advisor would recognize revenue of CU1,000 (the initial certain commission) when the performance

obligations are satisfied and would recognize the ongoing commissions as revenue only when those amounts are certain.

45. Limiting cumulative revenue to the certain consideration amount is similar to the approach of EITF Issue No. 91-6 *Revenue Recognition of Long-Term Power Sales Contracts* in which cumulative revenue recognized is the lesser of the amount billable (i.e. "certain") under the contract or an amount determined by assessing the transfer of goods and services to the customer (kWhs in this particular case) and the total expected revenue.

Alternative 3: limit the transaction price to certain consideration

46. As another alternative, an entity could determine the transaction price as the certain consideration to be received from the customer. That certain amount would be allocated to performance obligations.

47. In U.S. GAAP, EITF Issue No. 00-21 *Revenue Arrangements With Multiple Deliverables* takes that approach. Paragraph 14 of EITF 00-21 states that the consideration allocated to elements of an arrangement is limited to the noncontingent amount. Arguably, that approach also is similar to accounting for contingent gains/assets in U.S. GAAP and IFRS in which a gain is not recognized until all contingencies have been resolved.

48. If an entity does not recognize revenue because no customer consideration amount is certain, then some might argue that the entity should defer any costs incurred until revenue can be recognized. That accounting would result in an entity recognizing a deferred debit and expense reduction rather than an increase in the contract position and revenue. The staff thinks that recognizing the increase in the contract position and revenue better depicts the economics of an entity satisfying a performance obligation.

49. Consider the example in paragraph 10 and how a certain consideration approach might not depict faithfully the entity's net contract position. The company initially would measure its rights and obligations at CU200. If that measurement of the performance obligations is less than the company's expected costs of satisfying the performance obligation, the company would recognize a contract loss and contract liability in accordance with the onerous test (even if the contract is an asset to the entity).

50. Suppose that in the example in paragraph 10, the company expects at contract inception to incur costs of CU700 to satisfy the performance obligations. Because that amount is greater than the CU200 measurement of the performance obligations, the company would recognize a contract loss because the performance obligation would be deemed onerous. Hence, the company would report the following:

	Inception	Month 1	Month 2
Rights [1]	CU 200	CU 200	CU 1,200
Performance obligations [2]	(CU 700)	(CU 350)	(CU 0)
Net contract position	(CU 500)	(CU 150)	CU 1,200
Revenue	CU 0	CU 100	CU 1,100
Contract gain / (loss)	(CU 500)	CU 250	CU 250

[1] The measurement of rights is the certain consideration amount each period. Until the end of Month 2, the certain consideration is CU200.

[2] The performance obligations are remeasured at inception to the company's expected costs of satisfying the performance obligations in accordance with the onerous test. The remeasured performance obligation of CU700 is satisfied evenly throughout the contract.

Staff recommendation

51. If the boards decide to constrain an expected consideration approach, the staff recommends Alternative 2 for a couple of reasons. First, it results in more useful measurement of performance obligations than Alternatives 1 and 3 because it limits the revenue (and measurement of rights) rather than limiting the transaction price (and measurement of the rights and the performance obligations). The measurement of performance obligations under Alternative 2 is based on the entity's expectations of the promises exchanged with the customer. Under Alternatives 1 and 3, a constrained or certain consideration amount is allocated to the performance obligations and would not depict the entity's expectations in the exchange. Second, Alternative 2 effectively avoids the possibility of negative revenue in the boards' proposed model. That possibility seems to be the primary reason for some people wanting to constrain the expected consideration approach).

UNCERTAINTY RELATING TO ONLY A SEGMENT OF A CONTRACT

52. In the example in paragraph 10, the uncertain consideration amount clearly relates to all the performance obligations in the contract. However, in many contracts the uncertain consideration might appear to relate to only one of many performance obligations.

53. Consider the following example in which the uncertain consideration amount might be regarded as relating to only one of the entity's performance obligations in the contract.

> PainterCo contracts with a customer to paint the exterior and interior of the customer's house for CU5,000. The standalone selling prices of the exterior and interior painting services under typical terms are CU3,000 and CU2,500 respectively. Typically, PainterCo would complete the exterior in 30 days and the interior in 20 days. However, the customer promises to pay a performance bonus of CU1,000 if PainterCo completes the interior in 10 days. Suppose PainterCo achieves the performance bonus.

54. This example highlights an issue similar to one that the EITF is considering in EITF Issue No. 08-9 "Milestone Method of Revenue Recognition". The EITF is considering the circumstances in which it might be appropriate to allocate a performance bonus to only one component of a transaction rather than to all components.

55. At contract inception, PainterCo has rights to certain consideration of CU5,000 and to uncertain consideration of an additional CU1,000 if the interior is completed in 10 days. Those rights are extinguished when the customer pays or when the manufacturer fails to achieve the performance bonus. Suppose PainterCo initially measures the rights at an expected consideration amount of CU6,000. That amount reflects certainty that PainterCo will achieve the bonus consideration because the contingent amount is fixed and PainterCo has the intention and ability to achieve the performance bonus.

56. PainterCo has performance obligations to paint the exterior and the interior of the customer's house. Those obligations are satisfied as the painting services are provided. PainterCo allocates the transaction price to the performance obligations relative to the standalone selling prices of the underlying materials and services. The standalone selling price of the interior painting services in 20 days is CU2,500. However, the standalone selling price of those services in 10 days would be more than CU2,500 because PainterCo would incur additional costs (e.g. paying overtime for the painting crew) and the customer has demonstrated a willingness to pay a premium for timely painting. Suppose that the standalone selling price of the interior painting services in 10 days is CU3,500 (the typical standalone selling price of CU2,500 + the CU1,000 performance bonus for timely services).

57. The accounting in accordance with the revenue recognition discussion paper would be as follows:

	Contract inception	Completion of interior	Completion of exterior
Rights [1]	CU 6,000	CU 6,000	CU 6,000
Obligations [2]	(CU 6,000)	(CU 2,769)	(CU 0)
Net contract position	CU 0	CU 3,231	CU 6,000
Revenue [3]	CU 0	CU 3,231	CU 2,769

1 Amount based on expected consideration from the customer.
2 After completing the interior, the remaining performance obligations are measured at the amount initially allocated to them (CU3,000 standalone selling price of exterior ÷ CU6,500 total standalone selling prices of the exterior and interior × CU6,000 transaction price)
3 Revenue is the change in the net contract position from the previous quarter.

58. Note that the CU3,231 revenue recognized for the interior is less than the CU3,500 standalone selling price of the interior painting service in 10 days. That difference of CU269 (CU3,500 – CU3,231) is the portion of the discount on the

bundle of services that relates to the interior painting services. In the boards' proposed revenue recognition model, any discount on a bundle of promised goods and services in a contract would be allocated to all performance obligations in the contract. In other words, PainterCo would allocate the entire CU3,500 to the interior painting services only if the customer did not receive a discount on the bundle of services (i.e. if the transaction price equaled the sum of the standalone selling prices of the exterior and interior painting services).

59. Some might argue that the CU500 discount (CU6,500 total standalone selling prices – CU6,000 transaction price) relates only to the exterior painting services and hence, PainterCo should recognize revenue of CU3,500 for the interior painting services and CU2,500 for the exterior painting services. To achieve that pattern of revenue recognition in the boards' proposed model, it would be necessary to separate one bundle of rights and obligations in a contract from another bundle of rights and obligations for purposes of the allocation process.

60. In effect, separating bundles of rights and obligations would create multiple contracts (units of accounting) with each contract being subject to a distinct allocation process. That approach is similar to an entity establishing separate profit centers in accordance with IAS 11 and SOP 81-1 on the basis that the price of some components of a contract might not affect or be affected by the price of other components. The combination and segmentation of contracts is an issue the boards will consider at a future meeting.

QUESTIONS FOR THE BOARDS

1. Do the boards agree that the transaction price at contract inception is the amount of expected consideration to be received from the customer? (i.e. at the entity's probability-weighted estimate of customer consideration)

2. Do the boards agree that after contract inception the measurement of rights should be updated to reflect changes in the transaction price?

3. If the measurement of rights is updated to reflect changes in the transaction price, do the boards agree that those changes should be allocated to the performance obligations? Consequently, an entity would recognize revenue for changes in the transaction price only when those changes relate to satisfied performance obligations.

4. Do the boards think that an expected consideration approach should be constrained to minimize the risk of reversing revenue? If so, do the boards agree that cumulative revenue should be limited to the amount of certain consideration (Alternative 2)?

5. Do the boards agree that a change in the transaction price should be allocated to all performance obligations in a contract? If not, what is

the basis for excluding some performance obligations from the allocation of a change in the transaction price?