

International Financial Reporting Standards



Update - revenue recognition project

Global preparers forum
29 March 2010

IASC Foundation

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Agenda

- Model summary
- A developed model
 - Transaction price
 - Control
 - Performance obligations
 - Implementation guidance
- Disclosure
- Transition
- Project plan



Summary of the model

- Project objective - single revenue recognition model
- Model accounts for revenue arising from a contract with a customer, except for
 - Financial instruments
 - Leases
 - Insurance contracts
- An entity evaluates all goods and services in the contract to identify separate performance obligations

Summary of the model *continued*

- An entity recognises revenue when it satisfies a performance obligation in the contract by transferring a promised good or service
 - A good or service is transferred when the customer obtains control of that good or service
- Amount of revenue recognised is the amount of the consideration the entity expects to receive from the customer in exchange for the good or service
 - Allocate consideration to all performance obligations in proportion to the stand-alone selling price

Transaction price

- Measurement not addressed in DP
- Board deliberations
 - Collectibility
 - Contingent or variable consideration
 - Time value of money
 - Options
- Use of estimates in allocation process

Control of a good or a service is an entity's present ability to direct the use of and receive the benefit from that good or service

- Customer has unconditional obligation to pay
- Customer has legal title to the asset
- Customer has physical possession or practical ability to take possession of the asset
- Customer specifies the design or function of the asset

Performance obligations

- Identify the contract
 - Account for a single contract with a customer as two if some goods and services are priced independently of the other goods and services
- After identifying contract, identify **distinct** performance obligations in each
 - Identifiable
 - Transfers separately
 - Distinct margin
 - Distinct function

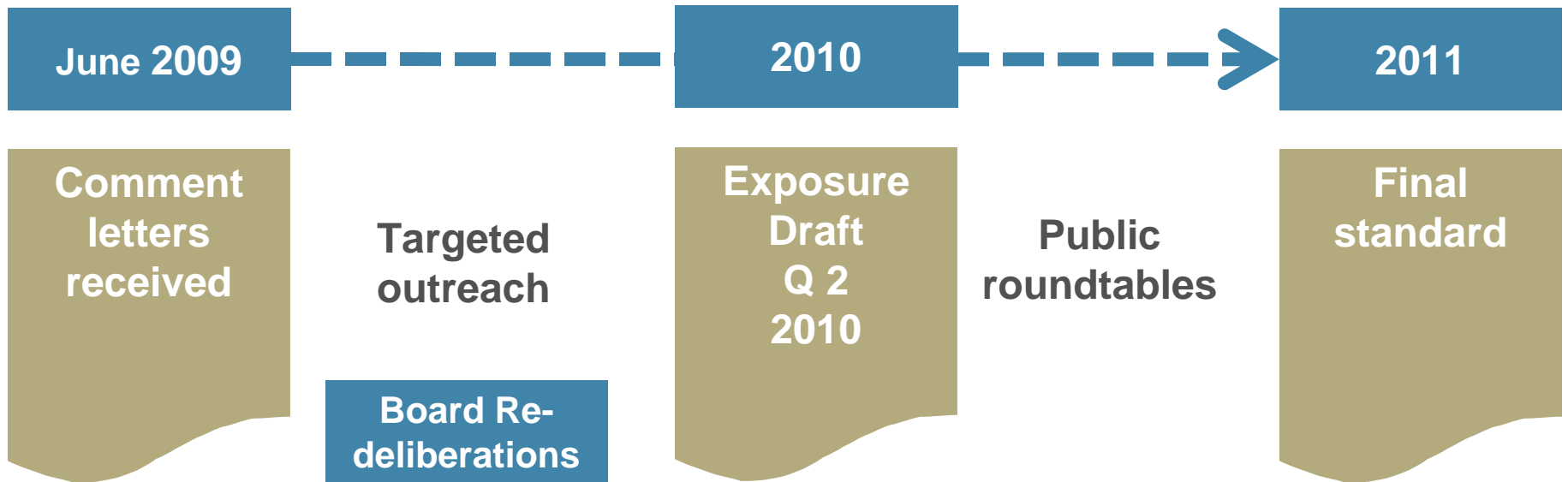
- Customer obtains control of the entire licensed IP (eg exclusive license for economic life)
 - Sale of the IP, not a license
- Exclusive license, but customer does not obtain control of entire licensed IP
 - Performance obligation to permit customer to use IP is satisfied over time
- All other cases
 - Performance obligation to transfer licenses is satisfied when the customer is first able to use the license

- Cover for latent defects eg quality assurance warranties
 - Acknowledges performance obligation not satisfied on transfer
 - Warranty not a separate performance obligation
 - Revenue not recognised until the defective good or component is replaced
- Cover for faults post-delivery eg insurance warranty
 - Is a separate performance obligation
 - Revenue is recognised over the warranty period

- High level disclosure objective
- Disclose
 - Nature of contracts with customers
 - Principal judgements
 - Reconciliation from opening to closing balances of total contract assets and liabilities
 - Maturity analysis of remaining performance obligations of contracts longer than one year.
 - Onerous contracts

- Full retrospective application
- Not yet decided whether to permit early adoption for existing IFRS preparers
 - FASB prohibited early adoption
- Early adoption permitted for first time adopters of IFRSs
- Coordinated transition methods and effective dates for standards issued at similar time

Project plan



Roundtables

Coordinated with other projects
Late August through September.
London, US, Tokyo



Next step - ED 2010

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