



Exposure Draft: Revenue from Contracts with Customers

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The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation.

- Summary of the revenue proposals
- Discussion points:
 - Separate performance obligations
 - Transfer based on control
 - Accounting for warranties

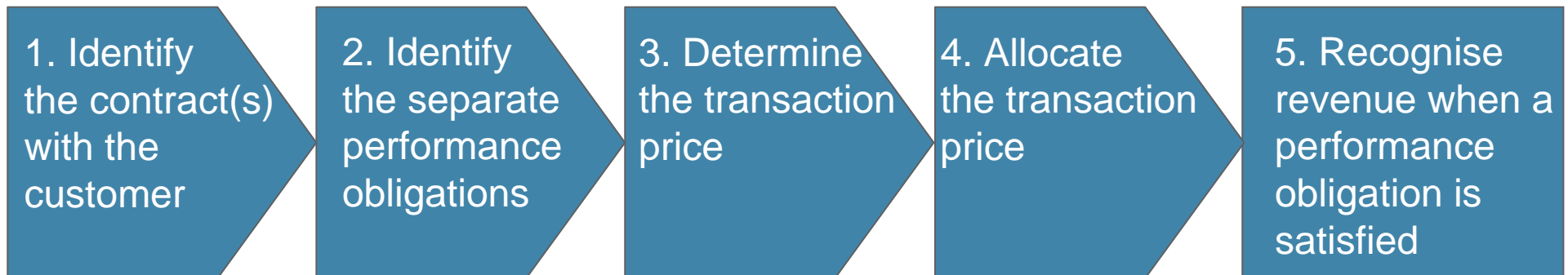
Summary of the revenue proposals

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Core principle:

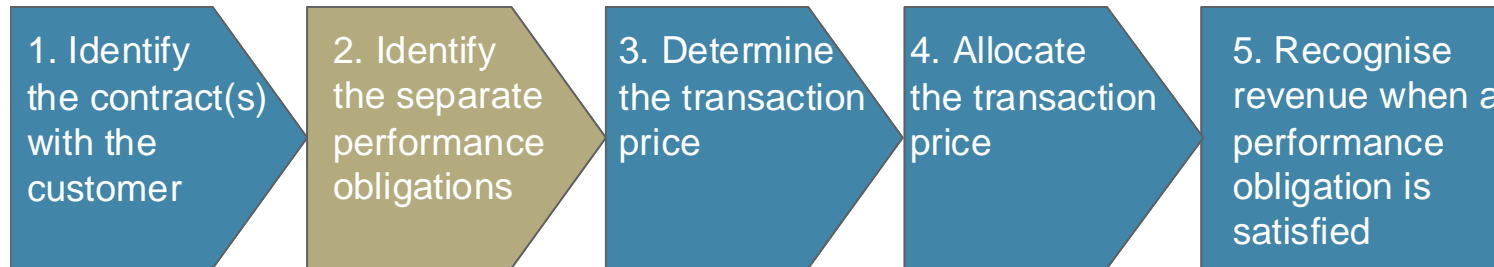
Recognise revenue to depict the *transfer* of goods or services in an amount that reflects the consideration expected to be received in exchange for those goods or services

Steps to apply the core principle:



Separate performance obligations

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Key proposal: distinct goods or services

- separate performance obligation is a promise to transfer a *distinct* good or service to the customer
- a good or service is distinct if it:
 - is sold separately, or
 - has a distinct function and a distinct profit margin

Separate performance obligations

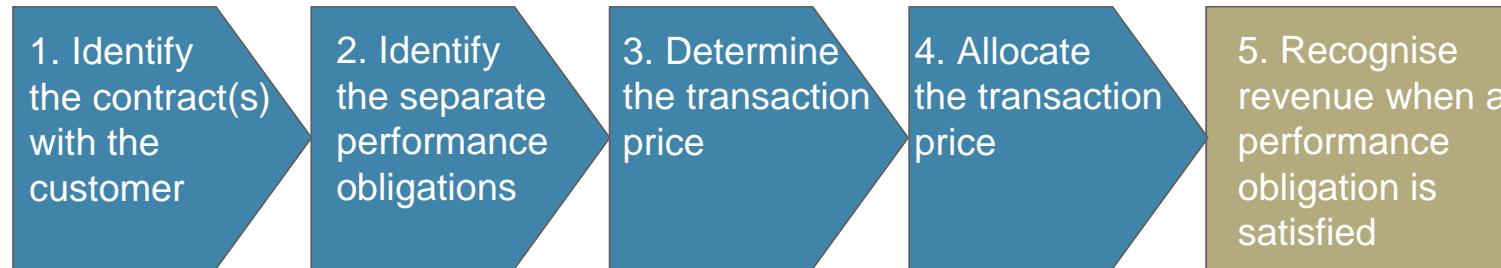
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- Is the guidance 'distinct goods and services' adequate?
- How would you identify separate performance obligations within a complex construction contract?



Revenue on transfer to the customer

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Key proposal: transfer based on control

- recognise revenue when a performance obligation is satisfied by transferring a good or service to customer
- transferred when customer obtains control
- for development or construction contracts, revenue recognised continuously only if customer controls WIP

Example - equipment manufacturer

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Scenario 1

Contract to build highly customised equipment

- Customer has unconditional obligation to pay throughout contract
- Customer specifies design and has involvement in manufacturing
- Customer has ability to take possession during construction

Customer controls equipment as built—contract is for manufacturing services. Revenue recognised continuously.

Scenario 2

Contract for standard equipment built to order

- Customer makes payments on account throughout contract
- Customer specifies only minor aspects of design
- Customer cannot take possession until built

Customer controls equipment on delivery—contract is for manufactured equipment. Revenue recognised on delivery.

Transfer based on control

- Is the guidance adequate?
- Are the indicators useful?
- How would you solve the particular problems associated with services?



Accounting for warranties

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- Cover for latent defects ('quality assurance' warranty)
 - not a performance obligation
 - requires evaluation of whether the performance obligation to transfer product is satisfied
 - revenue not recognised until the defective product or component is replaced
- Cover for faults post-delivery ('insurance' warranty)
 - is a performance obligation
 - revenue is recognised over the warranty period

Example: Product warranties

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A company sells 1,000 products for CU10 each. Each product costs CU 8. The company expects that 5% of products will need to be replaced after sale for latent defects.

US GAAP and IFRS

- When the products are delivered, recognise revenue of CU10,000 and expected warranty costs of CU400

Proposed model

- When the products are transferred, recognise revenue of CU9,500 and a contract liability of CU500 for unsatisfied performance obligations (selling price 50 defective products)
- Recognise revenue of CU500 when the company satisfies its performance obligations by replacing faulty goods

Accounting for warranties

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- Do you think it is useful to try to distinguish between different types of warranties?
- Do you agree with the articulation of two types of warranties proposed?
- Do you agree with the accounting treatment proposed?

