



Revenue from Contracts with Customers

GPF 25 February 2011 *Agenda paper 6*

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

Agenda

- Summary of the exposure draft
- Feedback on the exposure draft
- Topics for group discussion
 - Identifying separate performance obligations
 - Transfer to the customer
- Other developments since the exposure draft
- Project timeline

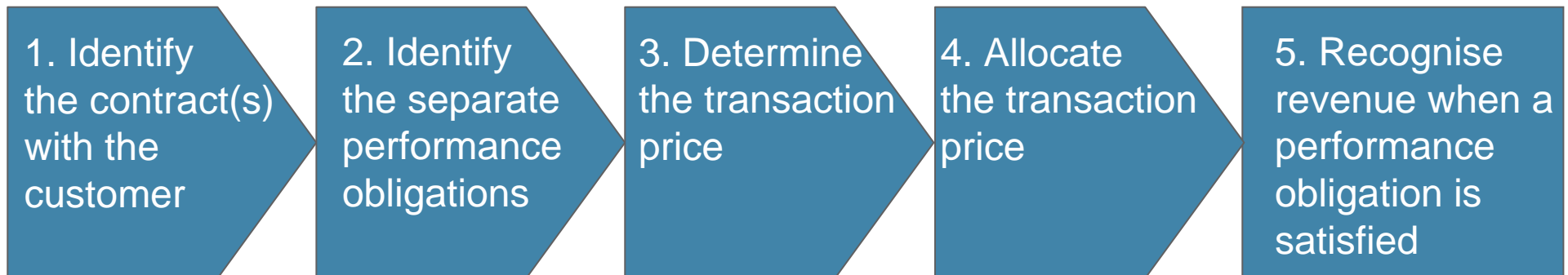
ED - Summary of the revenue proposals

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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:



Feedback on the exposure draft

Comment letters	Effect of re-deliberations
Transfer of control works well for goods, but not services. When is transfer continuous?	January and February – still transfer of goods and services. Different tools for identifying when that takes place for each.
Clarify ‘distinct’. ‘Margin’ doesn’t engage.	January and February – still distinct, but simplified. Remove ‘margin’.
Measurement is too complicated	Future re-deliberations – time value of money; collectibility; uncertain consideration
‘Statutory’ warranties should be cost accruals	February - cost accrual unless purchased separately or more than ‘as per contract’.
Onerous contract test should be at contract level	February – test at level of remaining performance obligations

Feedback on the exposure draft *continued*

Comment letters	Effect of re-deliberations
Acquisition costs should not always be expensed	January – incremental costs not recognised as an expense
Combining and segmenting contracts and accounting for modifications confusing	January – segmentation removed. February – detailed guidance on combining contracts and modifications
‘Exclusivity’ is not right concept for licences	Future re-deliberations
Allocation - allow for judgement	Future re-deliberations
Transition and effective date	Future re-deliberations
Implementation guidance	Future re-deliberations

Separate performance obligations

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Key proposal ED: 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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Key proposal still distinct goods or services

- Account for good and services as one performance obligation if contract includes integrating those goods & services into a single item provided to the customer
- Separate performance obligations if:
 - the good or service has different patterns of transfer to the customer and the good or service has a distinct function

Separate performance obligations

Key proposal still distinct goods or service

- A different pattern of transfer takes place when
 - goods and services transfer at a different time, or
 - the depiction of transfer is based on different methods
- A good or service has distinct function if:
 - the entity regularly sells the good or service separately, or
 - the customer can use the good or service on its own or together with readily available resources

Recognise revenue

Key proposal ED 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
 - ability to direct the use of and receive the benefit from
- revenue recognised continuously only if customer controls WIP

Key proposal still transfer to customer

- Transfer of **goods** based on control
 - carry forward guidance in exposure draft about control
 - add ‘risks and rewards’ as indicator
 - eliminate ‘design or function’ indicator

Key proposal still transfer to customer

- Transfer of **services** is continuous if:
 - entity's performance creates or enhances an asset customer controls
 - entity's performance does not create an asset with alternative use and one of:
 - customer immediately receives benefit, or
 - task would not need to be re-performed, or
 - entity has right to payment

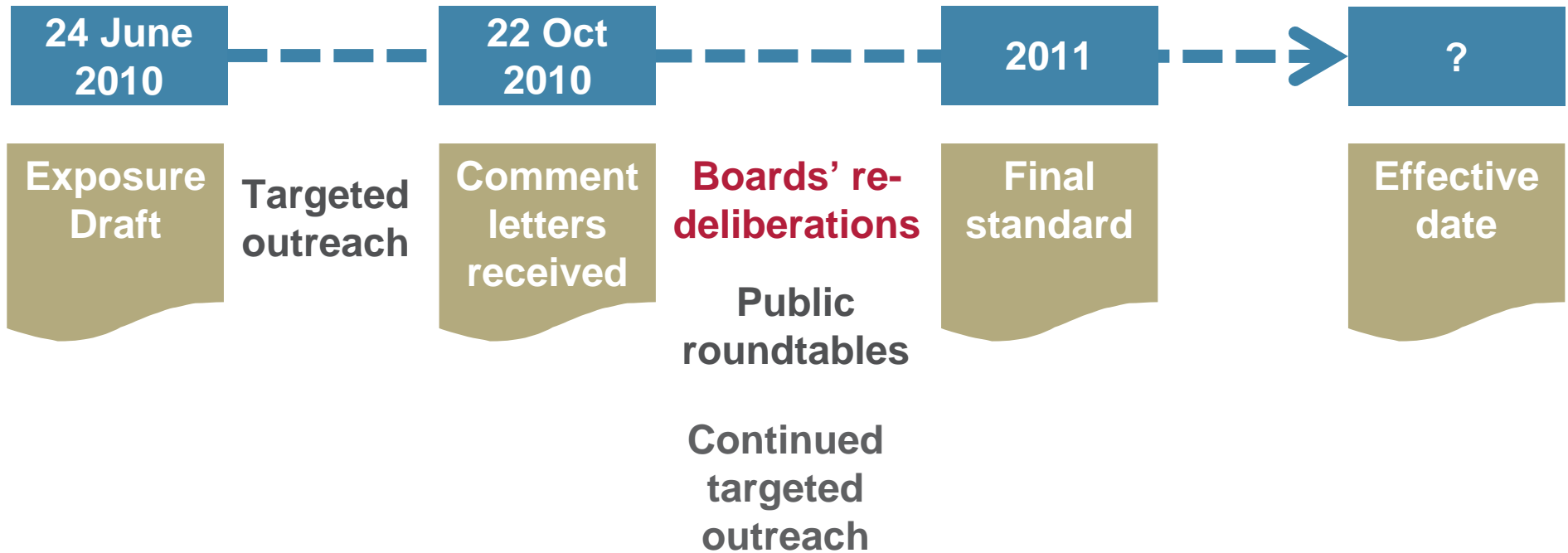
Warranties distinguished

- ED distinguished two types of warranty – latent defect and insurance. Both ‘deferred’ revenue.
- Tentative decisions:
 - account for warranty as a **separate performance obligation** if the customer has the option to purchase the warranty separately
 - account for warranty as a **cost accrual** if the customer has no option to purchase separately and the service to the customer is assurance that past performance was as specified in contract

- ED proposed all acquisition costs recognised as an expense unless fulfilment costs.
- Tentative decision – recognise an asset for the incremental costs of obtaining a contract (eg commissions)
- Present the asset separately
- Amortise the asset on a systematic basis consistent with performance of the contract

- ED proposed the transaction price was the probability-weighted amount of consideration expected to be received
- Feedback from comment letters was that few agreed with probability-weighted consideration
 - especially for ‘binary’ outcomes
- Cross-cutting issue in February
- Will be re-deliberated in March

Timeline



Questions or comments?

Expressions of individual views by members of the IASB and its staff are encouraged. The views expressed in this presentation are those of the presenter. Official positions of the IASB on accounting matters are determined only after extensive due process and deliberation.

