



# Revenue from Contracts with Customers

CMAC and GPF meeting  
June 2012

**Agenda paper 6**

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

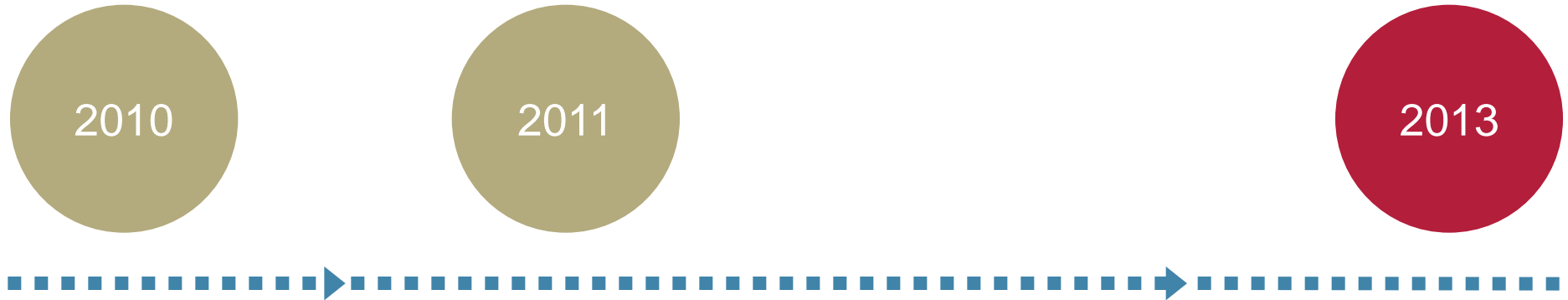
- Objective
- Project status and redeliberations timeline
- Alternatives for the onerous test

# Objective

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- To provide a project update
- To obtain your feedback on alternative solutions for the onerous test

# Project status



June 2010

**Exposure draft**

*Revenue from Contracts with Customers*

November 2011

**Revised exposure draft**

*Re-exposure of Revenue from Contracts with Customers*

March 2012

Comment letter deadline



**April 2012**

Roundtables



**May 2012 onwards**

Redeliberations

Q1 2013

**Expected IFRS**

*IFRS X Revenue from Contracts with Customers*

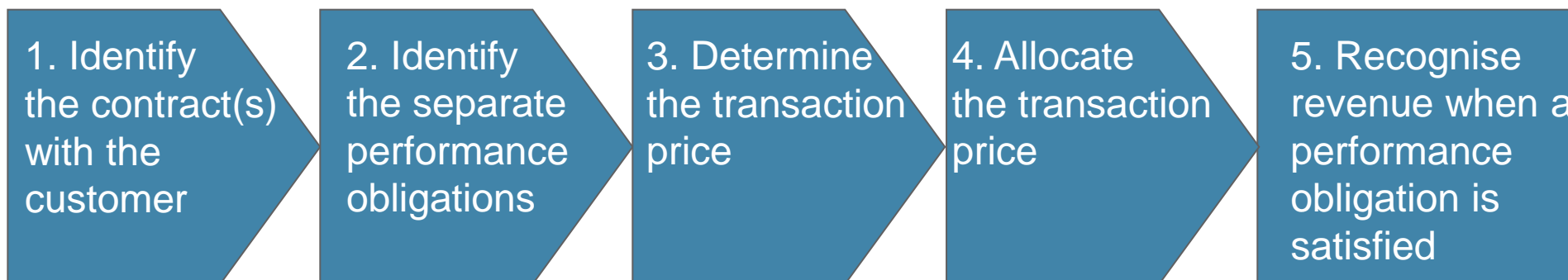
Effective date to be determined

# Overview of revised proposals

## Core principle:

Recognise revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services

## Steps to apply the core principle:



# Feedback from outreach

Generally supportive of the project objective and of the revised proposals

## Main types of feedback

- Requests to clarify and refine the proposals
  - Criteria for identifying separate performance obligations
  - Criteria for determining revenue over time
- Difficulties in practically applying proposals
  - Time value of money
  - Retrospective application
- Disagreement
  - Disclosure requirements
  - Onerous performance obligations
  - Application to the telecommunications industry

# Redeliberations timeline

Month	Topic
July 2012	<ul style="list-style-type: none"><li>• Criteria for identifying separate performance obligations (Step 2)</li><li>• Criteria for recognising revenue over time (Step 5)</li><li>• Contract combinations and modifications (Step 1)</li><li>• Application guidance on licences</li><li>• Onerous performance obligations</li></ul>
September 2012	<ul style="list-style-type: none"><li>• Constraining the cumulative amount of revenue recognised (Step 5)</li><li>• Collectibility (customer credit risk)</li><li>• Time value of money (Step 3)</li></ul>
October 2012	<ul style="list-style-type: none"><li>• Scope (eg definition of a customer, collaborative arrangements and interaction with other projects)</li><li>• Contract acquisition costs</li><li>• Allocation of the transaction price (Step 4)</li><li>• Applying the proposals to transfers of non-financial assets</li></ul>
November 2012	<ul style="list-style-type: none"><li>• Disclosures – interims and annuals</li><li>• Transition, effective date and early adoption</li></ul>
December 2012	<ul style="list-style-type: none"><li>• Sweep issues</li></ul>

# Outreach during redeliberations

## **Targeted outreach:**

- Obtain additional feedback on alternatives for redeliberations topics, for example
  - Onerous test
  - Time value of money
  - Collectibility
  - Constraint on cumulative amount of revenue recognised

## **Disclosure & Transition workshop:**

- Workshop with preparers/users
- Location: New York and London
- Timing: to be determined



# Onerous Test

# What did the 2011 ED propose?

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Test  
applies to:

- **Performance obligations satisfied over time** and over a period of time greater than one year (eg long-term construction and service contracts)

Loss is  
recognised  
when:

- Recognize a loss when **lowest cost of settling** the performance obligation *exceeds* the **transaction price** allocated to the performance obligation (ie when costs *exceed* revenue)

- Most respondents (preparers and others) disagreed with the proposal for various reasons
  - Difficulty in applying test at PO level (costs not always tracked at that level)
  - Applying test at PO level is not meaningful because profitability is assessed at contract or higher level
  - Disagree with justification for limiting application to POs over one year
- Some disagreed with including an onerous test in the revenue proposals
  - Onerous test should be part of provisions standard
- User feedback is mixed
  - Some want the test at performance obligation level, others suggest contract level (or higher)
- Onerous test disclosures are excessive

# Onerous test - should it stay or should it go?

What are the implications of removing the onerous test from the revenue proposals?

US GAAP	IFRS
<ul style="list-style-type: none"><li>- Retain existing guidance<ul style="list-style-type: none"><li>- General guidance - Topic 450</li><li>- Industry-specific guidance for construction contracts (scope and recognition)</li></ul></li><li>- Separate project? (to develop new loss recognition requirements for US GAAP)</li></ul>	<ul style="list-style-type: none"><li>- Apply existing onerous test in IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i> to all contracts with customers</li></ul>

# If it stays...modify the test

- Many respondents suggested applying the onerous test to the **contract** or higher (instead of performance obligations)
- Applying the onerous test to the contract may create results that are not meaningful - for example:
  - in industries that price and evaluate economics above the contract level
  - contracts that are entered into because they cover incremental costs

# Modify the test – contract level

Would it be meaningful to recognise a loss as follows:

	When would loss be recognised <i>(if onerous test at contract level)</i>	When is the loss recognised today
<b>Specialized product</b> sold at a loss in anticipation of profitable subsequent contracts for servicing and parts	When the contract is entered into	Loss is recognised when the loss-making product is transferred to customer
<b>Airlines</b> - Seat on a flight scheduled in 10 months time (seat sold at a significant discount)	When the seat is sold (ie 10 months before flight is flown)	When flight is flown (ie 10 months after sale of seat) but flight would be profitable overall
<b>Shipping</b> - Last cargo container priced at discount, to fill ship and cover incremental costs	When contract is entered into	As revenue is recognised but ship would be profitable overall

# Modify the test – other alternatives

Moving to the contract level is not enough - modify the onerous test using **one** of the following other alternatives:

	Rationale	Modify onerous test
1) Incorporate notion of <b>economic benefits</b>	Contracts that create benefits beyond the contract will not be identified as onerous (ie more meaningful results)	Recognize a loss when: <b>costs</b> <del>exceeds the transaction price</del> <b>economic benefits expected</b>
2) Consider only <b>incremental costs</b>	Contracts that cover at least the incremental costs of fulfilling will not be identified as onerous (ie more meaningful results)	Recognize a loss when: <b><u>incremental costs</u></b> exceeds <b>the transaction price</b>

## Question:

When is it meaningful to recognise a loss before performance has occurred?



# More information

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Additional information about the revised proposals and the revenue recognition project is available at [www.ifrs.org](http://www.ifrs.org) and [www.fasb.org](http://www.fasb.org).

# Questions or comments?

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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.

