

# STAFF PAPER

**Week of 24 September 2012**

FASB | IASB Meeting

FASB Education Session 19 September, 2012  
IASB Education Session 20 September, 2012

<b>Project</b>	<b>Revenue Recognition</b>		
Paper topic	Addendum to paper 7A/162A <i>Constraining the cumulative amount of revenue recognised</i>		
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## Purpose of this addendum

1. Agenda paper 7A/162A *Constraining the cumulative amount of revenue recognised* unintentionally omitted the questions that the staff has for the Boards. This addendum sets out the questions that the staff have for the boards with respect to agenda paper 7A/162A.

## Issue 1: What is considered to be variable consideration (refer paragraphs 27-33 of agenda paper 7A/162A)

### Question 1

The staff recommend that:

- (a) there should be an explicit reference from paragraph 81 of the 2011 ED to paragraph 53 to clarify the scope of the constraint for 'variable consideration'.
- (b) the word 'contingencies' in paragraph 53 of the 2011 ED should be replaced with 'uncertain events' to eliminate confusion as to whether it is intended to be consistent with contingencies in other areas of IFRS and US GAAP.

- (c) an additional paragraph immediately following Paragraph 53 of the 2011 ED should be added to clarify that uncertain events can either relate to:
- (i) uncertainties affecting the price: uncertainties where an entity has the right to obtain consideration and the amount to which the entity will be entitled varies depending on subsequent events or other variables. However, the right to obtain consideration is not contingent; and
  - (ii) uncertainties related to events: uncertainties where the entity's right to obtain consideration is contingent on the occurrence or non-occurrence of uncertain future events. The outcome of the events could be within the entity's control, the customer's control, or neither.

Do the Boards agree?

## **Issue 2: Understanding when an entity's experience is predictive (refer paragraphs 34-60 of agenda paper 7A/162A)**

### **Question 2**

The staff recommend deleting the term 'reasonably assured' from paragraph 81 of the 2011 ED (refer to paragraphs 17-19 of agenda paper 7A/162A)

Do the Boards agree?

In addition, the staff recommend amending the guidance on understanding when an entity's experience is predictive. The staff identified three options for amending that guidance:

- (a) *Option 1 – 2011 ED qualitative assessment:* Retain the qualitative assessment in the 2011 ED by reinforcing the principle in paragraph 81 and retaining the indicators in paragraph 82.
- (b) *Option 2 – determinative approach:* Amend the guidance in paragraph 82 of the 2011 ED to provide an objective and determinative methodology to ensure that revenue is not recognised when there are

a broad range of possible consideration amounts.

- (c) *Option 3 – confidence threshold:* Retain the 2011 ED indicators in paragraph 82 and introduce a threshold for the level of confidence an entity must have when assessing whether or not the entity's experience is predictive.

Do the Boards agree that the guidance on understanding when the entity's experience is predictive should be amended?

- If so, which option do the Boards prefer?
- If the Boards prefer Option 3, what is the minimum level of confidence that should exist before the variable consideration that has been allocated to a performance obligation can be recognised as revenue?

### Issue 3: Interaction with the measurement of the transaction price (refer paragraphs 61-74 of agenda paper 7A/162A)

#### Question 3

The staff recommend that:

- (a) paragraph 84 of the 2011 ED be clarified to explain that the entity should consider splitting the transaction price into a fixed and variable portion if there is an explicit or implicit minimum; and
- (b) the allocation guidance in paragraph 76 of the 2011 ED be expanded to clarify the recognition profile when the explicit or implicit minimum changes.

Do the Boards agree?