Revenue Recognition

Supplement to January 2013 Staff Paper 7D/166D – Transfers of assets that are not an output of an entity's ordinary activities

Paragraphs 13 and 14 of the 2011 ED (Identifying the contract)

Draft standard (includes markups to 2011 ED proposals)	Reasoning
13 A contract is an agreement between two or more parties that creates enforceable rights and obligations. Enforceability is a matter of law. Contracts can be written, oral or implied by an entity's customary business practices. The practices and processes for establishing contracts with customers vary across legal jurisdictions, industries and entities. Additionally, they may vary within an entity (for example, they may depend on the class of customer or the nature of the promised goods or services). An entity shall consider those practices and processes in determining when an agreement with a customer creates enforceable rights and obligations of the entity <u>and the customer</u>.	This proposed amendment to extend the last sentence clarifies that an entity should also consider whether the customer's rights and obligations are enforceable.
14 An entity shall apply this [draft] IFRS to a contract with a customer only if all of the following criteria are met <u>at the time when the agreement with the customer creates or modifies the enforceable rights and obligations of the parties to the contract</u>:	The proposed amendment to this paragraph clarifies that the criteria for identifying a contract with a customer applies at either the inception of the contract or when the contract is modified. This proposed amendment also clarifies that before the criteria can be evaluated, the contract must be enforceable.
(a) The contract has commercial substance (ie the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract).	No change has been suggested to this paragraph.
(b) The parties to the contract have approved the contract (in writing, orally or in accordance with other customary	This paragraph has been amended to give sufficient prominence to the criterion that the parties must be committed to perform their respective

business practices) ~~and are committed to perform their respective obligations~~.	obligations. That criterion is drafted as (e) below.
(c) The entity can identify each party's rights regarding the goods or services to be transferred.	No change has been suggested to this paragraph.
(d) The entity can identify the payment terms for the goods or services to be transferred.	No change has been suggested to this paragraph.
<u>(e) An assessment of relevant facts and circumstances indicates that the parties are committed to perform their respective obligations and they intend to enforce their respective contractual rights. Facts and circumstances that an entity may consider in making that assessment include, but are not limited to, the following:</u> (i) <u>whether the contractual terms and conditions (eg payment terms or collateral offered) are commensurate with the uncertainty about the customer's intent to perform in accordance with the contract;</u> (ii) <u>whether, at contract inception, there is significant doubt about the collectibility of the consideration from the customer;</u> (iii) <u>whether there is prior experience about the intention of the customer (or customer class) to fulfil its obligations in similar contracts under similar circumstances; and</u> (iv) <u>whether the entity has previously chosen to not enforce its contractual rights in similar contracts with the customer (or customer class) under similar circumstances.</u>	The proposed amendments to this paragraph clarify the facts and circumstances that an entity must consider when assessing whether the parties are committed to perform their respective obligations. These facts and circumstances are intended to reflect the Boards' revisions and discussion of factors mentioned in paragraph 31 of the Paper C in September 2012 (non-recourse seller-based financing).