Financial Accounting Standards Board

International Accounting Standards Board

Revenue from Contracts with Customers

Global Preparers Forum
11 March 2013

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Agenda

- Project status
- Update on the Boards' tentative decisions
  - Request for feedback on licences

Project status

2010

2011

2013

June 2010

Exposure draft

Revenue from Contracts with Customers

974 comment letters

November 2011

Revised exposure draft

Re-exposure of *Revenue from Contracts with Customers*

358 comment letters

March 2012

Comment letter deadline

April 2012

Roundtables

May 2012 onwards

Redeliberations

H1 2013

Final standard (ASU / IFRS)

Retrospective or alternative transition

Effective date:
1 January 2017

Early application not permitted

Project objective

Objective: To develop a single, principle-based revenue standard for US GAAP and IFRSs

- The revenue standard aims to improve accounting for contracts with customers by:
  - Providing a more robust framework for addressing revenue issues as they arise
  - Increasing comparability across industries and capital markets
  - Requiring better disclosure

Overview of revised proposals

Core principle:

Recognize 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:

1. Identify the contract(s) with the customer
2. Identify the separate performance obligations
3. Determine the transaction price
4. Allocate the transaction price
5. Recognize revenue when a performance obligation is satisfied

Tentative decisions since November 2012

- Collectibility (credit risk)
- Allocation of the transaction price
- Constraint on revenue recognition
- Licences
- Contract costs
- Disclosure
- Transition and effective date

Collectibility (credit risk)

- Revenue should be measured at the amount of consideration to which the entity is entitled (that is, an amount that is not adjusted for customer credit risk)
  - Impairment losses (recognized initially and subsequently) should be presented prominently as an expense
  - Impairment for contracts with customers with a significant financing component will also be presented as an expense

Allocate the transaction price (Step 4)

Objective: To allocate to each separate performance obligation the amount to which the entity expects to be entitled

- Allocating on a relative standalone selling price basis will generally meet the objective
  - Estimate selling prices if they are not observable
  - Residual estimation techniques may be appropriate
    - may be used in contracts in which there are two or more goods or services that have highly variable or uncertain standalone selling prices
- Discounts and contingent amounts are allocated entirely to one (or some) performance obligation if specified criteria are met

A constraint on revenue recognition

Objective: Recognise revenue at an amount that should not be subject to significant revenue reversals that might arise from changes in the estimate of the amount of variable consideration to which the entity is entitled

- An entity would meet that objective if the entity has sufficient experience or evidence that supports the assessment that revenue should not be subject to significant revenue reversal
  - Entity should consider both:
    - the risk of a revenue reversal and
    - the magnitude of that reversal
  - Assessment is qualitative and will include indicators, however risk of revenue being reversed should be low
- Boards also tentatively decided to move constraint to Step 3 in the model - which should not affect the amount of revenue recognised

Implementation guidance: Licences

November 2012 tentative decision

Accounting for licences should differentiate between:

- a licence that transfers to a customer at a point in time a right to use the entity's intellectual property (ie *a licence that transfers a right*); and
- a licence that provides access to the entity's intellectual property over time (ie *a licence that provides access*)

Implementation guidance: Licences

(A) Identify the separate performance obligations in the licence arrangement (Step 2)

(B) Consider the following factors to determine if a distinct licence is *providing access* to the entity's intellectual property:

i. Whether there is either an explicit requirement or an implicit understanding that the entity will undertake activities to maintain or enhance the intellectual property to which the licence relates; and

ii. Whether the licence permits the customer to automatically benefit from any changes to the intellectual property that arise as and when the entity undertakes those activities

Contract costs

Costs of obtaining a contract	Costs of fulfilling a contract
Recognized as an asset if they are incremental and are expected to be recovered *For example:* *Selling commissions*	Recognized as an asset if they: • Relate directly to a contract • Relate to future performance • Are expected to be recovered *For example: Pre-contract or setup costs*

Disclosures

Objective: To enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers

Tentative decisions

- Refinements and clarifications :
  - Disaggregation of revenue
  - Analysis of remaining performance obligations
  - Qualitative disclosures

Disclosures (continued)

Reconciliation of contract balances

Assets recognised from the costs to obtain or fulfil a contract

Replace the tabular requirement with a requirement to provide a combination of qualitative and quantitative disclosures

Interim requirements

IASB: disaggregation of revenue required in both annual and interim financial statements; otherwise general principles of interim financial reporting apply

FASB: all quantitative disclosures required in both annual and interim financial statements

Transition

Retrospective transition

With the practical expedients proposed in the 2011 exposure draft:

a) For contracts completed before the date of initial application:
   i. an entity need not restate contracts that begin and end within the same annual reporting period.
   ii. an entity may use the transaction price at the date the contract was completed rather than estimating variable consideration amounts in the comparative reporting periods.

b) For all periods presented before the date of initial application, an entity need not provide disclosures related to the remaining performance obligations.

or

Alternative transition method

a) apply the new revenue Standard to contracts that are not completed at the date of initial application;

b) recognise the cumulative effect of initially applying the new revenue Standard in the year of initial application (that is, comparative years would not be restated); and

In the year of initial application, provide the following disclosures:
   i. the amount by which each financial statement line item is affected in the current year as a result of the entity applying the new revenue Standard; and
   ii. an explanation of the significant changes between the reported results under the new revenue Standard and legacy IFRSs/US GAAP

Effective date

- Effective date: annual reporting periods beginning on or after 1 January 2017
- No early application permitted

More information

Additional information about the revised proposals and the revenue recognition project is available at www.ifrs.org and www.fasb.org.

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Thank you

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