



Exposure draft *Revenue from Contracts with Customers*

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

Outline

- Background to the project
- Summary of the proposals in the exposure draft
- Developments since discussion paper
- Project timeline

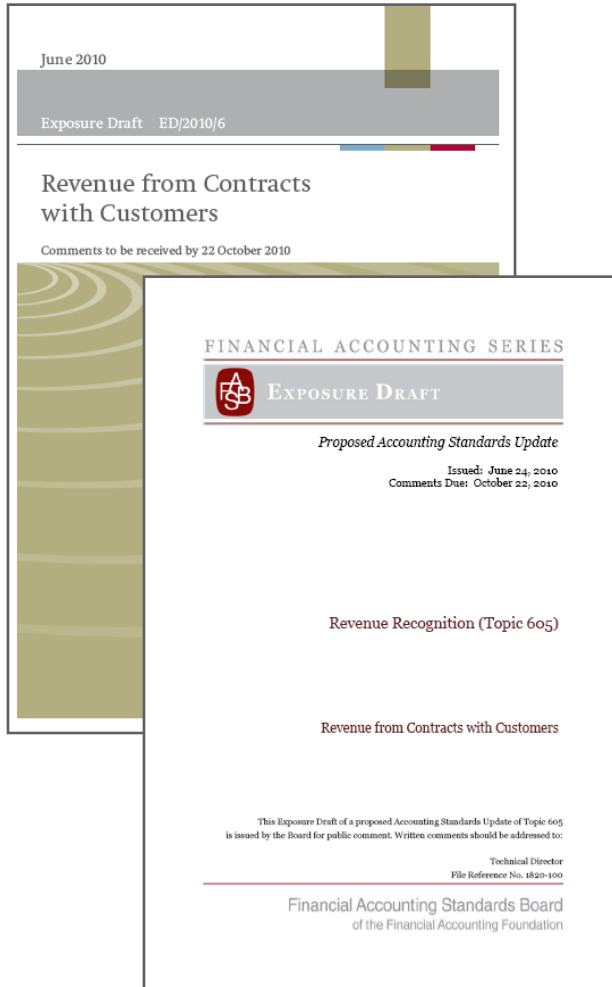
Why are we doing the project?

- IFRSs and US GAAP are different. Both need improvement
 - US GAAP: broad concepts and numerous requirements by industry or transaction resulting in inconsistent accounting
 - IFRSs: lack of clear guidance on key topics which can make the standards difficult to apply
- Objective: create a single, joint revenue standard for use across various industries and capital markets
 - replace IASs 18 & 11 and most existing revenue recognition requirements in US GAAP (ASC Topic 605)

Improvements to financial reporting

- Single model based on clear principles
- Robust framework for addressing revenue issues
- Comparability across industries and markets
- Enhanced disclosure requirements
- Clarification of accounting for contract costs

The exposure draft



- Converged proposal with unanimous support of the IASB and the FASB
- Published for public comment on 24 June 2010. Comments due 22 October 2010
- Based on further development of the principles proposed in the December 2008 discussion paper
 - over 220 comment letters
 - other outreach activities

	Excluded	Included
CONTRACTS WITH CUSTOMERS	Lease contracts	All other contracts with customers including unbundled services from lease and insurance contracts
	Insurance contracts	
	Financial instruments including financial services fees that are an integral part of the effective interest rate	

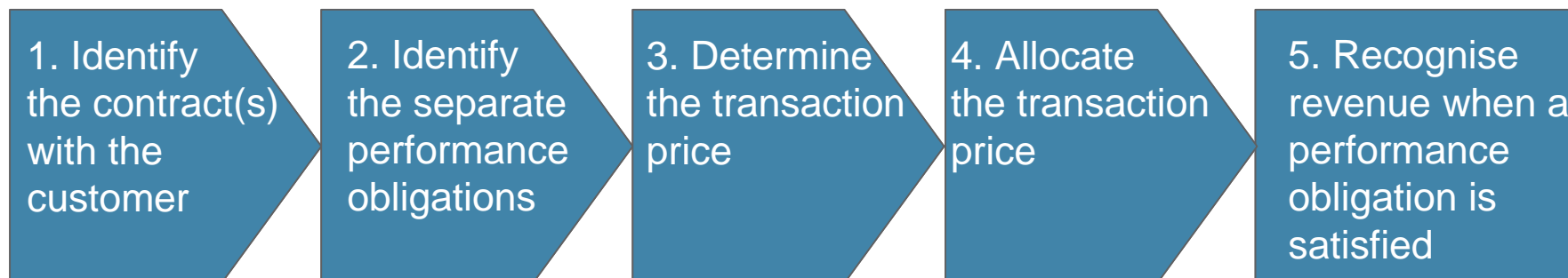
Summary of the revenue proposals

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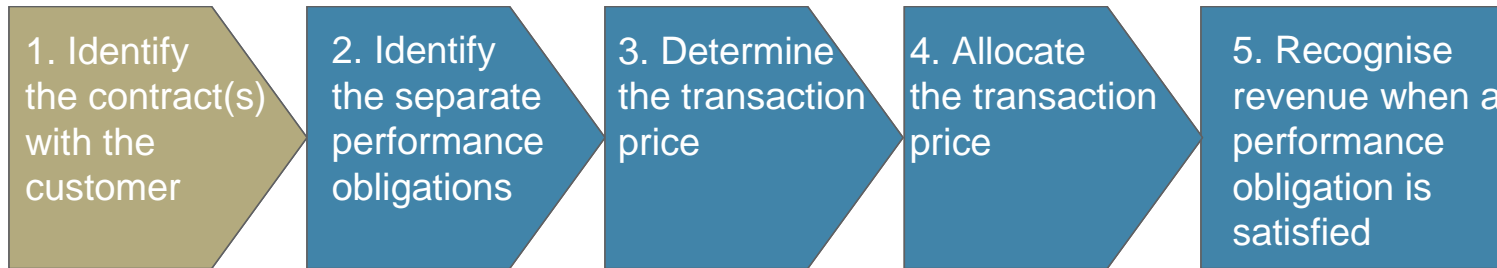
Core principle

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



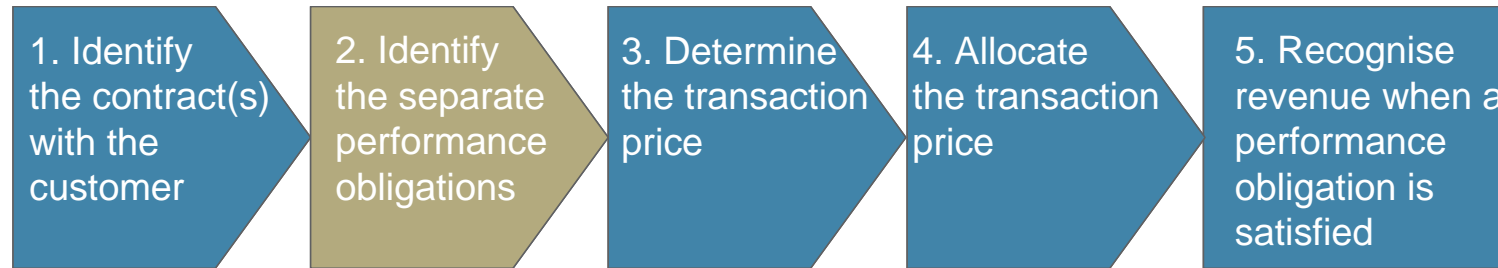
Step 1



Key proposal: price interdependence

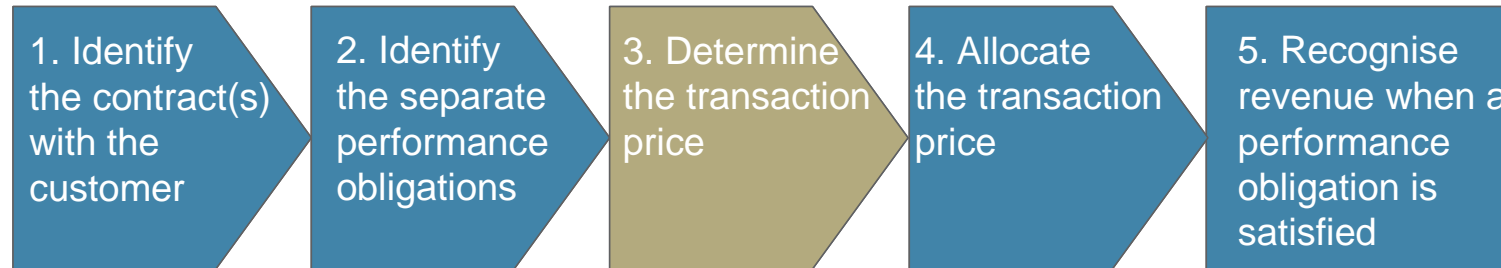
- combine contracts if prices are interdependent
- segment a contract if prices are independent
- contract modifications accounted for separately if priced independently

Step 2



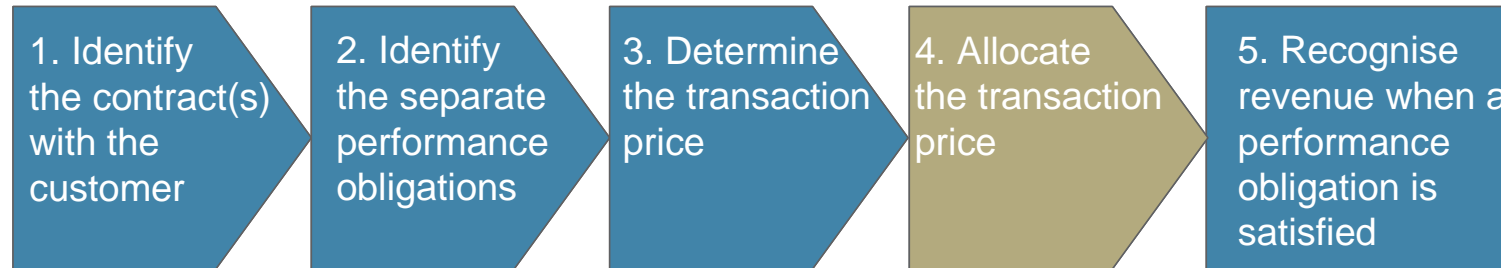
Key proposal: distinct goods or services

- 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



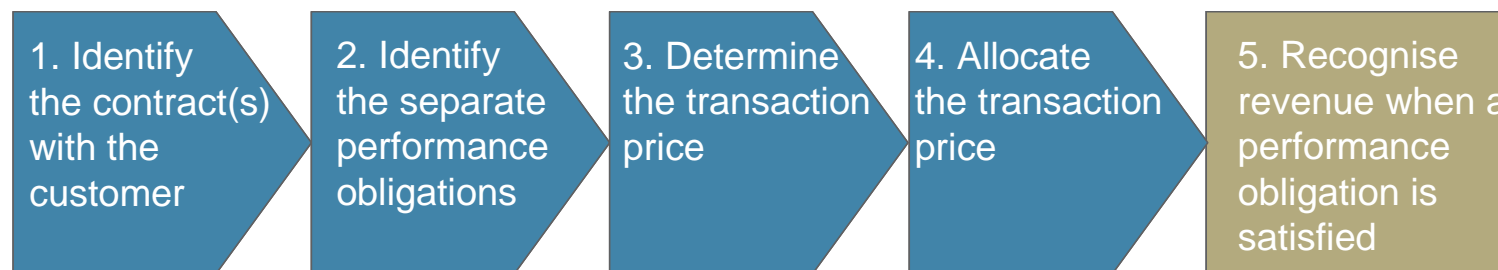
Key proposal: expected amount

- transaction price is the expected (probability-weighted) consideration from the customer, and reflects:
 - reasonable estimates of contingent amounts
 - credit risk
 - implicit financing



Key proposal: relative selling price allocation

- transaction price allocated to the separate performance obligations on relative selling price basis
- selling prices estimated if necessary
- no residual method



Key proposal: 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
- for development or construction contracts, revenue recognised continuously only if customer controls WIP

- Recognise liability for onerous performance obligation
 - onerous if expected costs exceed its carrying amount
- Expense all costs of obtaining a contract
- Capitalise costs incurred in fulfilling a contract if:
 - relate directly to a contract (or contract under negotiation)
 - generate or enhance a resource used to satisfy performance obligations in the future
 - expected to be recovered

Disclose qualitative and quantitative information to help users understand the amount, timing and uncertainty of revenue and cash flows

- Disaggregation of revenue
- Reconciliation of contract balances
- Maturity analysis of remaining performance obligations for contracts exceeding one year
- Judgments in applying the requirements

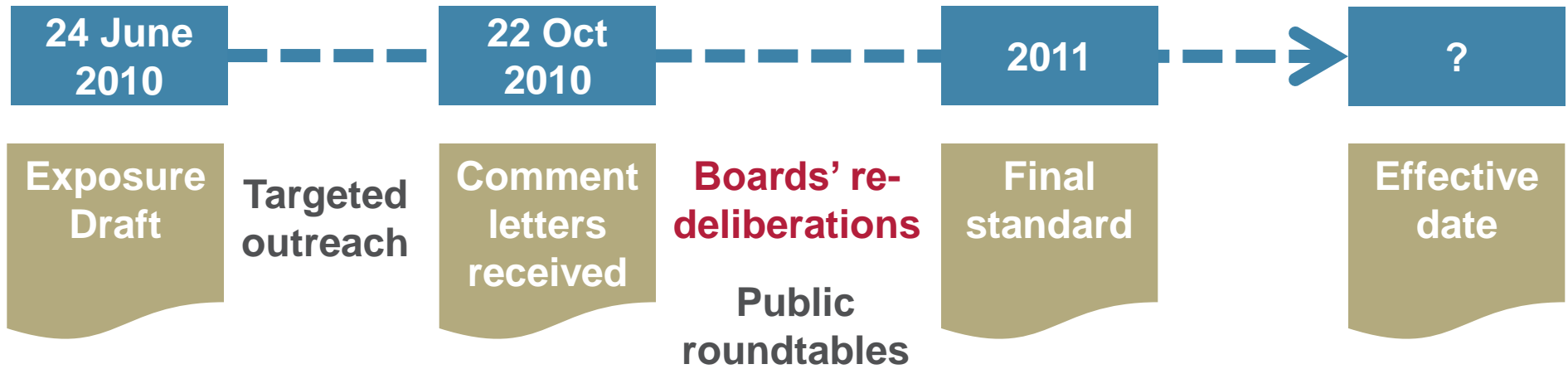
- Full retrospective application
- Separate consultation on transition methods and effective dates for standards to be issued in 2011
- Early adoption:
 - permitted for first-time adopters of IFRSs
 - no decision yet for existing IFRS preparers

Feedback on discussion paper

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Feedback on DP	Boards' response
Clarify meaning of control	Proposed definition and indicators Clarified control in long-term contracts is of WIP, not of completed asset
Clarify how to identify separate performance obligations	Criteria proposed ('distinct' good or services) with implementation guidance
Address contracts costs	Developed cost guidance
Distinguish between types of warranties	Distinguished product warranties that are a performance obligation and a failed sale
Develop implementation guidance	Guidance developed on principal vs agent, options, licences & IP, bill & hold, sale & repurchase, etc

Timeline



To be held in London, Norwalk and Asia. Let us know by 1 October if you wish to participate

Where to get more information

- ED *Revenue from Contracts with Customers* and Snapshot available from <http://go.iasb.org/revenue+recognition>
- Project staff
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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.

