NEW ZEALAND INSTITUTE OF CHARTERED ACCOUNTANTS

MEMORANDUM

DATE: 28 July 2010

TO: MEMBERS OF THE FINANCIAL REPORTING STANDARDS BOARD AND THE AUSTRALIAN ACCOUNTING STANDARDS BOARD

FROM: CLIVE BRODIE
SENIOR PROJECT MANAGER – ACCOUNTING STANDARDS

SUBJECT: ASSESSMENT OF IMPACT OF THE IASB'S PROPOSALS ON CURRENT PRACTICE

Purpose

1. For noting, this memo includes an analysis of the impact the proposals in the International Accounting Standards Board (IASB) Exposure Draft ED/2010/6 *Revenue from Contracts with Customers* might have on current practice (the analysis is summarised below and the full analysis is included as an appendix).

Summary of FRSB staff assessment of the impact of the IASB's proposals

2. Included in the table below is a summary of the areas where staff believes the proposals in the Exposure Draft might impact current practice. For the full analysis, refer to the appendix of this memo.

Revenue category	Potential impact	Potential impact of DP proposals
Service revenue including construction-type contracts	Variable: Limited - Significant	Under the proposed model, increases in assets other than within a contract with a customer do not give rise to revenue recognition. For example, increases in assets such as inventory under a contract with a customer (but not yet transferred to the customer) would not trigger revenue recognition. The impact on construction-type contracts will depend on the extent to which the contract provides for transfer to the customer of work in progress. At present, entities sometimes capitalise the costs of obtaining contracts. Under the proposed model, initial costs are capitalised only if they qualify for capitalisation in accordance with other standards.
Revenue from the sale of goods	Limited	Some warranties and other post-delivery services are currently accounted for as cost accruals. Under the proposed model, entities would account for these obligations as either: (i) performance obligations and therefore, allocate a portion of the transaction price to the post-delivery services to be recognised as the post-delivery services are provided (i.e. as the performance obligations are satisfied); or (ii) failed sales. The failed sale approach [in the IASB staff view] should be more intuitive and simpler to apply to some warranties than the separate performance obligation approach proposed in the Discussion Paper. In particular, entities would not have to estimate the standalone selling price of such warranties - which are never sold separately. Rather, entities would only need to determine the proportion of performance obligations that have not yet been satisfied.

Revenue category	Potential impact	Potential impact of DP proposals
		Under the proposed model, increases in assets other than within a contract with a customer do not give rise to revenue recognition. For example, increases in assets such as inventory under a contract with a customer (but not yet transferred to the customer) would not trigger revenue recognition. The impact on construction-type contracts will depend on the extent to which the contract provides for transfer to the customer of work in progress. At present, entities sometimes capitalise the costs of obtaining contracts. Under the proposed model, initial costs are capitalised only if they qualify for capitalisation in accordance with other standards or meet specified criteria (p.57 of the ED).
Licences	Limited	Under the proposed model an entity would be required to evaluate whether a licence to use the entity's intellectual property (for less than the property's economic life) is granted on an exclusive or non-exclusive basis. If a licence is granted on an exclusive basis, an entity would be required to recognise revenue over the term of the licence.
Exchanges of goods and services	Limited	Under the proposed model, if an entity receives consideration from the customer that is in a form other than cash the entity shall measure non-cash consideration at the fair value of the consideration at the date it is received. If an entity cannot reliably estimate the fair value of non-cash consideration, it shall measure the consideration indirectly by reference to the selling price of the goods or services transferred in exchange for the consideration.
Reward credits redeemed by customers	Limited	Limited impact: If an entity pays an amount of consideration to the customer in the form of cash, credit, or other items that the customer can apply against amounts owed to the entity, the entity shall use judgment in determining whether those amounts are: (a) a reduction of the transaction price and revenue (i.e. the customer receives a discount on the entity's goods or services), or (b) a payment for distinct goods or services that the entity receives from the customer (i.e. the customer is also acting as a supplier to the entity), or (c) a combination of (a) and (b) in which case the entity reduces the transaction price by the amount of consideration paid to the customer in excess of the fair value of the goods or services the entity receives from the customer.
Provision for onerous contracts	Limited	Under the proposed model a performance obligation is considered onerous when the expected cost of performance exceeds the carrying amount of the performance obligation. If a performance obligation is onerous, the performance obligation is then remeasured to the expected cost of performance.