



To:	AASB members	Date:	14 April 2011
From:	Kala Kandiah	Agenda Item:	6.1
Subject:	Revenue from contracts with customers	File:	

Action

1. Receive an update on the tentative decisions made by the IASB and the FASB in their joint project to develop a Standard on *Revenue from Contracts with Customers* and consider if there are any issues that need to be raised with the IASB on the tentative decisions made.
2. Note that there is insufficient information at this stage to make decisions on Tier 2 disclosures in relation to the Australian Accounting Standard that will incorporate the IFRS on *Revenue from Contracts with Customers*.

Attachments

Agenda Paper 6.2 Summary of significant IASB tentative decisions on the IASB/FASB *Revenue Recognition* project

Background

In June 2010, the AASB issued ED 198 *Revenue from Contracts with Customers*, which incorporates the IASB's ED/2010/6 *Revenue from Contracts with Customers*. The comment period for IASB's ED 2010/6 closed on 22 October 2010 and over 960 comment letters were received (the comment period for AASB ED 198 closed on 24 September 2010 and attracted 10 comment letters). A number of recurring themes were noted in the comment letters, which included concerns about proposals relating to transfer of control, identification of performance obligations, determining the transaction price, segmentation, accounting for warranties, licences of intellectual property and disclosures.

The IASB and FASB began redeliberating their proposals in January 2011, focusing on the common themes in the comment letters, and reached a number of tentative decisions.

The session at the forthcoming AASB meeting is an opportunity to note how the IASB and FASB have tentatively decided to amend or confirm their proposals and discuss any concerns AASB members may have.

In its comments to the IASB, which were made after consideration of comments on AASB ED 198, the AASB stated that it could not support the proposals in ED/2010/6 as a whole as it had significant concerns with a number of aspects in the proposals, some of which are outlined below:

- Notion of control – the AASB considered that the notion of control in the proposals was overly focused on the physical delivery of the final asset. The AASB wanted the proposals to be clearer on how the concept of control applies to services with or without a final deliverable.
- Credit risk in the measurement of revenue – the AASB did not agree with the proposal to include credit risk in the measurement of revenue. The AASB preferred revenue to be recognised gross and any impairment of the corresponding receivable to be accounted for separately as an expense and not a reduction in revenue.
- Lack of consistency with other IFRSs – the AASB highlighted a number of inconsistencies between the ED’s proposals and other IFRSs and current IASB projects, for example the measurement basis proposed by the ED for non-financial liabilities (i.e. transaction price) was inconsistent with the measurement basis in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* that currently deals with measurement of all non-financial liabilities (i.e. cost accrual).
- Scope of the proposals – the AASB questioned how other forms of revenue like royalties and dividends would be recognised once IAS 18 *Revenue* is superseded by a new IFRS *Revenue from Contracts with Customers* as the scope of the proposals seems to only cover revenue arising from contracts with customers.
- Drafting of the proposals – it was brought to the AASB’s attention (through various constituent meetings) that the manner in which the ED was drafted was resulting in widely differing interpretations. The AASB wanted the drafting of the proposals to be thoroughly reconsidered so that the underlying principles are made clear.

It appears that the IASB has responded to some concerns (for example, the notion of control and credit risk) but not others (for example, scope) and it is not clear at this stage how the IASB will address the AASB’s other concerns (for example, lack of consistency with other IFRSs and drafting).

At this stage, we think there are issues that would warrant the AASB making further submissions to the IASB – see paragraph 2 of Agenda paper 6.2.

Off-plan multi-unit residential properties

The IASB has considered a letter from the Singapore National Standard Setter expressing concern about the ED's implications for revenue recognition for off-plan multi-unit residential properties. The letter also provided information to the IASB about the legal provisions in the Asia Oceania countries affecting these contracts. The IASB has amended the revenue recognition criteria for services (for example, by enabling an entity to satisfy performance obligations continuously as it creates an asset that does not have an alternative use for the entity with certain other criteria being satisfied) which would seem to enable developers of these properties to recognise revenue as the service is being provided.

Applicability of Standard

In March 2011, the AASB decided that the Australian Accounting Standard incorporating the IFRS on *Revenue from Contracts with Customers* should initially apply to, and be permitted to be adopted early by, only for-profit entities in Australia. NFP entities in Australia will continue to apply:

- (a) AASB 118 *Revenue*, in respect of revenue from exchange transactions; and
- (b) AASB 1004 *Contributions*, in respect of revenue or other income from non-exchange transactions;

until a revenue recognition standard for NFPs is issued. The AASB is currently developing a revenue recognition model for NFPs (i.e. previously referred to as the project on Income from Non-Exchange Transactions) based on the IASB and FASB's work on their joint revenue recognition project.

Tier 2 disclosures

In November 2010 the AASB issued a Tier 2 supplement to ED 198 for comment by 31 January 2011. Staff are going through the submissions received but are unable to make any recommendations to the Board on the Tier 2 disclosures that would be appropriate as the IASB and FASB have not yet finalised the disclosure requirements for the IFRS. Once the IFRS is sufficiently progressed, we intend liaising with the AASB RDR subcommittee to develop Tier 2 requirements.