Staff Paper

December 2012

Effects of joint IASB and FASB redeliberations on the November 2011 Exposure Draft *Revenue from Contracts with Customers*

About this staff paper

This staff paper indicates changes to the proposals in the November 2011 Exposure Draft *Revenue from Contracts with Customers* (the 2011 ED) arising from tentative decisions made by the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) as they redeliberate the 2011 ED. This staff paper reflects the boards' tentative decisions made up to and including their meeting during the week commencing 17 December 2012.

This staff paper is based on the style and format of the 2011 ED published by the IASB. The content published by the IASB is the same as the FASB's proposed *Accounting Standards Update* (Revised)—*Revenue Recognition (Topic 605): Revenue from Contracts with Customers* except where noted and for cross-references to existing standards.

This staff paper should be read in conjunction with the project plan outlined in Agenda Paper 7C/160C from the May 2012 Board meeting. That agenda paper describes the issues that will be redeliberated by the boards. The redeliberation timeline is updated in each month's cover memo, Agenda Paper 7.

This paper is not an official pronouncement of the IASB or the FASB and it does not provide authoritative guidance for applying the revenue Standard once finalised.

[Draft] International Financial Reporting Standard X
Revenue from Contracts with Customers
(published November 2011)

Tentative Decisions to date

Introduction

1 In accordance with the IASB's *Conceptual Framework for Financial Reporting*, revenues are increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants, and that arise in the course of an entity's ordinary activities. The assets increased by revenues may be of various kinds, for example, cash, claims against customers, inventory or other assets.

2 This [draft] IFRS specifies the accounting for revenue arising from contracts with customers. It does not address revenue arising from other transactions or activities (for example, revenues arising from changes in the value of some biological or agricultural assets).

3 The core principle of this [draft] IFRS is that an entity shall recognise revenue to depict the transfer of promised 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.

4 To achieve that core principle, an entity shall apply all of the following steps:

(a) identify the contract with a customer;

(b) identify the separate performance obligations in the contract;

(c) determine the transaction price;

(d) allocate the transaction price to the separate performance obligations in the contract; and

(e) recognise revenue when (or as) the entity satisfies a performance obligation.

5 An entity shall consider the terms of the contract and all related facts and circumstances when using judgement in applying this [draft] IFRS. An entity shall apply this [draft] IFRS consistently to contracts with similar characteristics and in similar circumstances.

6 This [draft] IFRS specifies the accounting for an individual contract with a customer. However, as a practical expedient, an entity may apply this [draft] IFRS to a portfolio of contracts (or performance obligations) with similar characteristics if the entity reasonably expects that the result of doing so would not differ materially from the result of applying this [draft] IFRS to the individual contracts (or performance obligations).

7 *[This paragraph in the FASB exposure draft is not used in the IASB exposure draft]*

Objective

8 The objective of this [draft] IFRS is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of *revenue* and cash flows arising from a *contract* with a *customer*.

Scope

9 An entity shall apply this [draft] IFRS to all contracts with customers, except the following:

(a) lease contracts within the scope of IAS 17 *Leases*;

(b) insurance contracts within the scope of IFRS 4 *Insurance Contracts*;

(c) contractual rights or obligations within the scope of IFRS 9 *Financial Instruments*; and

(d) *[this subparagraph in the FASB exposure draft is not used in the IASB exposure draft]*

(e) non-monetary exchanges between entities in the same line of business to facilitate sales to customers, or to potential customers, other than the parties to the exchange (for example, an exchange of oil to fulfil demand on a timely basis in a specified location).In unbundling an account balance specified in paragraph 8(a), an insurer shall regard all charges and fees assessed against the account balance, as well as cross-subsidy effects included in the crediting rate, as belonging to either the insurance component or another component, but are not part of the investment component. Thus, the crediting rate used in determining that account balance reflects a crediting rate after eliminating any cross-subsidy between that rate and the charges or fees assessed against the account balance.

10 A customer is a party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities. An entity shall apply this [draft] IFRS to a contract (other than a contract listed in paragraph 9) only if the counterparty to the contract is a customer. For some contracts, the counterparty to the contract might not be a customer but rather a collaborator or a partner that shares with the entity the risks and benefits of developing a product to be marketed. Such contracts are not in the scope of this [draft] IFRS.

11 A contract with a customer may be partially within the scope of this [draft] IFRS and partially within the scope of other IFRSs.

(a) If the other IFRSs specify how to separate and/or initially measure one or more parts of the contract, then an entity shall first apply those separation and/or measurement requirements.

(b) If the other IFRSs do not specify how to separate and/or initially measure one or more parts of the contract, then the entity shall apply this [draft] IFRS to separate and/or initially measure the part(s) of the contract.

Recognition of revenue

Identifying the contract

12 An entity shall apply this [draft] IFRS to each contract identified in accordance with paragraphs 13–22.

At their meeting in the week commencing 24 September 2012, the boards tentatively decided to provide additional guidance in the revenue Standard about how to determine whether a contract with a customer exists based on the customer's commitment to perform its obligations under the contract.

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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.

14 An entity shall apply this [draft] IFRS to a contract with a customer only if all of the following criteria are met:

(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);

(b) the parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations;

(c) the entity can identify each party's rights regarding the goods or services to be transferred; and

(d) the entity can identify the payment terms for the goods or services to be transferred.

15 For the purpose of applying this [draft] IFRS, a contract does not exist if each party to the contract has the unilateral enforceable right to terminate a wholly unperformed contract without compensating the other party (parties). A contract is wholly unperformed if both of the following criteria are met:
(a) the entity has not yet transferred any promised goods or services to the customer; and
(b) the entity has not yet received, and is not yet entitled to receive, any consideration in exchange for promised goods or services.

Combination of contracts

16 An entity shall apply this [draft] IFRS to each contract with a customer except as specified in paragraphs 6 and 17.

17 An entity shall combine two or more contracts entered into at or near the same time with the same customer (or related parties) and account for the contracts as a single contract if one or more of the following criteria are met:

(a) the contracts are negotiated as a package with a single commercial objective;

(b) the amount of consideration to be paid in one contract depends on the price or performance of the other contract; or

(c) the goods or services promised in the contracts (or some goods or services promised in the contracts) are a single *performance obligation* in accordance with paragraphs 27–30.

Contract modifications (see paragraph IE3[1])

18 A contract modification exists when the parties to a contract approve a change in the scope or price of a contract (or both). If a contract modification has not been approved by the parties to a contract, an entity shall continue to apply this [draft] IFRS to the existing contract until the contract modification is approved.

19 If the parties to a contract have approved a change in the scope of the contract but have not yet determined the corresponding change in price, an entity shall apply this [draft] IFRS to the modified contract when the entity has an expectation that the price of the modification will be approved. To estimate the *transaction price* in such cases, an entity shall apply paragraphs 50–67.

20 If a contract modification results only in a change to the transaction price, an entity shall account for the modification as a change in the transaction price in accordance with paragraphs 77–80.

21 An entity shall account for a contract modification as a separate contract if the contract modification results in the addition to the contract of both of the following:

(a) promised goods or services that are distinct in accordance with paragraphs 27–30; and

(b) an entity's right to receive an amount of consideration that reflects the entity's *stand-alone selling price* of the promised good(s) or service(s) and any appropriate adjustments to that price to reflect the circumstances of the particular contract. For example, an entity would adjust the stand-alone selling price for a discount that the customer receives because it is not necessary for the entity to incur the selling-related costs that it would incur when selling a similar good or service to a new customer.

22 For a contract modification that is not a separate contract in accordance with paragraph 21, an entity shall evaluate the remaining goods or services in the modified contract (ie the promised goods or services not yet transferred at the date of the contract modification) and shall account for the modified contract in whichever of the following ways is applicable:

(a) If the remaining goods or services are distinct from the goods or services transferred on or before the date of the contract modification, then the entity shall allocate to the remaining separate performance obligations the amount of consideration received from the customer but not yet recognised as revenue plus the amount of any remaining consideration that the customer has promised to pay. In effect, an entity shall account for the contract modification as a termination of the original contract and the creation of a new contract.

(b) If the remaining goods or services are not distinct and are part of a single performance obligation that is partially satisfied at the

At their meeting in the week commencing 15 October 2012, the boards tentatively decided:

- That an entity should account for modifications that current guidance on contracts in IFRSs and US GAAP describe as construction contract claims (in which changes in scope and price are unapproved or in dispute) in accordance with the proposed contract modifications requirements.
- To clarify that a contract modification, including a contract claim, would be approved when the modification creates or changes the enforceable rights and obligations of the parties to the contract. The boards noted that, consistently with the proposals on identifying the contract, a contract modification could be approved in writing or orally or the approval could be implied by customary business practice.
- To require an entity to account for contract modifications that result only in a change to the transaction price in accordance with paragraph 22 of the 2011 ED, which is consistent with the accounting for contract modifications that result in a change in scope. Consequently, the revenue Standard would not include the proposal in paragraph 20 of the 2011 ED, which would have required a modification that results only in a change to the transaction price to be treated consistently with changes in transaction price (paragraphs 77–80 of the 2011 ED).
- To clarify that, for modifications within the scope of paragraph 22(a) of the 2011 ED, the transaction price available for allocation to the remaining separate performance obligations should be the amount of consideration received from the customer but not yet recognised as revenue plus the amount of any remaining consideration that the customer has promised to pay that has not been recognised as revenue.
- To clarify that, for modifications within the scope of paragraph 22(a) of the 2011 ED and for which there is a subsequent change in the estimate of the transaction price, an entity should account for the modification prospectively unless the change in the transaction price relates to satisfied performance obligations, in which case the entity should account for that change in accordance with the proposed requirements in paragraphs 77–80 of the 2011 ED. A

[1] Cross-references to the Illustrative Examples are provided in the IASB exposure draft to maintain consistency with the FASB exposure draft.

date of the contract modification, then the entity shall update the transaction price and the measure of progress towards complete satisfaction of the performance obligation. The entity shall recognise the effect of the contract modification as revenue (or as a reduction of revenue) at the date of the contract modification on a cumulative catch-up basis. In effect, the entity shall account for the contract modification as if it were a part of the original contract.

(c) If the remaining goods or services are a combination of items (a) and (b), then the entity shall allocate to the unsatisfied (including partially unsatisfied) separate performance obligations the amount of consideration received from the customer but not yet recognised as revenue, plus the amount of any remaining consideration that the customer has promised to pay. For a performance obligation satisfied over time, an entity shall update the transaction price and the measure of progress towards complete satisfaction of the performance obligation. An entity shall not reallocate consideration to, and adjust the amount of revenue recognised for, separate performance obligations that are completely satisfied on or before the date of the contract modification.

similar approach would apply to accounting for revenue that had previously been constrained.

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Identifying separate performance obligations (see paragraphs B16, B20 and IE4)

23 **An entity shall evaluate the goods or services promised in a contract and shall identify which goods or services (or which bundles of goods or services) are distinct and, hence, that the entity shall account for as a separate performance obligation.**

24 A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer. Performance obligations include promises that are implied by an entity's customary business practices, published policies or specific statements if those promises create a valid expectation of the customer that the entity will transfer a good or service.

25 Performance obligations do not include activities that an entity must undertake to fulfil a contract unless the entity transfers a good or service to the customer as those activities occur. For example, a services provider may need to perform various administrative tasks to set up a contract. The performance of those tasks does not transfer a service to the customer as the tasks are performed. Hence, those promised set-up activities are not a performance obligation.

26 Depending on the contract, promised goods or services may include, but are not limited to, the following:

(a) goods produced by an entity for sale (for example, inventory of a manufacturer);

(b) goods purchased by an entity for resale (for example, merchandise of a retailer);

(c) providing a service of arranging for another party to transfer goods or services to the customer (for example, acting as an agent of another party as discussed in paragraphs B16–B19);

(d) standing ready to provide goods or services (for example, when-and-if-available software products);

(e) constructing, manufacturing or developing an asset on behalf of a customer;

(f) granting licences or rights to use intangible assets;

(g) granting options to purchase additional goods or services (when those options provide the customer with a material right as discussed in paragraphs B20–B22); and

(h) performing a contractually agreed-upon task (or tasks) for a customer.

27 If an entity promises to transfer more than one good or service, the entity shall account for each promised good or service as a separate performance obligation only if it is distinct. If a promised good or

At their meeting in the week commencing 16 July 2012, the boards tentatively decided:

- to retain the concept of a distinct good or service, which is used to determine whether a promise to transfer a good or service to a customer should be accounted for as a separate performance obligation;
- to improve the assessment of whether a good or service is distinct that was proposed in paragraphs 28 and 29 of the 2011 ED by clarifying the criterion proposed at paragraph 28 and by replacing the proposed criterion in paragraph 29 of the 2011 ED with indicators; and
- to remove the practical expedient in paragraph 30 of the 2011 ED (which permitted an entity to account for two or more distinct goods or services as a single performance obligation if those goods or services have the same pattern of transfer to the customer).

To retain and improve the distinct concept in the 2011 ED (paragraphs 28 and 29), the boards tentatively decided that an entity should account for a promised good or service (or a bundle of goods or services) as a separate performance obligation only if:

- the promised good or service is capable of being distinct because the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (this criterion is based on paragraph 28(b) of the 2011 ED); and
- the promised good or service is distinct within the context of the contract because the good or service is not highly dependent on, or highly interrelated with, other promised goods or services in the contract.

The boards tentatively agreed that the assessment of whether a promised good or service is distinct in the context of the contract should be supported by indicators, such as:

- The entity does not provide a significant service of integrating the good or service (or bundle of goods or services) into the bundle of goods or services that the customer has contracted. In other words, the entity is not using the good or service as an input to produce service is not distinct, an entity shall combine that good or service with other promised goods or services until the entity identifies a bundle of goods or services that is distinct. In some cases, that would result in an entity accounting for all the goods or services promised in a contract as a single performance obligation.

28 Except as specified in paragraph 29, a good or service is distinct if either of the following criteria is met:

(a) the entity regularly sells the good or service separately; or

(b) the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer. Readily available resources are goods or services that are sold separately (by the entity or by another entity) or resources that the customer has already obtained (from the entity or from other transactions or events).

29 Notwithstanding the requirements in paragraph 28, a good or service in a bundle of promised goods or services is not distinct and, therefore, the entity shall account for the bundle as a single performance obligation if both of the following criteria are met:

(a) the goods or services in the bundle are highly interrelated and transferring them to the customer requires that the entity also provide a significant service of integrating the goods or services into the combined item(s) for which the customer has contracted; and

(b) the bundle of goods or services is significantly modified or customised to fulfil the contract.

30 As a practical expedient, an entity may account for two or more distinct goods or services promised in a contract as a single performance obligation if those goods or services have the same pattern of transfer to the customer. For example, if an entity promises to transfer two or more distinct services to a customer over the same period of time, the entity could account for those promises as one performance obligation if applying one method of measuring progress (as discussed in paragraphs 38–48) would faithfully depict the pattern of transfer of those services to the customer.

Satisfaction of performance obligations (see paragraphs IE5 and IE6)

31 An entity shall recognise revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service (ie an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset.

32 Goods and services are assets, even if only momentarily, when they are received and used (as in the case of many services). Control of an asset refers to the ability to direct the use of and obtain substantially all of the remaining benefits from the asset. Control includes the ability to prevent other entities from directing the use of and obtaining the benefits from an asset. The benefits of an asset are the potential cash flows that can be obtained directly or indirectly in many ways, such as by:

(c) using the asset to produce goods or provide services (including public services);

(d) using the asset to enhance the value of other assets;

(e) using the asset to settle liabilities or reduce expenses;

(f) selling or exchanging the asset;

(g) pledging the asset to secure a loan; and

(h) holding the asset.

33 When evaluating whether a customer obtains control of an asset, an entity shall consider any agreement to repurchase the promised asset

the output specified in the contract.

- The customer was able to purchase or not purchase the good or service without significantly affecting the other promised goods or services in the contract.
- The good or service does not significantly modify or customise another good or service promised in the contract.
- The good or service is not part of a series of consecutively delivered goods or services promised in a contract that meet the following two conditions:
    - the promises to transfer those goods or services to the customer are performance obligations that are satisfied over time (in accordance with paragraphs 35 of the 2011 ED); and
    - the entity uses the same method for measuring progress to depict the transfer of those goods or services to the customer.

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At their meeting in the week commencing 24 September 2012, the boards discussed the application of the proposals in the 2011 ED to arrangements that arise in distribution networks. In those arrangements, an entity (such as a manufacturer) may transfer control of a product to its customer (who may be an intermediary, such as a dealer or retailer). The manufacturer may also promise other goods or services as sales incentives to encourage the sales of those products that have become part of the intermediary's inventory. The boards tentatively decided that if the promise to transfer goods or services regarded as sales incentives was made in the contract or implied in the circumstances described in paragraph 24 of the 2011 ED, those promised goods or services should be accounted for as a performance obligation. However, if the promise was made after the transfer of control of the product to the intermediary, the boards tentatively decided that the promise would not be a performance obligation.

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or a component of the promised asset. (See the application guidance on repurchase agreements in paragraphs B38–B48.)

34 For each separate performance obligation identified in paragraphs 23–30, an entity shall apply the requirements in paragraphs 35 and 36 to determine at contract inception whether the entity satisfies the performance obligation over time by transferring control of a promised good or service over time. If an entity does not satisfy a performance obligation over time, the performance obligation is satisfied at a point in time.

Performance obligations satisfied over time

35 An entity transfers control of a good or service over time and, hence, satisfies a performance obligation and recognises revenue over time if at least one of the following two criteria is met:

(a) the entity's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced. An entity shall apply the requirements on control in paragraphs 31–33 and paragraph 37 to determine whether the customer controls an asset as it is created or enhanced; or

(b) the entity's performance does not create an asset with an alternative use to the entity (see paragraph 36) and at least one of the following criteria is met:

(i) the customer simultaneously receives and consumes the benefits of the entity's performance as the entity performs.

(ii) another entity would not need to substantially re-perform the work the entity has completed to date if that other entity were to fulfil the remaining obligation to the customer. In evaluating this criterion, the entity shall presume that another entity fulfilling the remainder of the contract would not have the benefit of any asset (for example, work in progress) presently controlled by the entity. In addition, an entity shall disregard potential limitations (contractual or practical) that would prevent it from transferring a remaining performance obligation to another entity.

(iii) the entity has a right to payment for performance completed to date and it expects to fulfil the contract as promised. The right to payment for performance completed to date does not need to be for a fixed amount. However, the entity must be entitled to an amount that is intended to at least compensate the entity for performance completed to date even if the customer can terminate the contract for reasons other than the entity's failure to perform as promised. Compensation for performance completed to date includes payment that approximates the selling price of the goods or services transferred to date (for example, recovery of the entity's costs plus a reasonable profit margin) rather than compensation for only the entity's potential loss of profit if the contract is terminated.

36 When evaluating whether an asset has an alternative use to the entity, an entity shall consider at contract inception the effects of contractual and practical limitations on the entity's ability to readily direct the promised asset to another customer. A promised asset would not have an alternative use to an entity if the entity is unable, either contractually or practically, to readily direct the asset to another customer. For example, an asset would have an alternative use to an entity if the asset is largely interchangeable with other assets that the entity could transfer to the customer without breaching the contract and without incurring significant costs that otherwise would not have been incurred in relation to that contract. Conversely, the asset would not have an alternative use if the contract has substantive terms that preclude the entity from directing the asset to another customer or if the entity would incur significant costs (for example, costs to rework

At their meeting in the week commencing 16 July 2012, the boards tentatively decided to make the following refinements to the criteria proposed in paragraph 35 of the 2011 ED for determining whether an entity satisfies a performance obligation over time and, therefore, recognises revenue over time:

- retain the criterion proposed in paragraph 35(a), which considers whether the entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced;
- combine the "simultaneous receipt and consumption of benefits" criterion proposed in paragraph 35(b)(i) and the "another entity would not need to substantially re-perform" proposed criterion in 35(b)(ii) into a single criterion that would apply to "pure service" contracts; and
- link more closely the "alternative use" criterion in paragraph 35(b) and the "right to payment for performance completed to date" criterion in paragraph 35(b)(iii) by combining them into a single criterion.

The boards also tentatively decided to clarify aspects of the "alternative use" and "right to payment for performance completed to date" criteria. For example:

- The assessment of alternative use is made at contract inception and that assessment considers whether the entity would have the ability throughout the production process to readily redirect the partially completed asset to another customer.
- The right to payment should be enforceable and, in assessing the enforceability of that right, an entity should consider the contractual terms as well as any legislation or legal precedent that could override those contractual terms.

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the asset) to direct the asset to another customer.

Performance obligations satisfied at a point in time (see paragraphs B38–B58)

37 If a performance obligation is not satisfied over time in accordance with paragraphs 35 and 36, an entity satisfies the performance obligation at a point in time. To determine the point in time when a customer obtains control of a promised asset and an entity satisfies a performance obligation, the entity shall consider the requirements for control in paragraphs 31–33. In addition, an entity shall consider indicators of the transfer of control, which include, but are not limited to, the following:

(a) The entity has a present right to payment for the asset—if a customer is presently obliged to pay for an asset, then that indicates that the customer has obtained control of the asset in exchange.

(b) The customer has legal title to the asset—legal title often indicates which party to a contract has the ability to direct the use of and obtain the benefits from an asset or to restrict the access of other entities to those benefits. Hence, the transfer of legal title of an asset indicates that the customer has obtained control of the asset. If an entity retains legal title solely as protection against the customer's failure to pay, those rights of the entity are protective rights and do not preclude a customer from obtaining control of an asset.

(c) The entity has transferred physical possession of the asset—the customer's physical possession of an asset indicates that the customer has the ability to direct the use of and obtain the benefits from the asset or to restrict the access of other entities to those benefits. However, physical possession may not coincide with control of an asset. For example, in some repurchase agreements and in some consignment arrangements, a customer or consignee may have physical possession of an asset that the entity controls. Conversely, in some bill-and-hold arrangements, the entity may have physical possession of an asset that the customer controls. To account for a repurchase, consignment or bill-and-hold arrangement, an entity shall apply the application guidance in paragraphs B38–B54.

(d) The customer has the significant risks and rewards of ownership of the asset—the transfer of the significant risks and rewards of ownership of an asset to the customer indicates that control of the asset has been transferred. However, when evaluating the risks and rewards of ownership of a promised asset, an entity shall consider any risks that may give rise to a separate performance obligation in addition to the performance obligation to transfer the asset. For example, an entity may have transferred control of an asset to a customer but not yet satisfied an additional separate performance obligation to provide maintenance services related to the transferred asset.

(e) The customer has accepted the asset—the customer's acceptance of an asset indicates that it has obtained the ability to direct the use of and obtain the benefits from the asset. To evaluate the effect of a contractual customer acceptance clause on when control of an asset is transferred, an entity shall consider the application guidance in paragraphs B55–B58.

Measuring progress towards complete satisfaction of a performance obligation (see paragraph IE7)

38 For each separate performance obligation that an entity satisfies over time in accordance with paragraphs 35 and 36, an entity shall recognise revenue over time by measuring the progress towards complete satisfaction of that performance obligation. The objective when measuring progress is to depict the transfer of control of goods or services to the customer—that is, to depict an entity's performance. As circumstances change over time, an entity shall update its measure of progress to depict the entity's performance completed to date. Such changes shall be accounted for as a change in accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in*

At their meeting in the week commencing 15 October 2012, the boards discussed the use of "units produced" or "units delivered" as appropriate methods for an entity to use to measure its progress toward complete satisfaction of a performance obligation that is satisfied over time (in accordance with paragraph 35 of the 2011 ED). The boards tentatively decided that methods such as units produced or units delivered could provide a reasonable proxy for the entity's

Accounting Estimates and Errors.

39 In accordance with the objective of measuring progress, an entity shall exclude from a measure of progress any goods or services for which the entity does not transfer control to the customer. Conversely, an entity shall include in the measure of progress any goods or services for which the entity does transfer control to the customer.

40 For each separate performance obligation satisfied over time, an entity shall apply a method of measuring progress that is consistent with the objective in paragraph 38 and shall apply that method consistently to similar performance obligations and in similar circumstances. Appropriate methods of measuring progress include output methods and input methods.

Output methods

41 Output methods recognise revenue on the basis of direct measurements of the value to the customer of the goods or services transferred to date (for example, surveys of performance completed to date, appraisals of results achieved, milestones reached or units produced) and can be the most faithful depiction of the entity's performance.

42 If an entity has a right to invoice a customer in an amount that corresponds directly with the value to the customer of the entity's performance completed to date (for example, a services contract in which an entity bills a fixed amount for each hour of service provided), the entity shall recognise revenue in the amount to which the entity has a right to invoice.

43 A disadvantage of output methods is that they are often not directly observable and the information required to apply them may not be available to the entity without undue cost. Hence, an input method may be necessary.

Input methods

44 Input methods recognise revenue on the basis of the entity's efforts or inputs to the satisfaction of a performance obligation (for example, resources consumed, labour hours expended, costs incurred, time lapsed or machine hours used) relative to the total expected inputs to the satisfaction of that performance obligation. If the entity's efforts or inputs are expended evenly throughout the performance period, it may be appropriate for an entity to recognise revenue on a straight-line basis.

45 A shortcoming of input methods is that there may not be a direct relationship between the entity's inputs and the transfer of control of goods or services to the customer because of inefficiencies in the entity's performance or other factors. Hence, when using an input method, an entity shall exclude the effects of any inputs that do not depict the transfer of control of goods or services to the customer (for example, the costs of wasted materials, labour or other resources to fulfil the contract that were not reflected in the price of the contract).

46 When applying an input method to a separate performance obligation that includes goods that the customer obtains control of significantly before receiving services related to those goods, the best depiction of the entity's performance may be for the entity to recognise revenue for the transferred goods in an amount equal to the costs of those goods if both of the following conditions are present at contract inception:

(a) the cost of the transferred goods is significant relative to the total expected costs to completely satisfy the performance obligation; and

(b) the entity procures the goods from another entity and is not significantly involved in designing and manufacturing the goods (but the entity is acting as a principal in accordance with paragraphs B16–B19).

performance in satisfying a performance obligation in the following circumstances:

- A units produced method could provide a reasonable proxy for the entity's performance if the value of any work in progress at the end of the reporting period is immaterial.
- A units delivered method could provide a reasonable proxy for the entity's performance if:
  - the value of any work in progress at the end of the reporting period is immaterial; and
  - the value of any units produced but not yet delivered to the customer at the end of the reporting period is immaterial.

The boards tentatively decided to clarify in the revenue Standard that the adjustment to the input method (for uninstalled materials) that is proposed in paragraph 46 of the 2011 ED is to ensure that the input method meets the objective of measuring progress that is specified in paragraph 38 of the 2011 ED—that is, to depict the entity's performance. The boards also tentatively decided to refine the fact pattern in Illustrative Example 8 to help clarify the scope of the requirements. In addition, the boards tentatively decided that the revenue Standard should clarify that if an entity selects an input method such as costs incurred to measure its progress, the entity should make adjustments to that measure of progress if including some of those costs incurred (for example, wasted materials) would distort the entity's performance in the contract.

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Reasonable measures of progress

47 An entity shall recognise revenue for a performance obligation satisfied over time only if the entity can reasonably measure its progress towards complete satisfaction of the performance obligation. An entity would not be able to reasonably measure its progress towards complete satisfaction of a performance obligation if it lacks reliable information that would be required to apply an appropriate method of measuring progress.

48 In some circumstances (for example, in the early stages of a contract), an entity may not be able to reasonably measure the outcome of a performance obligation, but the entity expects to recover the costs incurred in satisfying the performance obligation. In those circumstances, the entity shall recognise revenue only to the extent of the costs incurred until such time that it can reasonably measure the outcome of the performance obligation or until the performance obligation becomes onerous.

Measurement of revenue

49 When (or as) a performance obligation is satisfied, an entity shall recognise as revenue the amount of the transaction price allocated to that performance obligation. If the amount of consideration to which an entity expects to be entitled is variable, the cumulative amount of revenue an entity recognises to date shall not exceed the amount to which the entity is reasonably assured to be entitled.

Determining the transaction price

50 An entity shall consider the terms of the contract and its customary business practices to determine the transaction price. The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (for example, sales taxes). The transaction price does not include the effects of the customer's credit risk as discussed in paragraphs 68 and 69.

51 For the purpose of determining the transaction price, an entity shall assume that the goods or services will be transferred to the customer as promised in accordance with the existing contract and that the contract will not be cancelled, renewed or modified.

52 When determining the transaction price, an entity shall consider the effects of all of the following:

(a) variable consideration;

(b) the time value of money;

(c) non-cash consideration; and

(d) consideration payable to a customer.

Variable consideration (see paragraphs B2–B9)

53 The promised amount of consideration in a contract can vary because of discounts, rebates, refunds, credits, incentives, performance bonuses, penalties, contingencies, price concessions or other similar items.

54 If the promised amount of consideration in a contract is variable, an entity shall estimate the total amount to which the entity will be entitled in exchange for transferring the promised goods or services to a customer. An entity shall update the estimated transaction price at each reporting date to represent faithfully the circumstances present at the reporting date and the changes in circumstances during the reporting period. An entity shall account for changes in the transaction price in accordance with paragraphs 77–80.

At their meeting in the week commencing 24 September 2012, the boards tentatively decided to clarify the meaning of "variable consideration" to indicate that the constraint should apply to a fixed price contract in which there is uncertainty about whether the entity would be entitled to that consideration after satisfying the related performance obligation.

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55 To estimate the transaction price, an entity shall use either of the following methods, depending on which method the entity expects to better predict the amount of consideration to which it will be entitled:

(a) The expected value—the expected value is the sum of probability-weighted amounts in a range of possible consideration amounts. An expected value may be an appropriate estimate of the transaction price if an entity has a large number of contracts with similar characteristics.

(b) The most likely amount—the most likely amount is the single most likely amount in a range of possible consideration amounts (ie the single most likely outcome of the contract). The most likely amount may be an appropriate estimate of the transaction price if the contract has only two possible outcomes (for example, an entity either achieves a performance bonus or does not).

56 When estimating the transaction price, an entity shall apply one method consistently throughout the contract. In addition, an entity shall consider all the information (historical, current and forecasted) that is reasonably available to the entity and shall identify a reasonable number of possible consideration amounts. The information that an entity uses to determine the transaction price would typically be similar to the information that management of the entity uses during the bid and proposal process and in establishing prices for promised goods or services.

57 If an entity receives consideration from a customer and expects to refund some or all of that consideration to the customer, the entity shall recognise as a refund liability the amount of consideration that the entity reasonably expects to refund to the customer. The refund liability (and corresponding change in the transaction price) shall be updated at each reporting period for changes in circumstances. To account for a refund liability relating to a sale with a right of return, an entity shall apply the proposed guidance in paragraphs B2–B9.

The time value of money (see paragraph IE8)

58 In determining the transaction price, an entity shall adjust the promised amount of consideration to reflect the time value of money if the contract has a financing component that is significant to the contract. The objective when adjusting the promised amount of consideration to reflect the time value of money is for an entity to recognise revenue at an amount that reflects what the cash selling price would have been if the customer had paid cash for the promised goods or services at the point that they are transferred to the customer. If the promised amount of consideration differs from the cash selling price of the promised goods or services, then the contract also has a financing component (ie interest either to or from the customer) that may be significant to the contract.

59 In assessing whether a financing component is significant to a contract, an entity shall consider various factors including, but not limited to, the following:

(a) the expected length of time between when the entity transfers the promised goods or services to the customer and when the customer pays for those goods or services;

(b) whether the amount of consideration would differ substantially if the customer paid in cash promptly in accordance with typical credit terms in the industry and jurisdiction; and

(c) the interest rate in the contract and prevailing interest rates in the relevant market.

60 As a practical expedient, an entity need not adjust the promised amount of consideration to reflect the time value of money if the entity expects at contract inception that the period between payment by the customer of all or substantially all of the promised consideration and the transfer of the promised goods or services to the customer will be one year or less.

61 To adjust the promised amount of consideration to reflect the time value of money, an entity shall use the discount rate that would be reflected in a separate financing transaction between the entity and its

At their meeting in the week commencing 24 September 2012, the boards tentatively decided to approve the proposal in the 2011 ED that an entity should adjust the amount of promised consideration for the effects of the time value of money if the contract with a customer has a significant financing component.

The boards also tentatively decided:

- to clarify the application of the indicators in paragraph 59 of the 2011 ED for determining whether a contract has a significant financing component;
- to clarify that, if the transfer of goods or services to a customer is at the discretion of the customer, an entity should not adjust advance payments for the effects of the time value of money;
- to retain the proposed practical expedient and clarify that the practical expedient should also apply to contracts with a duration of greater than one year if the period between performance and payment for that performance is one year or less; and
- to clarify that the revenue Standard would not preclude an entity from presenting as revenue interest income that is recognised from contracts with a significant financing component.

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customer at contract inception. That rate would reflect the credit characteristics of the party receiving financing in the contract as well as any collateral or security provided by the customer or the entity, which might include assets transferred in the contract. An entity may be able to determine that rate by identifying the rate that discounts the nominal amount of the promised consideration to the cash selling price of the good or service. After contract inception, an entity shall not update the discount rate for changes in circumstances or interest rates.

62 An entity shall present the effects of financing separately from revenue (as interest expense or interest income) in the statement of comprehensive income.

Non-cash consideration

63 To determine the transaction price for contracts in which the customer promises consideration in a form other than cash, an entity shall measure the non-cash consideration (or promise of non-cash consideration) at fair value. If an entity cannot reasonably estimate the fair value of the non-cash consideration, it shall measure the consideration indirectly by reference to the stand-alone selling price of the goods or services promised to the customer (or class of customer) in exchange for the consideration.

64 If a customer contributes goods or services (for example, materials, equipment or labour) to facilitate an entity's fulfilment of the contract, the entity shall assess whether it obtains control of those contributed goods or services. If so, the entity shall account for the contributed goods or services as non-cash consideration received from the customer.

Consideration payable to a customer (see paragraph IE9)

65 Consideration payable to a customer includes amounts that an entity pays, or expects to pay, to a customer (or to other parties that purchase the entity's goods or services from the customer) in the form of cash, credit or other items that the customer can apply against amounts owed to the entity. An entity shall account for consideration payable to a customer as a reduction of the transaction price and, hence, of revenue unless the payment to the customer is in exchange for a distinct good or service (as described in paragraphs 28 and 29) that the customer transfers to the entity.

66 If the consideration payable to a customer is a payment for a distinct good or service from the customer, then the entity shall account for the purchase of the good or service in the same way that it accounts for other purchases from suppliers. If the amount of consideration payable to the customer exceeds the fair value of the distinct good or service that the entity receives from the customer, then the entity shall account for such excess as a reduction of the transaction price. If the entity cannot reasonably estimate the fair value of the good or service received from the customer, the entity shall account for all of the consideration payable to the customer as a reduction of the transaction price.

67 Accordingly, if consideration payable to a customer is a reduction of the transaction price, an entity shall recognise the reduction of revenue when (or as) the later of either of the following occurs:

(a) the entity recognises revenue for the transfer of the related goods or services to the customer; and

(b) the entity pays or promises to pay the consideration (even if the payment is conditional on a future event). That promise might be implied by the entity's customary business practices.

Collectibility

68 Collectibility refers to a customer's credit risk—that is, the risk that an entity will be unable to collect from the customer the amount of consideration to which the entity is entitled in accordance with the contract. For an unconditional right to consideration (ie a receivable), an entity shall account for the receivable in accordance with IFRS 9 except as specified in paragraph 69. An entity shall similarly account for

At their meeting in the week commencing 19 November 2012, the boards tentatively decided:

- to reaffirm their proposal in the 2011 ED that the transaction price, and therefore revenue, should be measured at the amount of consideration to which the

the effects of a customer's credit risk on a *contract asset* (see paragraph 106).

69 Upon initial recognition of the receivable, any difference between the measurement of the receivable in accordance with IFRS 9 and the corresponding amount of revenue recognised shall be presented in profit or loss as a separate line item adjacent to the revenue line item. If the contract does not have a significant financing component in accordance with paragraph 58, an entity shall present any impairment of the receivable (or change in the measurement of an impairment) in profit or loss as a separate line item adjacent to the revenue line item.

entity is entitled (that is, an amount that is not adjusted for customer credit risk and the revenue recognised is not subject to a collectibility threshold); and

- to present any corresponding impairment losses (recognised initially and subsequently in accordance with the respective financial instruments Standards) arising from those contracts with customers prominently as an expense in the statement of comprehensive income.

The boards also tentatively reaffirmed the proposals in the 2011 ED for accounting for contracts with customers with significant financing components.

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Allocating the transaction price to separate performance obligations (see paragraphs IE10 and IE11)

70 For a contract that has more than one separate performance obligation, an entity shall allocate the transaction price to each separate performance obligation in an amount that depicts the amount of consideration to which the entity expects to be entitled in exchange for satisfying each separate performance obligation.

71 To allocate an appropriate amount of consideration to each separate performance obligation, an entity shall determine the stand-alone selling price at contract inception of the good or service underlying each separate performance obligation and allocate the transaction price on a relative stand-alone selling price basis. The stand-alone selling price is the price at which an entity would sell a promised good or service separately to a customer.

72 The best evidence of a stand-alone selling price is the observable price of a good or service when the entity sells that good or service separately in similar circumstances and to similar customers. A contractually stated price or a list price for a good or service may be (but shall not be presumed to be) the stand-alone selling price of that good or service.

73 If a stand-alone selling price is not directly observable, an entity shall estimate it. When estimating a stand-alone selling price, an entity shall consider all information (including market conditions, entity-specific factors and information about the customer or class of customer) that is reasonably available to the entity. In addition, an entity shall maximise the use of observable inputs and shall apply estimation methods consistently in similar circumstances. Suitable estimation methods include, but are not limited to, the following:

(a) Adjusted market assessment approach—an entity could evaluate the market in which it sells goods or services and estimate the price that customers in that market would be willing to pay for those goods or services. That approach might also include referring to prices from the entity's competitors for similar goods or services and adjusting those prices as necessary to reflect the entity's costs and margins.

(b) Expected cost plus a margin approach—an entity could forecast its expected costs of satisfying a performance obligation and then add an appropriate margin for that good or service.

(c) Residual approach—if the stand-alone selling price of a good or service is highly variable or uncertain, then an entity may estimate the stand-alone selling price by reference to the total transaction price less the sum of the observable stand-alone selling prices of other goods or services promised in the contract. A selling price is highly variable when an entity sells the same good or service to different customers (at or near the same time) for a broad range of amounts. A selling price is uncertain when an entity has not yet established a price for a good or service and the good or service has not previously been sold.

At their meeting in the week commencing 17 December 2012, the boards tentatively decided to retain the residual approach in paragraph 73(c) of the 2011 ED as an appropriate technique to estimate the standalone selling price of a good or service if that standalone selling price is highly variable or uncertain. The boards also clarified that the residual approach may be used in contracts in which there are two or more goods or services that have highly variable or uncertain standalone selling prices, if at least one of the other goods or services in the contract has a standalone selling price that is not highly variable or uncertain.

When there are two or more goods or services with highly variable or uncertain standalone selling prices, the boards clarified that an entity could use a combination of techniques to estimate their standalone selling prices by:

- first applying the residual approach to estimate the aggregate of the standalone selling prices for all of the goods or services with highly variable or uncertain standalone selling prices; and
- then using another technique to estimate the individual standalone selling prices relative to the aggregate standalone selling price estimated in (a) above.

The boards also tentatively decided to retain the criteria in paragraph 75 of the 2011 ED for determining when an entity can allocate a discount to one (or some) performance obligation(s) in the contract, and the criteria in paragraph 76 of the 2011 ED for determining when an entity can allocate contingent consideration to distinct goods or services. The boards also clarified that:

- an entity should apply paragraph 75 (ie allocation of a discount) before using a residual approach to estimate a standalone selling price for a good or service with a highly variable or uncertain standalone selling price; and
- in accordance with paragraph 76 (ie allocation of contingent consideration), an entity can allocate contingent consideration to more than one distinct good or service in the contract.

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At their meeting in the week commencing 17 December 2012, the boards also discussed possible amendments to the proposals in the 2011 ED for (a) allocating the transaction price and (b) accounting for costs of obtaining a contract in bundled arrangements in which an entity promises to transfer services to

74 If the sum of the stand-alone selling prices of the promised goods or services in the contract exceeds the transaction price (ie if a customer receives a discount for purchasing a bundle of goods or services), an entity shall allocate that discount to all separate performance obligations on a relative stand-alone selling price basis except as specified in paragraphs 75 and 76.

75 An entity shall allocate a discount entirely to one (or some) separate performance obligation(s) in the contract if both of the following criteria are met:

(a) the entity regularly sells each good or service (or each bundle of goods or services) in the contract on a stand-alone basis; and

(b) the observable selling prices from those stand-alone sales provide evidence of the performance obligation(s) to which the entire discount in the contract belongs.

76 If the transaction price includes an amount of consideration that is contingent on a future event or circumstance (for example, an entity's performance or a specific outcome of the entity's performance), the entity shall allocate that contingent amount (and subsequent changes to the amount) entirely to a distinct good or service if both of the following criteria are met:

(a) the contingent payment terms for the distinct good or service relate specifically to the entity's efforts to transfer that good or service (or to a specific outcome from transferring that good or service); and

(b) allocating the contingent amount of consideration entirely to the distinct good or service is consistent with the allocation principle in paragraph 70 when considering all of the performance obligations and payment terms in the contract.

Changes in the transaction price

77 After contract inception, the transaction price can change for various reasons, including the resolution of uncertain events or other changes in circumstances that change the amount of consideration to which the entity expects to be entitled in exchange for the promised goods or services.

78 An entity shall allocate to the separate performance obligations in the contract any subsequent changes in the transaction price on the same basis as at contract inception. Amounts allocated to a satisfied performance obligation shall be recognised as revenue, or as a reduction of revenue, in the period in which the transaction price changes.

79 An entity shall allocate a change in the transaction price entirely to one or more distinct goods or services only if the criteria in paragraph 76 are met.

80 An entity shall not reallocate the transaction price to reflect changes in stand-alone selling prices after contract inception.

the customer together with a distinct good that relates to the provision of those services (those bundled arrangements are common to the telecommunications and satellite television industries).

The boards tentatively decided to retain the proposals in the 2011 ED and not make any amendments specifically for these bundled arrangements (in particular, not to amend the proposals in the 2011 ED for (a) allocating the transaction price, subject to the clarifications noted above, and (b) accounting for the costs of obtaining a contract).

The boards also tentatively decided to clarify that in the revenue standard an entity could apply the proposals in the 2011 ED to these bundled arrangements using the portfolio approach described in paragraph 6 of the 2011 ED (ie an entity may apply the principles in the 2011 ED to a portfolio of contracts with similar characteristics if the entity reasonably expects that the result of doing so would not materially differ from the result of applying the proposals to each of the entity's contracts or performance obligations).

Constraining the cumulative amount of revenue recognised (see paragraphs IE11–IE13)

81 If the amount of consideration to which an entity expects to be entitled is variable, the cumulative amount of revenue the entity recognises to date shall not exceed the amount to which the entity is reasonably assured to be entitled. An entity is reasonably assured to be entitled to the amount of consideration allocated to satisfied performance obligations only if both of the following criteria are met:

(a) **the entity has experience with similar types of performance obligations (or has other evidence such as access to the experience of other entities); and**

(b) **the entity's experience (or other evidence) is predictive of the**

At their meeting in the week commencing 19 November 2012, the boards tentatively decided that the revenue Standard should state that the objective of the constraint on revenue recognition is for an entity to recognise revenue at an amount that should not be subject to significant revenue reversals (that is, to any downward adjustment) that might arise from subsequent changes in the estimate of the amount of variable consideration to which the entity is entitled. An entity should reassess this objective as subsequent facts and circumstances change.

The boards tentatively decided that an entity would meet that objective if the entity has sufficient experience or evidence that

amount of consideration to which the entity will be entitled in exchange for satisfying those performance obligations.

82 Indicators that an entity's experience (or other evidence) is not predictive of the amount of consideration to which the entity will be entitled include, but are not limited to, the following:

(a) the amount of consideration is highly susceptible to factors outside the entity's influence. Those factors include volatility in a market, the judgement of third parties, weather conditions and a high risk of obsolescence of the promised good or service.

(b) the uncertainty about the amount of consideration is not expected to be resolved for a long period of time.

(c) the entity's experience (or other evidence) with similar types of performance obligations is limited.

(d) the contract has a large number and broad range of possible consideration amounts.

83 An entity shall use judgement and consider all facts and circumstances when evaluating whether the entity's experience is predictive of the amount of consideration to which it will be entitled. The presence of any one of the indicators in paragraph 82 does not necessarily mean that the entity is not reasonably assured to be entitled to an amount of consideration.

84 If an entity is not reasonably assured to be entitled to the amount of the transaction price allocated to satisfied performance obligations, the cumulative amount of revenue recognised as of the reporting date is limited to the amount of the transaction price to which the entity is reasonably assured to be entitled.

85 Notwithstanding the requirements in paragraphs 81–83, if an entity licences intellectual property (see paragraph B33) to a customer and the customer promises to pay an additional amount of consideration that varies on the basis of the customer's subsequent sales of a good or service (for example, a sales-based royalty), the entity is not reasonably assured to be entitled to the additional amount of consideration until the uncertainty is resolved (ie when the customer's subsequent sales occur).

supports its assessment that the revenue recognised should not be subject to a significant revenue reversal. The boards tentatively decided that the assessment is qualitative and that the entity needs to consider all the facts and circumstances associated with both the risk of a revenue reversal arising from an uncertain future event and the magnitude of the reversal if that uncertain event were to occur. The boards did not define the level of confidence that an entity would need to achieve to recognise revenue. However, the boards indicated that their intention is that the level of confidence would need to be relatively high for an entity to recognise revenue for variable consideration.

The boards also tentatively decided to retain the indicators in paragraph 82 of the 2011 ED (subject to improvements and clarifications) to help entities in assessing whether to recognise revenue based on estimates of variable consideration, including estimates of price concessions.

The boards also considered whether the constraint on revenue recognition should be applied as either:

- a constraint on the cumulative amount of revenue recognised when an entity satisfies a performance obligation (Step 5); or
- a constraint on the transaction price (Step 3), which the 2010 Exposure Draft had previously proposed as the location of the constraint.

On the basis that the location of the constraint (that is, either in Step 5 or in Step 3) should not affect the amount or timing of revenue recognition, the boards tentatively decided to move the constraint to Step 3 unless, during the process of drafting the revenue Standard, it becomes apparent that such a decision would result in unintended consequences.

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At their meeting in the week commencing 17 December 2012, the boards tentatively decided to delete paragraph 85 of the 2011 ED and instead, for all licenses of intellectual property, rely on the general principles of the constraint on revenue recognised in paragraphs 81–83 of the 2011 ED (as revised by the boards' tentative decisions in November 2012). The boards also tentatively decided to:

- refine the indicator in paragraph 82(a) of the 2011 ED, which describes some factors outside an entity's influence that may require an entity to constrain the cumulative amount of revenue recognised, to include the actions of third parties (for example, the customer's subsequent sales); and
- explain that when an entity applies the general principles of the constraint on revenue recognised in paragraphs 81–83 of the 2011 ED (as revised by the boards' tentative decisions in November 2012) and is required to recognise a minimum amount of revenue based on its estimate of the amount of consideration to which it expects to entitled, that minimum amount may, in some cases, be zero.

Onerous performance obligations

86 For a performance obligation that an entity satisfies over time (see paragraphs 35 and 36) and that the entity expects at contract inception to satisfy over a period of time greater than one year, an entity shall recognise a liability and a corresponding expense if the performance obligation is onerous.

87 A performance obligation is onerous if the lowest cost of settling the performance obligation exceeds the amount of the transaction price allocated to that performance obligation. The lowest cost of settling a performance obligation is the lower of the following amounts:

At their meeting in the week commencing 16 July 2012, the boards tentatively decided not to develop new requirements for onerous contracts that would apply to contracts with customers within the scope of the revenue Standard. As a result:

- The IASB tentatively decided that the requirements for onerous contracts in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, should apply to all contracts with customers within the

(a) the costs that relate directly to satisfying the performance obligation by transferring the promised goods or services (those costs are described in paragraph 92); and

(b) the amount that the entity would pay to exit the performance obligation if the entity is permitted to do so other than by transferring the promised goods or services.

88 An entity shall initially measure the liability for an onerous performance obligation at the amount by which the lowest cost of settling the remaining performance obligation exceeds the amount of the transaction price allocated to that remaining performance obligation. At each reporting date, an entity shall update the measurement of the liability for an onerous performance obligation for changes in circumstances. An entity shall recognise changes in the measurement of that liability as an expense or as a reduction of an expense. When an entity satisfies an onerous performance obligation, the entity shall derecognise the related liability.

89 Before an entity recognises a liability for an onerous performance obligation, the entity shall apply the requirements in paragraphs 100–103 to test for impairment of an asset recognised from the costs incurred to obtain or fulfil a contract with a customer.

90 *[This paragraph in the FASB exposure draft is not used in the IASB exposure draft]*

scope of the revenue Standard.

- The FASB tentatively decided to retain existing guidance related to the recognition of losses arising from contracts with customers, including the guidance relating to construction-type and production-type contracts in Subtopic 605-35, *Revenue Recognition-Construction-Type and Production-Type Contracts* in the *FASB Accounting Standards Codification®*. The FASB also indicated it would consider whether to undertake a separate project to develop new guidance for onerous contracts.

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Contract costs

Costs to fulfil a contract (see paragraph IE14)

91 If the costs incurred in fulfilling a contract with a customer are in the scope of another IFRS (for example, IAS 2 *Inventories*, IAS 16 *Property, Plant and Equipment* or IAS 38 *Intangible Assets*), an entity shall account for those costs in accordance with those other IFRSs. Otherwise, an entity shall recognise an asset from the costs to fulfil a contract only if those costs meet all of the following criteria:

(a) **the costs relate directly to a contract (or a specific anticipated contract);**

(b) **the costs generate or enhance resources of the entity that will be used in satisfying performance obligations in the future; and**

(c) **the costs are expected to be recovered.**

92 Costs that relate directly to a contract (or a specific anticipated contract) include the following:

(a) direct labour (for example, salaries and wages of employees who provide services directly to the customer);

(b) direct materials (for example, supplies used in providing services to the customer);

(c) allocations of costs that relate directly to the contract or to contract activities (for example, costs of contract management and supervision, insurance and depreciation of tools and equipment used in fulfilling the contract);

(d) costs that are explicitly chargeable to the customer under the contract; and

(e) other costs that are incurred only because the entity entered into the contract (for example, payments to subcontractors).

93 An entity shall recognise the following costs as expenses when incurred:

(a) general and administrative costs (unless those costs are explicitly chargeable to the customer under the contract, in which case an entity shall evaluate those costs in accordance with the criteria in paragraph 91);

At their meeting in the week commencing 17 December 2012, the boards tentatively decided to retain the proposal in the 2011 ED that an entity should recognise as an asset the incremental costs of obtaining a contract with the customer if the entity expects to recover those costs. The boards also tentatively decided to retain the practical expedient that permits an entity to recognise those costs as an expense when incurred, if the amortisation period of the asset the entity would have otherwise recognised is one year or less.

(b) costs of wasted materials, labour or other resources to fulfil the contract that were not reflected in the price of the contract;

(c) costs that relate to satisfied performance obligations (or partially satisfied performance obligations) in the contract (ie costs that relate to past performance); and

(d) costs that relate to remaining performance obligations but that the entity cannot distinguish from costs that relate to satisfied performance obligations.

Incremental costs of obtaining a contract

94 **An entity shall recognise as an asset the incremental costs of obtaining a contract with a customer if the entity expects to recover those costs, subject to the practical expedient in paragraph 97.**

95 The incremental costs of obtaining a contract are those costs that an entity incurs in its efforts to obtain a contract with a customer and that it would not have incurred if the contract had not been obtained (for example, a sales commission).

96 Costs to obtain a contract that would have been incurred regardless of whether the contract was obtained shall be recognised as an expense when incurred, unless those costs are explicitly chargeable to the customer regardless of whether the contract is obtained.

97 As a practical expedient, an entity may recognise the incremental costs of obtaining a contract as an expense when incurred if the amortisation period of the asset that the entity otherwise would have recognised is one year or less.

Amortisation and impairment (see paragraph IE15)

98 An asset recognised in accordance with paragraph 91 or 94 shall be amortised on a systematic basis consistent with the pattern of transfer of the goods or services to which the asset relates. The asset may relate to goods or services to be transferred under an anticipated contract that the entity can identify specifically (for example, services to be provided under renewal of an existing contract or costs of designing an asset to be transferred under a specific contract that has not yet been approved). An entity shall use judgement and consider all facts and circumstances when evaluating whether the entity's experience is predictive of the amount of consideration to which it will be entitled. The presence of any one of the indicators in paragraph 82 does not necessarily mean that the entity is not reasonably assured to be entitled to an amount of consideration.

99 An entity shall update the amortisation to reflect a significant change in the entity's expected pattern of transfer of the goods or services to which the asset relates. Such a change shall be accounted for as a change in accounting estimate in accordance with IAS 8.

100 An entity shall recognise an impairment loss in profit or loss to the extent that the carrying amount of an asset recognised in accordance with paragraph 91 or 94 exceeds:

(a) the remaining amount of consideration to which an entity expects to be entitled in exchange for the goods or services to which the asset relates; less

(b) the costs that relate directly to providing those goods or services (as described in paragraph 92).An asset recognised in accordance with paragraph 91 or 94 shall be amortised on a systematic basis consistent with the pattern of transfer of the goods or services to which the asset relates. The asset may relate to goods or services to be transferred under an anticipated contract that the entity can identify specifically (for example, services to be provided under renewal of an existing contract or costs of designing an asset to be transferred under a specific contract that has not yet been approved). An entity shall use judgement and consider all facts and circumstances when evaluating whether the entity's experience is predictive of the amount of consideration to which it will be entitled. The presence of any one of the indicators in paragraph 82 does not necessarily mean that the entity is not reasonably assured to be entitled to an amount of consideration.

101 To determine the amount to which an entity expects to be entitled, an entity shall use the principles for determining the transaction price.

102 Before an entity recognises an impairment loss for an asset recognised in accordance with paragraph 91 or 94, the entity shall recognise any impairment loss for assets related to the contract that are recognised in accordance with another IFRS (for example, IAS 2), except for impairment losses of cash-generating units recognised in accordance with IAS 36 *Impairment of Assets*.

103 An entity shall recognise in profit or loss a reversal of an impairment loss previously recognised when the impairment conditions cease to exist. The increased carrying amount of the asset shall not exceed the amount that would have been determined (net of amortisation) had no impairment loss been recognised previously.

Presentation (see paragraph IE16)

104 When either party to a contract has performed, an entity shall present the contract in the statement of financial position as a *contract liability*, a contract asset, or a receivable depending on the relationship between the entity's performance and the customer's payment.

105 If a customer pays consideration or an amount of consideration is due before an entity performs by transferring a good or service, the entity shall present the contract as a contract liability. A contract liability is an entity's obligation to transfer goods or services to a customer for which the entity has received consideration from the customer.

106 If an entity performs by transferring goods or services to a customer before the customer pays consideration, the entity shall present the contract as either a contract asset or as a receivable depending on the nature of the entity's right to consideration for its performance.

(a) A contract asset is an entity's right to consideration in exchange for goods or services that the entity has transferred to a customer, when that right is conditioned on something other than the passage of time (for example, the entity's future performance).

(b) A receivable is an entity's right to consideration that is unconditional. A right to consideration is unconditional if nothing other than the passage of time is required before payment of that consideration is due. An entity shall account for a receivable in accordance with IFRS 9.

107 This [draft] IFRS uses the terms contract asset and contract liability but does not prohibit an entity from using alternative descriptions in the statement of financial position for those items. If an entity uses an alternative description for a contract asset, the entity shall provide sufficient information for a user of the financial statements to distinguish between unconditional rights to consideration (ie receivables) and conditional rights to consideration (ie contract assets).

108 An entity shall present a liability for onerous performance obligations (in accordance with paragraph 86) separately from contract assets or contract liabilities.

Disclosure[2]

109 The objective of the disclosure requirements is to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. To achieve that objective, an entity shall disclose qualitative and quantitative information about all of the following:

(a) **its contracts with customers (paragraphs 113–123);**

(b) **the significant judgements, and changes in the judgements, made in applying the [draft] IFRS to those contracts**

[2] As noted in question 5 in the 'Introduction and questions for respondents' section, the IASB proposes to amend IAS 34 *Interim Financial Reporting* to specify the disclosures about revenue and contracts with customers that an entity should include in its interim financial reports.

(paragraphs 124–127); and

(c) **any assets recognised from the costs to obtain or fulfil a contract with a customer in accordance with paragraphs 91 and 94 (paragraphs 128 and 129).**

110 An entity shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. An entity shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have substantially different characteristics.

111 Amounts disclosed are for each period for which a statement of comprehensive income is presented and as of each period for which a statement of financial position is presented, as applicable, unless otherwise stated.

112 An entity need not disclose information in accordance with this [draft] IFRS if it has provided the information in accordance with another IFRS.

Contracts with customers

113 An entity shall disclose information about its contracts with customers, including all of the following:

(a) a disaggregation of revenue for the period (paragraphs 114–116);

(b) a reconciliation from the opening to the closing aggregate balance of contract assets and contract liabilities (paragraph 117); and

(c) information about the entity's performance obligations (paragraphs 118–121), including additional information about any onerous performance obligations (paragraphs 122 and 123).This [draft] IFRS uses the terms contract asset and contract liability but does not prohibit an entity from using alternative descriptions in the statement of financial position for those items. If an entity uses an alternative description for a contract asset, the entity shall provide sufficient information for a user of the financial statements to distinguish between unconditional rights to consideration (ie receivables) and conditional rights to consideration (ie contract assets).

Disaggregation of revenue

114 An entity shall disaggregate revenue from contracts with customers (excluding amounts presented for customers' credit risk) into the primary categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. To meet the disclosure objective in paragraph 109, an entity may need to use more than one type of category to disaggregate revenue.

115 Examples of categories that might be appropriate include, but are not limited to, the following:

(a) type of good or service (for example, major product lines);

(b) geography (for example, country or region);

(c) market or type of customer (for example, government and non-government customers);

(d) type of contract (for example, fixed-price and time-and-materials contracts);

(e) contract duration (for example, short-term and long-term contracts);

(f) timing of transfer of goods or services (for example, revenue from goods or services transferred to customers at a point in time and revenue from goods or services transferred over time); and

(g) sales channels (for example, goods sold directly to consumers and goods sold through intermediaries).This [draft] IFRS uses the terms contract asset and contract liability but does not prohibit an entity from using alternative descriptions in the statement of financial position for those items. If an entity uses an alternative description for a contract asset, the entity shall provide sufficient information for a user of the financial statements to distinguish between unconditional rights to consideration (ie receivables) and conditional rights to consideration (ie contract assets).

116 *[This paragraph in the FASB exposure draft is not used in the IASB exposure draft]*

Reconciliation of contract balances (see paragraph IE17)

117 An entity shall disclose in tabular format a reconciliation from the opening to the closing aggregate balance of contract assets and contract liabilities. The reconciliation shall disclose each of the following, if applicable:

(a) the amount(s) recognised in the statement of comprehensive income arising from either of the following:

(i) revenue from performance obligations satisfied during the reporting period; and

(ii) revenue from allocating changes in the transaction price to performance obligations satisfied in previous reporting periods;

(b) cash received;

(c) amounts transferred to receivables;

(d) non-cash consideration received;

(e) effects of business combinations; and

(f) any additional line items that may be needed to understand the change in the contract assets and contract liabilities.

Performance obligations

118 An entity shall disclose information about its performance obligations in contracts with customers, including a description of all of the following:

(a) when the entity typically satisfies its performance obligations (for example, upon shipment, upon delivery, as services are rendered or upon completion of service);

(b) the significant payment terms (for example, when payment is typically due, whether the consideration amount is variable and whether the contract has a significant financing component);

(c) the nature of the goods or services that the entity has promised to transfer, highlighting any performance obligations to arrange for another party to transfer goods or services (ie if the entity is acting as an agent);

(d) obligations for returns, refunds and other similar obligations; and

(e) types of warranties and related obligations.

119 For contracts with an original expected duration of more than one year, an entity shall disclose the following information as of the end of the current reporting period:

(a) the aggregate amount of the transaction price allocated to remaining performance obligations; and

(b) an explanation of when the entity expects to recognise that amount as revenue.

120 An entity may disclose the information in paragraph 119 either on a quantitative basis using the time bands that would be most appropriate for the duration of the remaining performance obligations or by using qualitative information.

121 As a practical expedient, an entity need not disclose the information in paragraph 119 for a performance obligation if the entity recognises revenue in accordance with paragraph 42.

Onerous performance obligations

122 An entity shall disclose the amount of the liability recognised for onerous performance obligations along with a description of all of the following:

(a) the nature and amount of the remaining performance obligation(s) in the contract that are onerous for which the liability has been recognised;

(b) why those performance obligations are onerous; and

(c) when the entity expects to satisfy those performance obligations.

123 An entity shall disclose in tabular format a reconciliation from the opening to the closing balance of the liability recognised for onerous performance obligations. The reconciliation shall include the amounts attributable to each of the following, if applicable:

(a) increases in the liability from performance obligations that became onerous during the period;

(b) reductions of the liability from performance obligations satisfied during the period;

(c) changes in the measurement of the liability that occurred during the reporting period; and

(d) any additional line items that may be needed to understand the change in the liability recognised.

Significant judgements in the application of the [draft] IFRS

124 An entity shall disclose the judgements, and changes in the judgements, made in applying this [draft] IFRS that significantly affect the determination of the amount and timing of revenue from contracts with customers. At a minimum, an entity shall explain the judgements, and changes in the judgements, used in determining both of the following:

(a) the timing of satisfaction of performance obligations (paragraphs 125 and 126); and

(b) the transaction price and the amounts allocated to performance obligations (paragraph 127).

Determining the timing of satisfaction of performance obligations

125 For performance obligations that an entity satisfies over time, an entity shall disclose both of the following:

(a) the methods used to recognise revenue (for example, a description of the output method or input method); and

(b) an explanation of why such methods are a faithful depiction of the transfer of goods or services.An entity may disclose the information in paragraph 119 either on a quantitative basis using the time bands that would be most appropriate for the duration of the remaining performance obligations or by using qualitative information.

126 For performance obligations satisfied at a point in time, an entity shall disclose the significant judgements made in evaluating when the customer obtains control of promised goods or services.

Determining the transaction price and the amounts allocated to performance obligations

127 An entity shall disclose information about the methods, inputs and assumptions used to:

(a) determine the transaction price;

(b) estimate stand-alone selling prices of promised goods or services;

(c) measure obligations for returns, refunds and other similar obligations; and

(d) measure the amount of the liability recognised for onerous performance obligations.

Assets recognised from the costs to obtain or fulfil a contract with a customer

128 An entity shall disclose a reconciliation of the opening and closing balances of assets recognised from the costs incurred to obtain or fulfil a contract with a customer (in accordance with paragraphs 91 and 94), by main category of asset (for example, costs to obtain contracts with customers, precontract costs and set-up costs). The reconciliation shall include amounts related to each of the following, if applicable:

(a) additions;

(b) amortisation;

(c) impairment losses;

(d) reversals of impairment losses; and

(e) any additional line items that may be needed to understand the change in the reporting period.

129 An entity shall describe the method it uses to determine the amortisation for each reporting period.

Appendix A
Defined terms

This appendix is an integral part of the [draft] IFRS.

contract	An agreement between two or more parties that creates enforceable rights and obligations.
contract asset	An entity's right to consideration in exchange for goods or services that the entity has transferred to a **customer**, when that right is conditioned on something other than the passage of time (for example, the entity's future performance).
contract liability	An entity's obligation to transfer goods or services to a **customer** for which the entity has received consideration from the customer.
customer	A party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities.
income	Increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants.
performance obligation	A promise in a **contract** with a **customer** to transfer a good or service to the customer.
revenue	**Income** arising in the course of an entity's ordinary activities.
stand-alone selling price [of a good or service]	The price at which an entity would sell a promised good or service separately to a **customer**.
transaction price [for a contract with a customer]	The amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a **customer**, excluding amounts collected on behalf of third parties (for example, sales taxes).

Appendix B
Application guidance

This appendix is an integral part of the [draft] IFRS. It describes the application of paragraphs 1–130 and has the same authority as the other parts of the [draft] IFRS.

B1
[IG1][3] The application guidance gives guidance on the following issues:

(a) sale with a right of return (paragraphs B2–B9);

(b) warranties (paragraphs B10–B15);

(c) principal versus agent considerations (paragraphs B16–B19);

(d) customer options for additional goods or services (paragraphs B20–B24);

(e) customers' unexercised rights (paragraphs B25–B28);

(f) non-refundable upfront fees (paragraphs B29–B32);

(g) licensing and rights to use (paragraphs B33–B37);

(h) repurchase agreements (paragraphs B38–B48);

(i) consignment arrangements (paragraphs B49 and B50);

(j) bill-and-hold arrangements (paragraphs B51–B54); and

(k) customer acceptance (paragraphs B55–B58).

Sale with a right of return (see paragraphs 53–57 and paragraph IE18[4])

B2
[IG2] In some contracts, an entity transfers control of a product to a customer and also grants the customer the right to return the product for various reasons (such as dissatisfaction with the product) and receive any combination of the following:

(a) a full or partial refund of any consideration paid;

(b) a credit that can be applied against amounts owed, or that will be owed, to the entity; and

(c) another product in exchange.

B3
[IG3] To account for the transfer of products with a right of return (and for some services that are provided subject to a refund), an entity shall recognise all of the following:

(a) revenue for the transferred products in the amount of consideration to which the entity is reasonably assured to be entitled (considering the products expected to be returned);

(b) a refund liability; and

(c) an asset (and corresponding adjustment to cost of sales) for its right to recover products from customers on settling the refund liability.

B4
[IG4] An entity's promise to stand ready to accept a returned product during the return period should not be accounted for as a separate performance obligation in addition to the obligation to provide a refund.

B5
[IG5] An entity shall apply the requirements in paragraphs 81–83 to determine the amount of consideration to which the entity is reasonably assured to be entitled (considering the products

[3] The relevant paragraph numbers for the FASB exposure draft are included in the square brackets.

[4] Cross-references in Appendix B to the Illustrative Examples are provided in the IASB exposure draft to maintain consistency with the FASB exposure draft.

expected to be returned). For any amounts to which an entity is not reasonably assured to be entitled, the entity shall not recognise revenue when it transfers products to customers but shall recognise any consideration received as a refund liability. Subsequently, the entity shall update its assessment of amounts to which the entity is reasonably assured to be entitled in exchange for the transferred products and shall recognise corresponding adjustments to the amount of revenue recognised.

B6 [IG6] An entity shall update the measurement of the refund liability at the end of each reporting period for changes in expectations about the amount of refunds. An entity shall recognise corresponding adjustments as revenue (or reductions of revenue).

B7 [IG7] An asset recognised for an entity's right to recover products from a customer on settling a refund liability initially shall be measured by reference to the former carrying amount of the inventory less any expected costs to recover those products (including potential decreases in the value to the entity of returned products). Subsequently, an entity shall update the measurement of the asset to correspond with changes in the measurement of the refund liability. An entity shall present the asset separately from the refund liability.

B8 [IG8] Exchanges by customers of one product for another of the same type, quality, condition and price (for example, one colour or size for another) are not considered returns for the purposes of applying these requirements.

B9 [IG9] Contracts in which a customer may return a defective product in exchange for a functioning product shall be evaluated in accordance with the requirements on warranties in paragraphs B10–B15.

Warranties (see paragraph IE19)

B10 [IG10] It is common for an entity to provide (in accordance with the contract, the entity's customary business practices or the law) a warranty in connection with the sale of a product (whether a good or service). The nature of a warranty can vary significantly across industries and contracts. Some warranties provide a customer with assurance that the related product complies with agreed-upon specifications. Other warranties provide the customer with a service in addition to the assurance that the product complies with agreed-upon specifications.

B11 [IG11] If a customer has the option to purchase a warranty separately (for example, because the warranty is priced or negotiated separately), an entity shall account for the promised warranty as a separate performance obligation because the entity promises to provide a service to the customer in addition to the product. Hence, the entity shall allocate a portion of the transaction price to the performance obligation for the service in accordance with paragraphs 70–80.

B12 [IG12] If a customer does not have the option to purchase a warranty separately, the entity shall account for the warranty in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, unless the promised warranty, or a part of the promised warranty, provides the customer with a service in addition to the assurance that the product complies with agreed-upon specifications.

B13 [IG13] In assessing whether a warranty provides a customer with a service in addition to the assurance that the product complies with agreed-upon specifications, an entity shall consider factors such as:

(a) whether the warranty is required by law—if the entity is required by law to provide a warranty, the existence of that law indicates that the warranty is not a performance obligation, because such requirements typically exist to protect customers from the risk of purchasing defective products.

(b) the length of the warranty coverage period—the longer the coverage period, the more likely that the warranty is a performance obligation because it is more likely to provide a service in addition to the assurance that the product complies with agreed-upon specifications.

(c) the nature of the tasks that the entity promises to perform—if it is necessary for an entity to perform specified tasks to provide the assurance that a product complies with agreed-upon specifications (for example, a return shipping service for a defective product), then those tasks likely do not give rise to a performance obligation

B14 [IG14] If a warranty, or a part of a warranty, provides the customer with a service in addition to the assurance that the product complies with agreed-upon specifications, that promised service is a separate performance obligation. Hence, an entity shall allocate the transaction price to the product and the service. If an entity promises both an assurance and a service-type warranty but cannot reasonably account for them separately, the entity shall account for both of the warranties together as a single performance obligation.

B15 [IG15] A law that requires an entity to pay compensation if its products cause harm or damage does not give rise to a performance obligation. For example, a manufacturer might sell products in a jurisdiction in which the law holds the manufacturer liable for any damages (for example, to personal property) that might be caused by a consumer using a product for its intended purpose. Similarly, an entity's promise to indemnify the customer for liabilities and damages arising from claims of patent, copyright, trademark or other infringement by the entity's products does not give rise to a performance obligation. The entity shall account for such obligations in accordance with IAS 37.

Principal versus agent considerations

B16 [IG16] When other parties are involved in providing goods or services to an entity's customer, the entity shall determine whether its performance obligation is to provide the specified goods or services itself (ie the entity is a principal) or to arrange for another party to provide those goods or services (ie the entity is an agent). That determination affects whether the entity recognises revenue in the gross amount of consideration to which the entity is entitled in exchange for those goods or services (if a principal) or in the amount of any fee or commission received in exchange for arranging for the other party to provide its goods or services (if an agent). An entity's fee or commission might be the net amount of consideration that the entity retains after paying other parties for providing their goods or services to the customer.

B17 [IG17] If an entity obtains control of the goods or services of another party before it transfers those goods or services to the customer, the entity's performance obligation is to provide the goods or services itself. Hence, the entity is acting as a principal and shall recognise revenue in the gross amount to which it is entitled. If an entity obtains legal title of a product only momentarily before legal title is transferred to the customer, the entity is not necessarily acting as a principal.

B18 [IG18] Indicators that the entity's performance obligation is to arrange for the provision of goods or services by another party (ie that the entity is an agent and shall recognise revenue in the net amount) include the following:

(a) the other party is primarily responsible for fulfilling the contract;

(b) the entity does not have inventory risk before or after the customer order, during shipping or on return;

(c) the entity does not have latitude in establishing prices for the other party's goods or services and, hence, the benefit that the entity can receive from those goods or services is constrained;

(d) the entity's consideration is in the form of a commission; and

(e) the entity does not have customer credit risk for the amount receivable in exchange for the other party's goods or services.

B19 [IG19] If another party assumes an entity's performance obligation so that the entity is no longer obliged to provide the promised good or service to the customer (ie the entity is no longer acting as the principal), the entity shall not recognise revenue for that performance obligation. Instead, the entity shall evaluate whether to recognise revenue for satisfying a performance obligation to obtain a contract for the other party (ie whether the entity is acting as an agent).

Customer options for additional goods or services (see paragraphs 70–76 and IE20–IE22)

B20 [IG20] Customer options to acquire additional goods or services for free or at a discount come in many forms, including sales incentives, customer award credits (or points), contract renewal options or other discounts on future goods or services.

B21 [IG21] If in a contract with more than one performance obligation an entity grants a customer the option to acquire additional goods or services, that option gives rise to a separate performance obligation in the contract only if the option provides a material right to the customer that it would not receive without entering into that contract (for example, a discount that is incremental to the range of discounts typically given for those goods or services to that class of customer in that geographical area or market). If the option provides a material right to the customer, the customer in effect pays the entity in advance for future goods or services and the entity recognises revenue when those future goods or services are transferred or when the option expires.

B22 [IG22] If a customer has the option to acquire an additional good or service at a price that would reflect the stand-alone selling price for that good or service, that option does not provide the customer with a material right even if the option can be exercised only because of entering into a previous contract. In those cases, the entity has merely made a marketing offer that it shall account for in accordance with the proposed revenue requirements only when the customer exercises the option to purchase the additional goods or services.

B23 [IG23] Paragraph 71 requires an entity to allocate the transaction price to separate performance obligations on a relative stand-alone selling price basis. If the stand-alone selling price for a customer's option to acquire additional goods or services is not directly observable, an entity shall estimate it. That estimate shall reflect the discount the customer would obtain when exercising the option, adjusted for both of the following:

(a) any discount that the customer could receive without exercising the option; and

(b) the likelihood that the option will be exercised.

B24 [IG24] If a customer has a material right to acquire future goods or services and those goods or services are similar to the original goods or services in the contract and are provided in accordance with the terms of the original contract, then an entity may, as a practical alternative to estimating the stand-alone selling price of the option, allocate the transaction price to the optional goods or services by reference to the goods or services expected to be provided and the corresponding expected consideration. Typically, those types of options are for contract renewals.

Customers' unexercised rights (breakage)

B25 [IG25] In accordance with paragraph 105, upon receipt of a prepayment from a customer, an entity shall recognise a contract liability for its performance obligation to transfer, or to stand ready to transfer, goods or services in the future. An entity shall derecognise that contract liability (and recognise revenue) when it transfers those goods or services and, hence, satisfies its performance obligation.

B26 [IG26] A customer's non-refundable prepayment to an entity gives the customer a right to receive a good or service in the future (and obliges the entity to stand ready to transfer a good or service). However, customers may not exercise all of their contractual rights. Those unexercised rights are often referred to as breakage.

B27 [IG27] If an entity is reasonably assured of a breakage amount in a contract liability, the entity shall recognise the expected breakage amount as revenue in proportion to the pattern of rights exercised by the customer. If an entity is not reasonably assured of a breakage amount, the entity shall recognise the expected breakage amount as revenue when the likelihood of the customer exercising its remaining rights becomes remote. To determine whether an entity is reasonably assured of a breakage amount, the entity shall consider the requirements in paragraphs 81–83.

B28 [IG28] An entity shall recognise a liability (and not revenue) for any customer balances for which the entity may be required to remit the funds to a government entity in accordance with applicable unclaimed property laws.

Non-refundable upfront fees (and some related costs)

B29 [IG29] In some contracts, an entity charges a customer a non-refundable upfront fee at or near contract inception. Examples include joining fees in health club membership contracts, activation fees in telecommunication contracts, set-up fees in some services contracts and initial fees in some supply contracts.

B30 [IG30] To identify performance obligations in such contracts, an entity shall assess whether the fee relates to the transfer of a promised good or service. In many cases, even though a non-refundable upfront fee relates to an activity that the entity is required to undertake at or near contract inception to fulfil the contract, that activity does not result in the transfer of a promised good or service to the customer (see paragraph 25). Instead, the upfront fee is an advance payment for future goods or services and, hence, would be recognised as revenue when those future goods or services are provided. The revenue recognition period would extend beyond the initial contractual period if the entity grants the customer the option to renew the contract and that option provides the customer with a material right as specified in paragraph B21.

B31 [IG31] If the non-refundable upfront fee relates to a performance obligation, the entity shall evaluate whether to account for that performance obligation separately in accordance with paragraphs 23–30.

B32 [IG32] An entity may charge a non-refundable fee in part as compensation for costs incurred in setting up a contract (or other administrative tasks as specified in paragraph 25). If those set-up activities do not satisfy a performance obligation, the entity shall disregard those activities (and related costs) when measuring progress in accordance with paragraph 45. That is because the costs of set-up activities do not depict the transfer of services to the customer. The entity shall evaluate whether costs incurred in setting up a contract have resulted in an asset that shall be recognised in accordance with paragraph 91.

Licensing and rights to use (see paragraph IE23)

B33 [IG33] Licensing refers to an entity's granting a customer the right to use, but not own, intellectual property of the entity. Rights to use can vary by time, geography or form of distribution. Examples of intellectual property include all of the following:

(a) software and technology;

(b) motion pictures, music and other forms of media and entertainment;

(c) franchises; and

(d) patents, trademarks and copyrights.

B34 [IG34] If an entity grants to a customer a licence or other rights to use intellectual property of the entity, those promised rights give rise to a performance obligation that the entity satisfies at the point in time when the customer obtains control of the rights. Control of rights to use intellectual property cannot be transferred before the beginning of the period during which the customer can use and benefit from the licenced intellectual property. For example, if a software licence period begins before the customer obtains an access code that enables the customer to use the software, an entity shall not recognise revenue before the entity provides the access code.

B35 [IG35] To determine the amount of revenue recognised for transferring a licence to a customer, the entity shall apply the requirements on determining and allocating the transaction price (including paragraph 85 on constraining the amount of revenue recognised to amounts that are reasonably assured).

B36 [IG36] If an entity has other performance obligations in the contract, the entity shall apply the criteria in paragraphs 23–30 to determine whether the promised rights are a separate performance obligation or whether the performance obligation for the rights shall be combined with those other performance obligations in the contract. For example, if an entity grants a licence that is not distinct because the customer cannot benefit from the licence without an additional service that the entity promises to provide, the entity shall account for the combined licence and service as a single performance obligation satisfied over time.

B37 [IG37] If an entity has a patent to intellectual property that it licences to customers, the entity may represent and guarantee to its customers that it has a valid patent and that it will defend and maintain that patent. That promise to maintain and defend patent rights is not a performance obligation because it does not transfer a good or service to the customer. Defending a patent protects the value of the entity's intellectual property assets.

At their meeting in the week commencing 19 November 2012, the boards discussed improvements to the implementation guidance in the 2011 ED for licence arrangements in which an entity grants a customer a right to use the entity's intellectual property. The boards tentatively decided that an entity should assess the nature of the promise for the licence before applying the revenue recognition model to a licence arrangement. This assessment is necessary because the boards tentatively concluded that some licence arrangements represent the promise to transfer a right, whereas others represent a promise to provide access to the entity's intellectual property. That conclusion is consistent with View B as explained in Paper 7F/164F.

In determining the nature of the promise in a licence, the boards tentatively decided that an entity should consider the characteristics of the licence. The boards also tentatively decided that the following characteristics may indicate that the nature of the promise in a licence represents a promise to provide a right:

- The right transferred to the customer in the form of a licence represents an output of the entity's intellectual property, similar to a tangible good.
- The licence can be easily reproduced by the entity with little or no effect on the value of the entity's intellectual property.
- The customer can determine how and when to use the right (that is, when the benefits from the asset can be consumed) and the customer does not require any further performance from the entity to be able to consume those benefits.

When those characteristics are not present, the licence would represent a promise to provide a service of access to the entity's intellectual property. In these cases, access to the intellectual property is required because the customer obtains a right to use only a portion of the intellectual property (defined by the terms of the licence) and that portion is closely connected to the remaining intellectual property. This may be evidenced by the fact that changes in the nature or value of the intellectual property may directly affect the portion that the customer has a right to use by virtue of the licence. This assessment of the nature of the promise for the licence is important. That is because when the licence is distinct, the nature of the promise would affect whether the licence results in a performance obligation satisfied at a point in time (that is, when the licence is a promise to transfer a right) or a performance obligation satisfied over time (that is, when the licence is a promise to provide access to the entity's intellectual property).

The boards also tentatively decided to clarify the application of the other parts of the model to licence arrangements. In particular, the boards noted that after determining the nature of the promise related to the licence, an entity would need to assess:

- whether the entity has promised to transfer other goods or services in addition to the licence and, if so, whether the licence is distinct from those other goods or services;
- the time when the licence, goods, and services or the bundle of those promises are transferred to the

Repurchase agreements (see paragraph 37)

B38 [IG38] A repurchase agreement is a contract in which an entity sells an asset and also promises or has the option (either in the same contract or in another contract) to repurchase the asset. The repurchased asset may be the asset that was originally sold to the customer, an asset that is substantially the same as that asset, or another asset of which the asset that was originally sold is a component.

B39 [IG39] Repurchase agreements generally come in three forms:

(a) an entity's unconditional obligation to repurchase the asset (a forward);

(b) an entity's unconditional right to repurchase the asset (a call option); and

(c) an entity's unconditional obligation to repurchase the asset at the customer's request (a put option).

A forward or a call option

B40 [IG40] If an entity has an unconditional obligation or unconditional right to repurchase the asset (a forward or a call option), the customer does not obtain control of the asset because the customer is limited in its ability to direct the use of and obtain substantially all of the remaining benefits from the asset (even though the customer may have physical possession of the asset). Consequently, the entity shall account for the contract as either of the following:

(a) a lease in accordance with IAS 17 *Leases*, if the entity can repurchase the asset for an amount that is less than the original selling price of the asset; or

(b) a financing arrangement in accordance with paragraph B42, if the entity can repurchase the asset for an amount that is equal to or more than the original selling price of the asset.

B41 [IG41] When comparing the repurchase price with the selling price, an entity shall consider the effects of the time value of money.

B42 [IG42] If the repurchase agreement is a financing arrangement, the entity shall continue to recognise the asset and also recognise a financial liability for any consideration received from the customer. The entity shall recognise the difference between the amount of consideration received from the customer and the amount of consideration to be paid to the customer as interest and, if applicable, holding costs (for example, insurance). If the option lapses unexercised, an entity shall derecognise the liability and recognise revenue.

customer (that is, whether the separate performance obligations are satisfied over time or at a point in time); and

- whether the cumulative amount of revenue recognised is subject to the constraint.

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A put option

B43 [IG43] If an entity has an unconditional obligation to repurchase the asset at the customer's request (a put option) at a price that is lower than the original selling price of the asset, the entity shall consider at contract inception whether a customer has a significant economic incentive to exercise that right. The customer's exercising of that right results in the customer effectively paying the entity consideration for the right to use a specified asset for a period of time. Hence, if the customer has a significant economic incentive to exercise that right, the entity shall account for the agreement as a lease in accordance with IAS 17.

B44 [IG44] To determine whether a customer has a significant economic incentive to exercise its right, an entity shall consider various factors, including the relationship of the repurchase price to the expected market value of the asset at the date of repurchase and the amount of time until the right expires. If the repurchase price is expected to significantly exceed the market value of the asset, the customer has an economic incentive to exercise the put option.

B45 [IG45] If the customer does not have a significant economic incentive to exercise its right, the entity shall account for the agreement similar to the sale of a product with a right of return as discussed in paragraphs B2–B9.

B46 [IG46] If the repurchase price of the asset exceeds the original selling price and is more than the expected market value of the asset, the contract is in effect a financing arrangement. Hence, an entity shall:

(a) continue to recognise the asset; and

(b) recognise a liability that initially shall be measured at the amount of the original selling price of the asset.

B47 [IG47] When comparing the repurchase price with the selling price, an entity shall consider the effects of the time value of money.

B48 [IG48] If the option lapses unexercised, an entity shall derecognise the liability and recognise revenue.

Consignment arrangements (see paragraph 37)

B49 [IG49] When an entity delivers a product to another party (such as a dealer or a distributor) for sale to end customers, the entity shall evaluate whether that other party has obtained control of the product at that point in time.

B50 [IG50] Inventory on consignment is typically controlled by the entity until a specified event occurs, such as the sale of the product to a customer of the dealer, or until a specified period expires. Until that point, the entity is typically able to require the return of the products or transfer them to another dealer. Moreover, the dealer typically does not have an unconditional obligation to pay for the products (although it might be required to pay a deposit). Accordingly, in those circumstances, the entity would not recognise revenue upon delivery of the products to the dealer.

Bill-and-hold arrangements (see paragraph 37)

B51 [IG51] A bill-and-hold arrangement is a contract under which an entity bills a customer for a product but the entity retains physical possession of the product until it is transferred to the customer at a point in time in the future. A customer may request an entity to enter into such a contract because of the customer's lack of available space for the product or because of delays in the customer's production schedules.

B52 [IG52] An entity shall determine when it has satisfied its performance obligation to transfer a product by evaluating when the customer obtains control of that product. For some contracts, control is transferred either when the product is delivered to the customer's site or when the product is shipped, depending on the terms of the contract (including delivery and shipping terms). However, for some contracts, a customer may obtain control of a product even though that product remains in the physical possession of the entity. In such cases, the customer has the ability to direct the use of and obtain substantially all of the remaining benefits from the product even though it has decided not to exercise its right to take physical possession of that product. Consequently, the entity does not control the product. Instead, the entity provides custodial services to the customer over the customer's asset.

B53 [IG53] For a customer to have obtained control of a product in a bill-and-hold arrangement, all of the following criteria shall be met:

(a) the reason for the bill-and-hold arrangement must be substantive;

(b) the product must be identified separately as belonging to the customer;

(c) the product currently must be ready for physical transfer to the customer; and

(d) the entity cannot have the ability to use the product or to direct it to another customer.

B54 [IG54] If an entity recognises revenue for the sale of a product on a bill-and-hold basis, the entity shall consider whether it has remaining separate performance obligations (for example, for custodial services) in accordance with paragraphs 23–30 to which the entity shall allocate a portion of the transaction price in accordance with paragraphs 70–80.

Customer acceptance (see paragraph 37)

B55 [IG55] In accordance with paragraph 37(e), a customer's acceptance of an asset indicates that the customer has obtained control of the asset. Customer acceptance clauses allow the customer to cancel a contract or require an entity to take remedial action if a good or service does not meet agreed-upon specifications. An entity shall consider such clauses when evaluating when a customer obtains control of a good or service.

B56 [IG56] If an entity can objectively determine that control of a good or service has been transferred to the customer in accordance with the agreed-upon specifications in the contract, then customer acceptance is a formality that would not affect an entity's determination of when the customer has obtained control of the good or service. For example, if the customer acceptance clause is based on meeting specified size and weight characteristics, an entity would be able to determine whether those criteria have been met before receiving confirmation of the customer's acceptance. The entity's experience with contracts for similar goods or services may provide evidence that a good or service provided to the customer is in accordance with the agreed-upon specifications in the contract. If revenue is recognised before customer acceptance, the entity still must consider whether there are any remaining performance obligations (for example, installation of equipment) and evaluate whether to account for them separately.

B57 [IG57] However, if an entity cannot objectively determine that the good or service provided to the customer is in accordance with the agreed-upon specifications in the contract, then the entity would not be able to conclude that the customer has obtained control until the entity receives the customer's acceptance. That is because the entity cannot determine that the customer has the ability to direct the use of and obtain substantially all of the remaining benefits from the good or service.

B58 [IG58] If an entity delivers products to a customer for trial or evaluation purposes and the customer is not committed to pay any consideration until the trial period lapses, control of the product is not transferred to the customer until either the customer accepts the product or the trial period lapses.

Appendix C
Effective date and transition

This appendix is an integral part of the [draft] IFRS and has the same authority as the other parts of the [draft] IFRS

Effective date

C1
[131][5] An entity shall apply this [draft] IFRS for annual reporting periods beginning on or after XX XXX 201X. *[The boards have not yet decided on the effective date of this [draft] IFRS. However, the boards have decided that the standard would not be effective sooner than for annual reporting periods beginning on or after 1 January 2015.]* Earlier application is permitted. If an entity applies this [draft] IFRS earlier, it shall disclose that fact.

Transition

C2
[132] An entity shall apply this [draft] IFRS retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors,* subject to the expedients specified in paragraph C3.

C3
[133] An entity may use one or more of the following practical expedients when applying this [draft] IFRS. For the purposes of the expedients, the date of initial application is the start of the reporting period in which an entity first applies this [draft] IFRS.

(a) For contracts completed before the date of initial application, an entity need not restate contracts that begin and end within the same annual reporting period.

(b) For contracts completed before the date of initial application and that have variable consideration, 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.

(c) An entity need not evaluate whether a performance obligation is onerous before the date of initial application unless an onerous contract liability was recognised previously for that contract in accordance with the requirements that were effective before the date of initial application. If an entity recognises an onerous contract liability at the date of initial application, the entity shall recognise a corresponding adjustment to the opening balance of retained earnings for that period.

(d) For all periods presented before the date of initial application, an entity need not disclose the amount of the transaction price allocated to remaining performance obligations and an explanation of when the entity expects to recognise that amount as revenue (as specified in paragraph 119

C4
[134] For any of the practical expedients in paragraph C3 that an entity uses, the entity shall apply that expedient consistently to all reporting periods presented. In addition, the entity shall disclose the following information:

(a) the expedients that have been used; and

(b) to the extent reasonably possible, a qualitative assessment of the estimated effect of applying each of those expedients.

[5] The relevant paragraph numbers for the FASB exposure draft are included in the square brackets.

References to IFRS 9

C5 If an entity applies this [draft] IFRS but does not yet apply IFRS 9, any reference in this [draft] IFRS to IFRS 9 shall be read as a reference to IAS 39 *Financial Instruments: Recognition and Measurement*

Withdrawal of other IFRSs

C6 This [draft] IFRS supersedes the following IFRSs:

(a) IAS 11 *Construction Contracts*;
(b) IAS 18 *Revenue*;
(c) IFRIC 13 *Customer Loyalty Programmes*;
(d) IFRIC 15 *Agreements for the Construction of Real Estate*;
(e) IFRIC 18 *Transfers of Assets from Customers*; and

SIC-31 *Revenue—Barter Transactions Involving Advertising Services*.