AASB Exposure Draft

Tier 2 Supplement to ED 222
December 2011

Revenue from Contracts with Customers

Comments to AASB by 9 February 2012

Australian Government

Australian Accounting Standards Board

Invitation to Comment

Comments on this Tier 2 Supplement to AASB Exposure Draft ED 222 are requested by 9 February 2012.

Comments should be addressed to:

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All submissions on possible, proposed or existing financial reporting requirements, or on the standard-setting process, will be placed on the public record unless the Chairman of the AASB agrees to those submissions being treated as confidential. The latter will only occur if the public interest warrants such treatment.

Obtaining a Copy of this Tier 2 Supplement to AASB Exposure Draft

This Tier 2 Supplement to ED 222 is available on the AASB website: www.aasb.gov.au. Alternatively, printed copies of this Exposure Draft are available by contacting:

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ISSN 1030-5882

Background

In November 2011, the IASB published ED/2011/6 *Revenue from Contracts with Customers*. ED/2011/6 contains proposals to clarify the principles for recognising revenue. ED/2011/6 is a re-exposure of revised proposals first exposed by the AASB in July 2010 in ED 198 *Revenue from Contracts with Customers*.

Consistent with its policy of adopting International Financial Reporting Standards (IFRSs), in November 2011 the AASB published ED 222 *Revenue from Contracts with Customers* (for comment to the AASB by 9 February 2012), which incorporates IASB ED/2011/6 (for comment to the IASB by 13 March 2012). The AASB's response to IASB ED/2011/6 will be available on the AASB website under Work in Progress/Submissions from AASB.

This Exposure Draft sets out the disclosures proposed in ED 222 from which it is proposed entities applying Tier 2 reporting requirements should be exempt. It supersedes the Tier 2 Supplement to AASB ED 198 issued by the AASB in November 2010. The proposals in this Exposure Draft should not be seen as any indication of AASB support or otherwise for the IASB's proposals in IASB ED/2011/6. That will be determined through the ED 222 due process.

ANALYSIS OF PROPOSED DISCLOSURES

The AASB's conclusions in relation to proposed Tier 2 disclosure requirements in this Exposure Draft have been reached after applying its usual approach to the analysis of the disclosures proposed in ED 222 compared with disclosures set out in the IASB's *IFRS for SMEs* and application of the AASB's 'Tier 2 Disclosure Principles'. Those principles and that analysis are available on the AASB website under Work in Progress/Reduced Disclosure Requirements.

A summary of the comparison between ED 222 and *IFRS for SMEs* Section 23 *Revenue* in terms of the recognition and measurement accounting policies for the purpose of applying Tier 2 Disclosure Principles are outlined in the Appendix to this Exposure Draft.

AASB Specific Matters for Comment

The purpose of this Tier 2 Supplement to AASB ED 222 is to seek comment on the disclosure requirements that should apply to Tier 2 entities.

Submissions play an important role in the decisions that the AASB will make in regard to a Standard. The AASB would prefer that respondents supplement their opinions with detailed comments, whether supportive or critical, on the major issues. The AASB regards both critical and supportive comments as essential to a balanced review and will consider all submissions, whether they address all specific matters, additional issues or only one issue.

The AASB would particularly value comments on the following:

1. whether you agree with the AASB disclosure proposals regarding paragraphs 62 and 104-129 of ED 222 in relation to Tier 2 entities as set out in the Proposed Reduced Disclosure Requirements section below;

2. whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of these proposals, particularly any issues relating to:

   (a) not-for-profit entities; and

   (b) public sector entities;

[Note: This Exposure Draft is seeking comments from the perspective of not-for-profit, including public sector, entities at this time even though Income of Not-for-Profit Entities is subject to a separate AASB project.]

3. whether, overall, these proposals would result in financial statements that would be useful to users;

4. whether these proposals are in the best interests of the Australian economy; and

5. unless already provided in response to specific matters for comment 1-4 above, the costs and benefits of the proposals, whether quantitative (financial or non-financial) or qualitative.

Proposed Reduced Disclosure Requirements

Under the proposals in this Tier 2 Supplement to ED 222, Tier 2 entities would be exempt from making the disclosures proposed in paragraphs 113(b), 117, 123, 125(b) and 128 of ED 222.

The disclosures proposed in ED 222 are provided below. Entities applying Tier 2 requirements are proposed to be exempted from applying disclosure requirements shown as shaded text.

PROPOSED REDUCED DISCLOSURE REQUIREMENTS: AASB ED 222

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

Presentation

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

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 (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).

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).

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

Reconciliation of contract balances

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.

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 – Comparison between Recognition and Measurement Accounting Policies underlying ED 222 and Section 23 *Revenue* of the *IFRS for SMEs*

AASB ED 222 deals with the recognition and measurement of revenue. Section 23 of the *IFRS for SMEs* deals with the recognition and measurement of revenue.

The disclosures proposed in AASB ED 222 and the disclosure requirements in Section 23 of the *IFRS for SMEs* have been compared in the Analysis of Disclosure Requirements proposed in AASB ED 222 *Revenue from Contracts with Customers*, which is available on the AASB website under Work in Progress/Reduced Disclosure Requirements.

Main Differences in Recognition and Measurement Requirements

The proposals in AASB ED 222 differ from the requirements in Section 23 of the *IFRS for SMEs* with respect to the recognition of revenue in a number of ways, including the following.

(a) The *IFRS for SMEs* has different recognition requirements for the following categories of revenue: sale of goods, rendering of services, construction contracts and interest, royalties and dividends. The revenue recognition proposals of ED 222 are applied consistently based on the existence of a contract.

(b) The recognition requirements of the *IFRS for SMEs* are largely based on the transfer of significant risks and rewards and when it is probable that economic benefits associated with the transaction will flow to the entity. The recognition proposals of ED 222 are based on the satisfaction of performance obligations by the transfer of a promised good or service (when control passes to the customer).

Section 23 of the *IFRS for SMEs* differs from ED 222 with respect to the measurement of revenue in a number of ways, including the following.

(a) The *IFRS for SMEs* measures revenue at the fair value of the consideration received or receivable with an adjustment for deferred payments. ED 222 proposes measuring revenue at an amount that reflects the amount of consideration to which the entity expects to be entitled.

(b) The amount of revenue that would be recognised under ED 222 is affected by the following elements: variable consideration, time value of money, non-cash consideration and consideration payable to the customer, which are in addition to the measurement requirements of the *IFRS for SMEs*.