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Revenue From Contracts With Customers

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Objectives

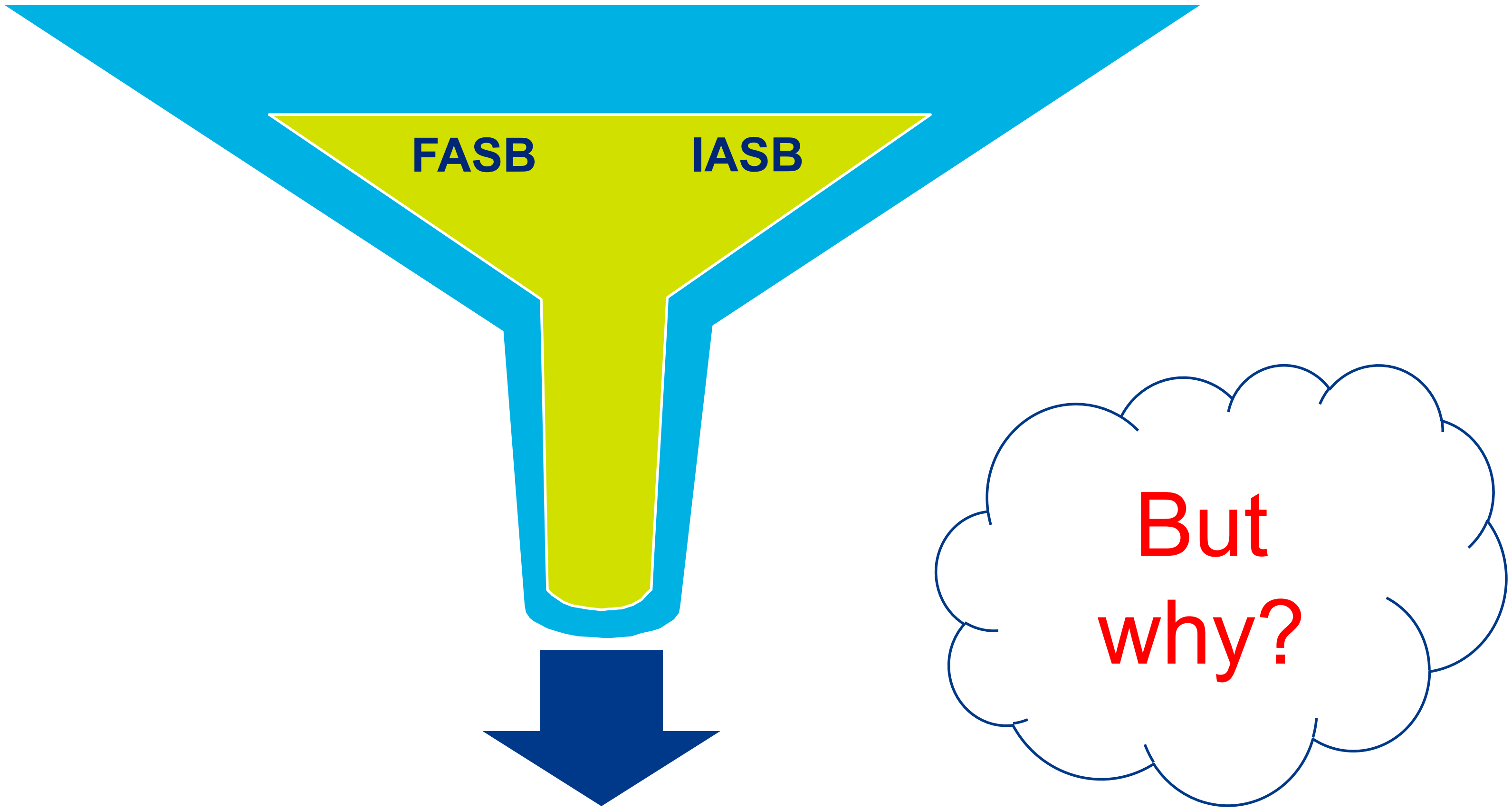
- Background and timeline of the revenue project
- What are the key proposals in the project?
- How will proposals change current practice?
- How will your industries be affected? (Selected examples)
- What are the challenges in operationalising the proposals?

The Bottom Line

- ‘One-size-fits-all’ revenue model
- A 5 step control-based approach to recognise revenue
- More guidance on splitting multiple elements
- ‘Point of time’ or ‘Progressive’ revenue recognition
- The timing and method of revenue recognition may change.
- Certain presentation changes and extensive new disclosures
- Entities should evaluate how the proposals would affect the structuring of customer contracts, performance metrics used, debt covenants, accounting policies, and systems.

Background of revenue project

Revenue recognition project objective



Clarify principles

Develop a common revenue standard

Evolution of revenue standards in IFRS

Issued by the IASC in 1993 – replacing the standard issued in 1982	IAS 18 *Revenue*	
	IAS 11 *Construction Contracts*	Issued by the IASC in 1993 – replacing the standard issued in 1979
2001	SIC-31 *Revenue—Barter Transactions Involving Advertising Services*	
2007	IFRIC 13 *Customer Loyalty Programmes*	
2008	IFRIC 15 *Agreements for the Construction of Real Estate*	
2008	IFRIC 18 *Transfers of Assets from Customers*	

TO BE SUPERSEDED

Are current standards not adequate?

- **What is wrong with current standards?**

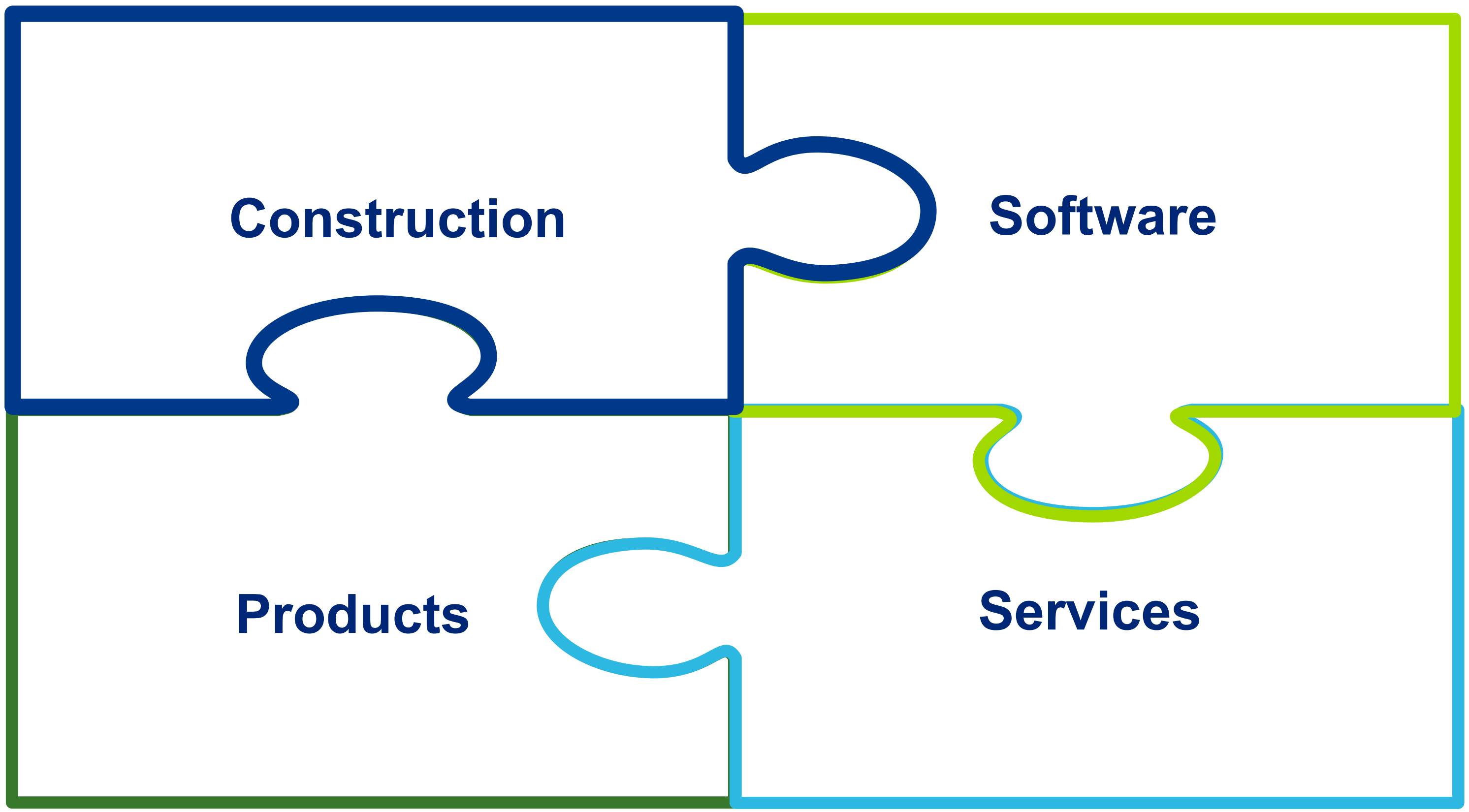
Existing Standards

- Limited guidance on certain topics - IFRS
- Sheer volume of accounting guidance when referring to recent pronouncements of other standard-setting bodies that use a similar conceptual framework – US GAAP
- Inconsistencies exist under current requirements
- Lack of comparability across companies, industries and capital markets
- Lack of useful disclosures

Objective of project

- A more robust framework for addressing revenue recognition issues
- Streamlining the volume of accounting guidance.
- Removing inconsistencies
- Improving comparability
- Improved disclosure requirements

Revenue recognition overview



One-size fits all, principles-based revenue recognition model

Timeline for the Revenue project

Timeline for the Revenue project

2010 — 2011 — 2013

June 2010

Exposure draft

Revenue from Contracts with Customers

November 2011

Revised exposure draft

Re-exposure of *Revenue from Contracts with Customers*

March 2012

Comment letter deadline

April 2012

Roundtables

May 2012 onwards

Redeliberations

H1 2013

Expected IFRS

IFRS X *Revenue from Contracts with Customers*

Effective date to be determined

In the nutshell..

Understanding the core approach

Core principle:

Recognise revenue to depict the transfer of 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

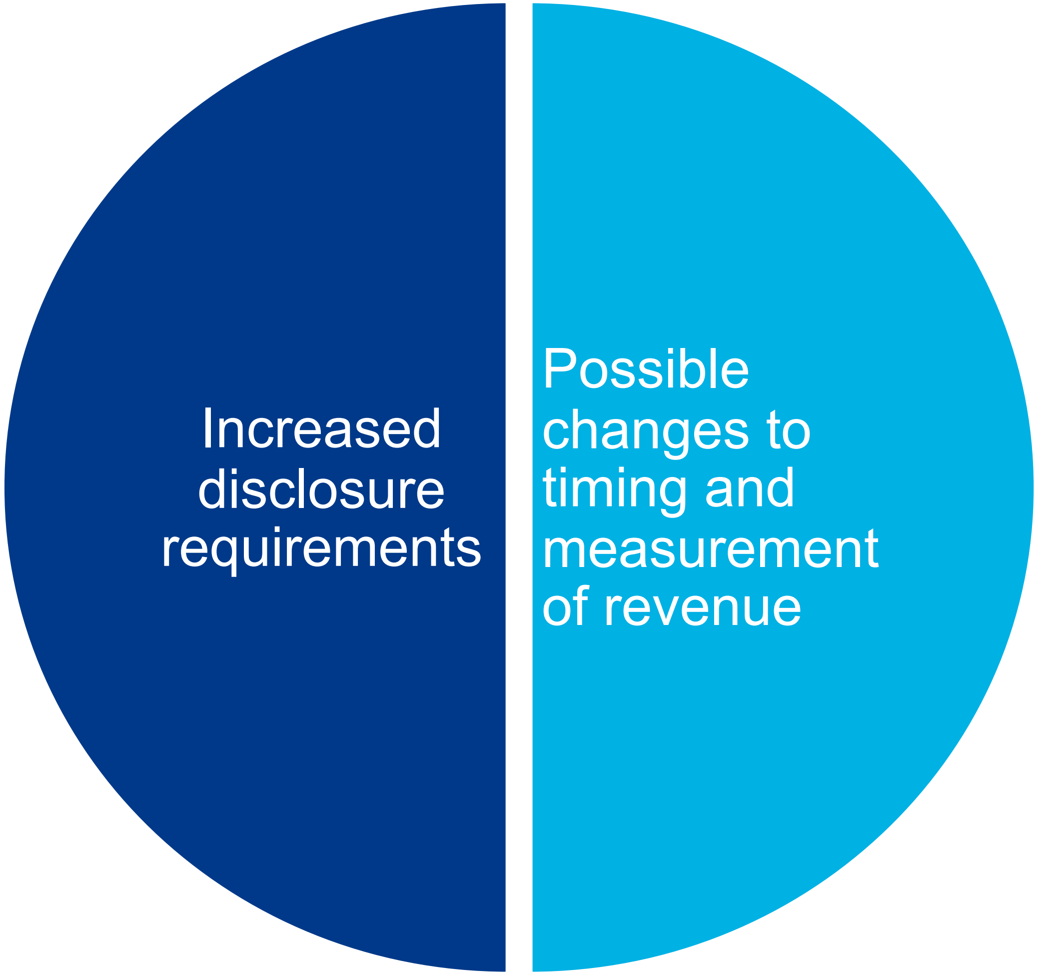
Steps to apply the core principle:

1. Identify the contract(s) with the customer
2. Identify the separate performance obligations
3. Determine the transaction price
4. Allocate the transaction price
5. Recognise revenue when (or as) a performance obligation is satisfied

Understanding the core approach

Step 1: Identify contract(s)	Step 2: Identify separate performance obligations	Step 3: Determine transaction price Step 4: Allocate transaction price	Step 5: Recognise revenue on transfer to customer
Contract with X	Deliver equipment	CU 60	When delivered
	Provide training services	CU 30	When performed
	Deliver accessories	CU 5	When delivered
	Provide ongoing support	CU 3	When provided
	Provide warranty	CU 2	When provided

How will you be affected?



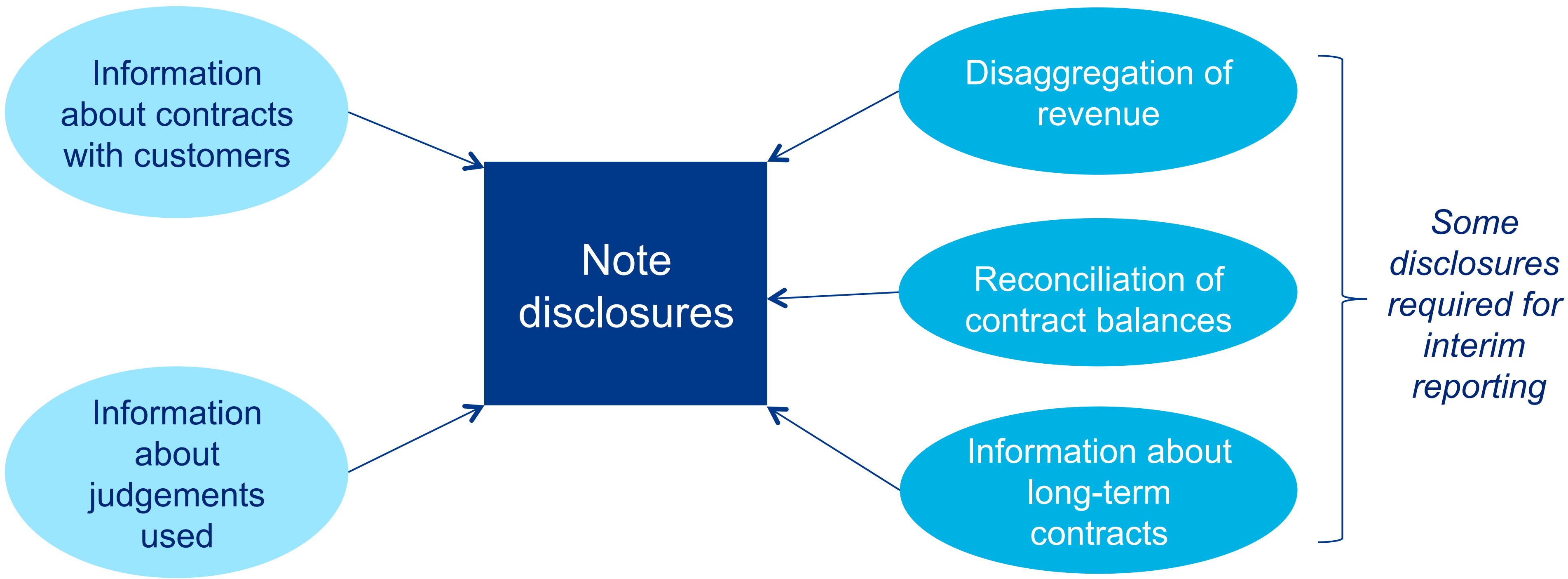
Watch out for the following …

New or more detailed rules/guidance on the following areas

- Contract modifications
- Unbundling multiple elements
- Treatment of credit risk
- Allocating revenue between elements
- Recognising revenue at a point in time (goods) or over time (services)
- Time value of money
- Variable consideration
- Capitalising costs of obtaining a contract
- Detailed implementation guidance

Disclosures

Objective: To enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers



A focus on certain key proposals

Understanding the core approach

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Step 1 - Identify the contract(s) with the customer

Step 1: Identify the contracts with the customer

The model does not apply to scoped out topics	The model does provide guidance on
• Lease contracts (IAS 17) • Insurance contracts (IFRS 4) • Certain contractual rights or obligations (within scope of IFRS 9) • Non-monetary exchange between entities in same line of business whose purpose is to facilitate a sale to another party	• Identifying a contract • When one or more contracts should be combined into a single analysis for accounting purposes • How to deal with contract modifications – changes in contract scope, price or both

Identifying a contract with customers

Agreement between two or more parties

Creates enforceable rights and obligations

Form may vary across jurisdictions, industries and entities

Do not include contracts with collaborators/ partners

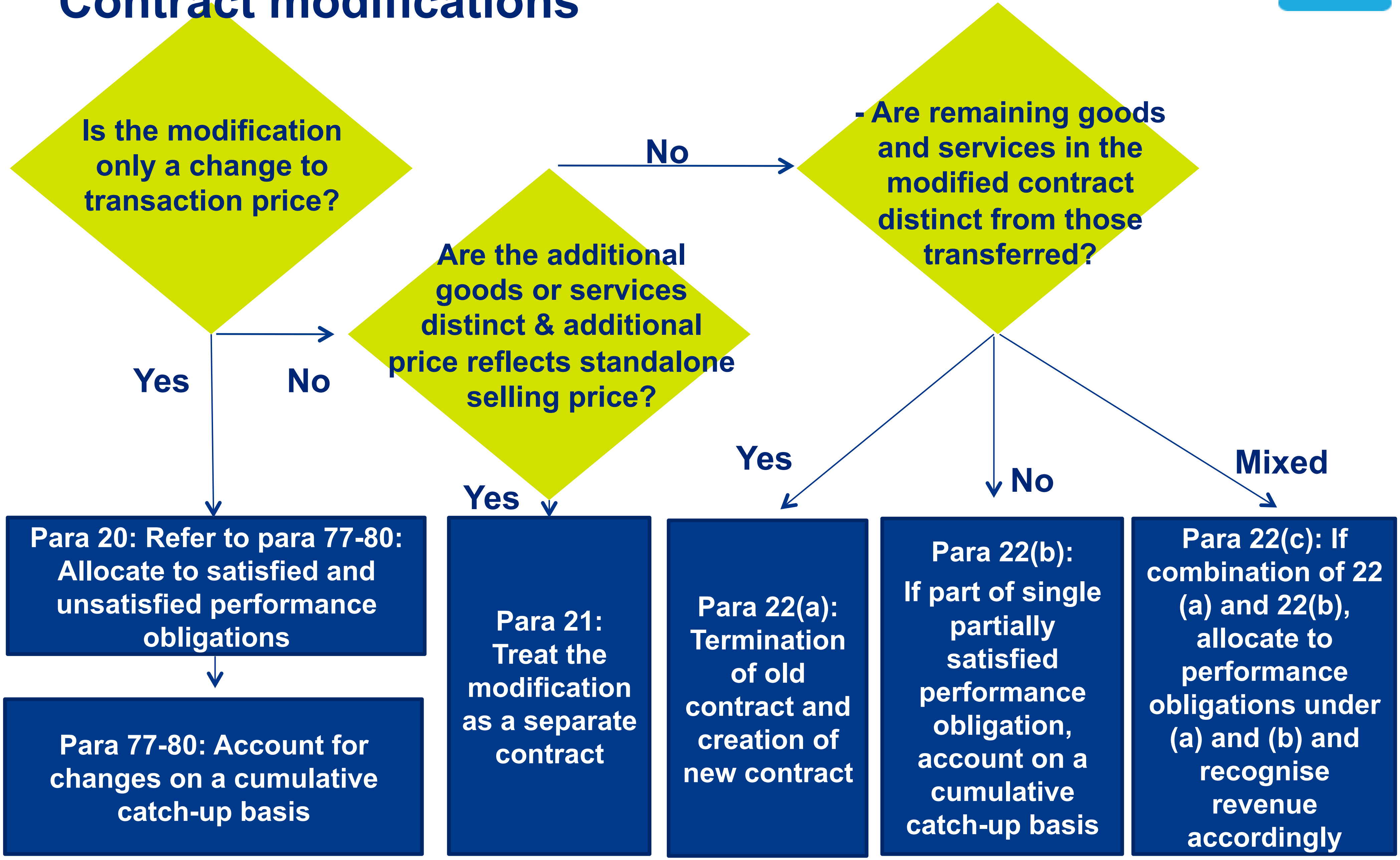
Written agreements

Oral agreements

Implied according to customary business practice

Sometimes, multiple contracts are to be accounted for as a single contract

Contract modifications



Contract modifications

Example 1 of ED - Contract Modification

Entity ⟷ **Customer**

- Entity promises to sell 120 units of product at CU100 each to customer.
- Delivery is to be over 6 months.

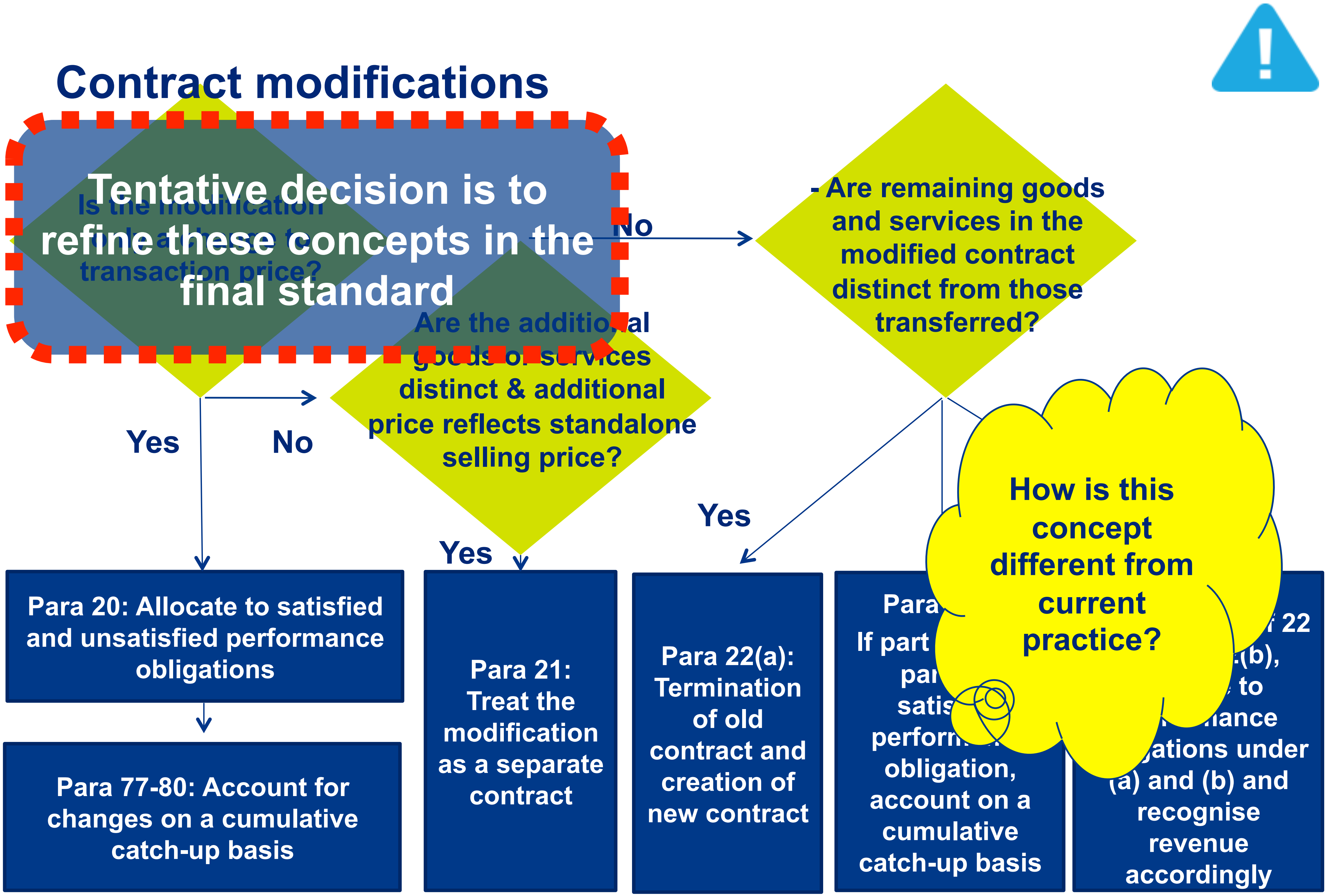
- After 60 units delivered, Entity promises 30 more units at CU95 each. Thus, total of 90 more left for Entity to deliver.
- Is the promise for additional 30 more units a separate contract?

Consideration points:

- Is CU95 a standalone selling price of the additional 30 units at point of modification?
- Are the additional 30 units 'distinct' from the original 120 promised?

If both are 'Yes', treat the modification as a separate contract.

Contract modifications



How will you be impacted? (Preliminary thoughts)

General:

- Scope of revenue proposals - Important to distinguish between lease arrangements and service revenues within scope of the final standard.

Telecommunications:

- Contract modification - Complex arrangements with multiple service offerings frequently added and removed at discount
  - ➢ Examples: Premium content TV channel given for a period for free to customer who has made a complaint to customer services, customer upgrade to higher broadband speed mid-contract for a fee etc
  - ➢ Contract modifications may be challenging to track given the sheer number of retail customers

How will you be impacted? (Preliminary thoughts)

Construction/Shipbuilding/Services:

- Contract modification - Variation orders are very common
  - ➢ Contract modifications may be ‘non-standard’ and may require closer evaluation
  - ➢ Contract modifications may be to <u>both</u> price and scope

Power and Utilities:

- Contract modifications – “Blend and Extend” contracts
  - ➢ Contract modifications may be challenging to track given the sheer number of retail customers

How will you be impacted? (Preliminary thoughts)

Oil and Gas:

- Scope of Revenue proposals - Production imbalance accounting : ‘Sales’ method or ‘Entitlements’ method?
  - ➢ Is Sales method more consistent with proposals?
  - ➢ ‘Sales’ to co-owner in scope of proposals?
- Scope of revenue proposals - Drilling contracts
  - ➢ Is the arrangement a lease arrangement → scoped out of proposals?

Oil and Gas/Mining:

- Scope of Revenue proposals – Production Sharing Contracts with governments ‘contracts with customers’?
  - ➢ Are these ‘contracts with customers’?

Step 2 - Identify the separate performance obligations ("POs")

What is a Performance Obligation?

A promise in a contract with a customer to transfer a good or service to the customer

Sales of goods

Perform a contractually agreed upon task

Grant a license

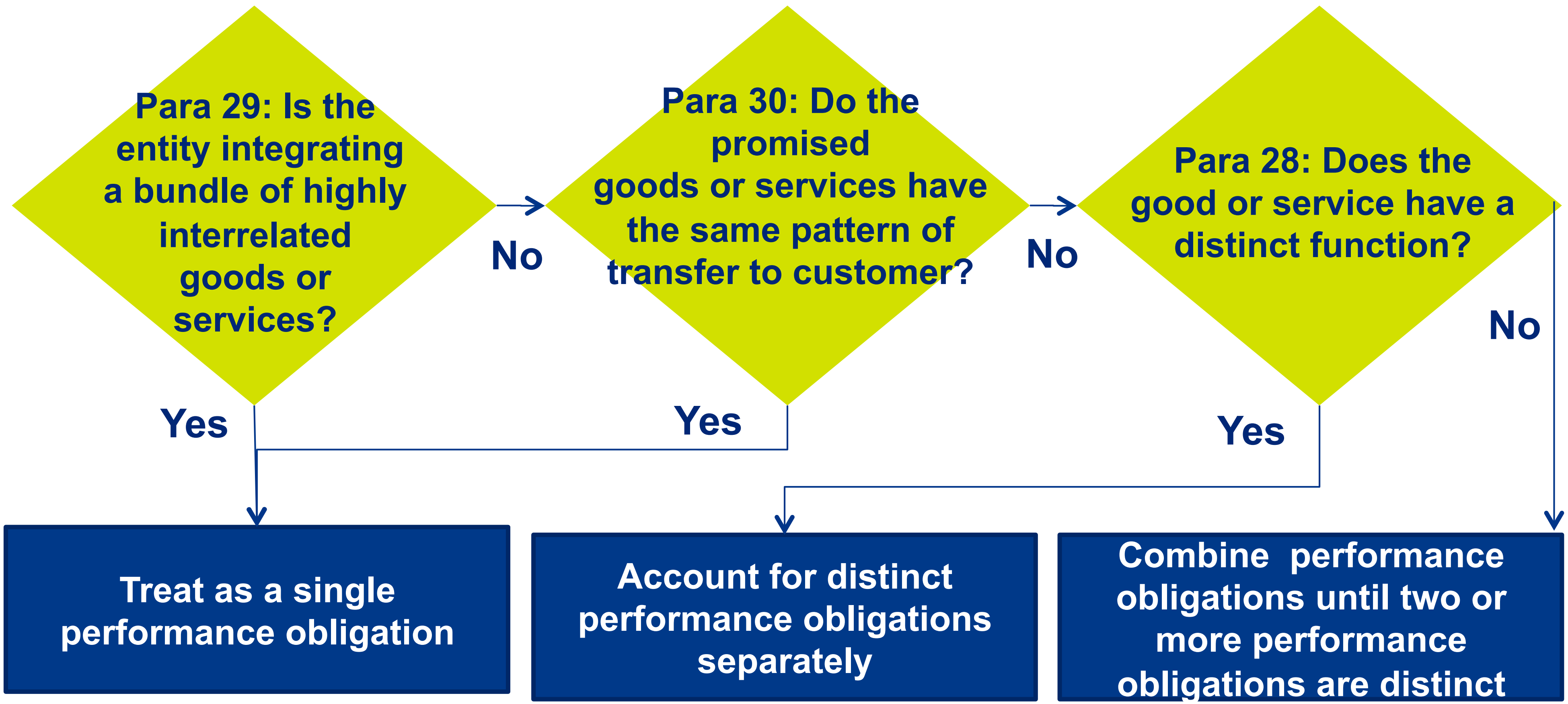
Construct an asset

Broker a sale between different parties

Importance : The satisfaction of a performance obligation triggers recognition of revenue in Step 5.

Particularly important when a single contract has multiple performance obligations.

Multiple performance obligations in the contract



Para 28: A good or service has a distinct function if it either:

1. Is regularly sold separately by the entity or
2. Can be used on its own or together with resources that are readily available to the customer

Multiple performance obligations in the contract

How is this concept different from current practice?

ED Example 5 – Identifying separate performance obligat

Entity

- Licenses software to customer
- Provides consultancy to significantly customise the software according to customer requests
- Contract value = CU600,000

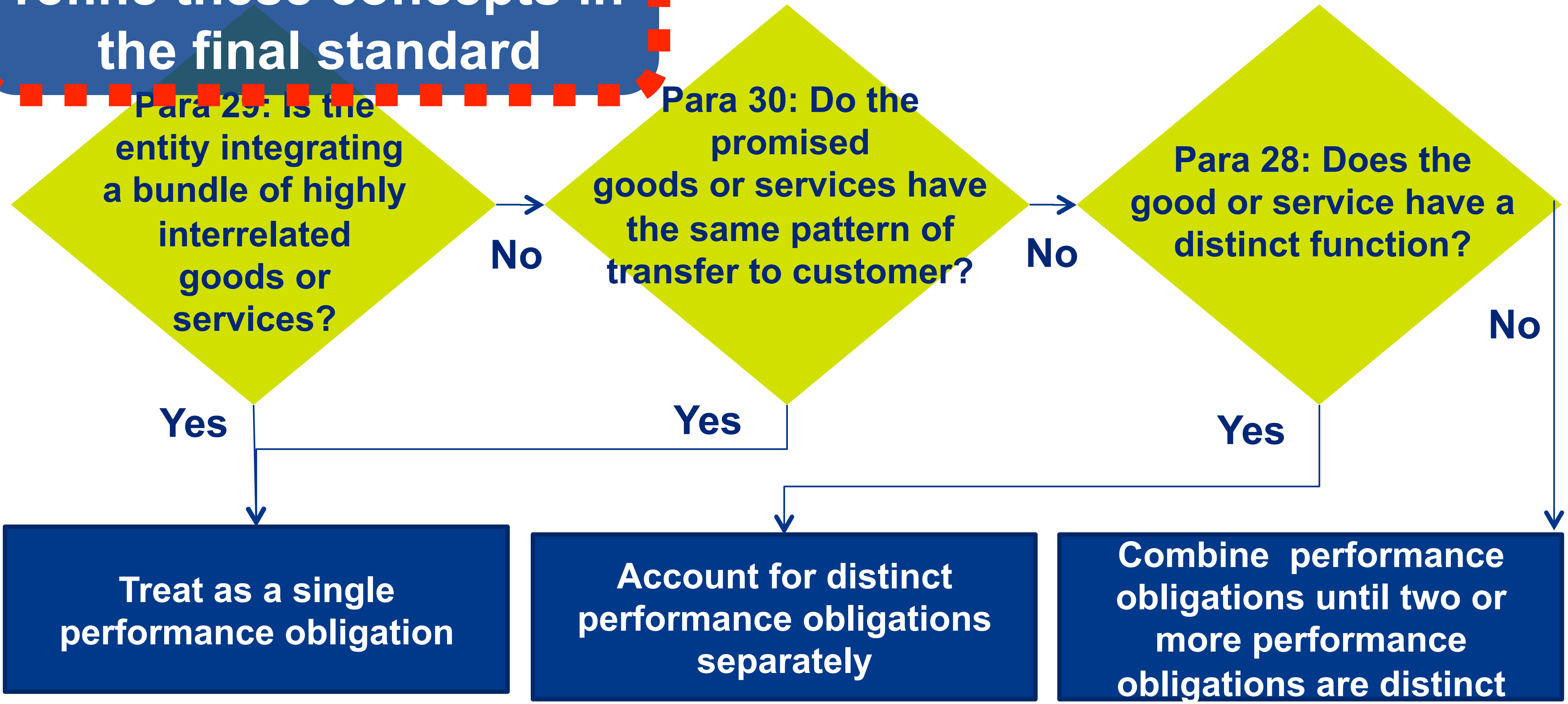
Customer

- How many performance obligations are there?
- Consideration points:
- While there appear to be 2 distinct goods/ services, is the entity integrating a bundle of highly interrelated goods or services?

If 'Yes', account for the goods/services together as one performance obligation .

Multiple performance obligations in the contract

Tentative decision is to refine these concepts in the final standard



Para 28: A good or service has a distinct function if it either:

1. Is regularly sold separately by the entity or
2. Can be used on its own or together with resources that are readily available to the customer

How are these concepts different from current practice?

Specific considerations - warranties

Customer has option to purchase warranty separately?

Yes

Treat as a separate performance obligation

Rationale – entity has promised to provide a service to the customer in addition to the product sold

No

Does the warranty provide customer with a service in addition to 'assurance'

Yes

No

Account in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*

How will you be impacted? (Preliminary thoughts)

Telecommunications:

- Identify performance obligations - Revenue allocation to equipment (e.g. handsets, set-top boxes etc)
  - ➢ Potential acceleration of revenue recognition and related tax implications?
  - ➢ Disconnect between cashflows and revenue?

Power and Utilities:

- Identify performance obligations – Bundled sales of energy and renewable energy credits
  - ➢ Are each of these separate performance obligations?

How will you be impacted? (Preliminary thoughts)

Manufacturing/Software sales/Consumer business

- Identify performance obligations
  - Sale of goods and post sales service and support
  - Warranties

➢ Are these separate performance obligations?

Consumer business:

- Identify performance obligations – customer incentives in connection with sales of a good e.g. “Buy one get one free”

➢ Are each separate performance obligations?

How will you be impacted? (Preliminary thoughts)

Oil and Gas:

- Identify performance obligations - Midstream entities with gas gathering and processing operations
  - Are gas gathering and processing activities separate performance obligations?
- Identify performance obligations - Drilling contracts
  - Are catering, transportation, drilling materials, tools, rig mobilisation, rig demobilisation etc separate performance obligations?

Step 3 - Determine the transaction price

Variable consideration and time value of money

Variable consideration
• Consideration often varies due to discounts, rebates, refunds, credits, incentives, performance bonus/penalty, contingencies, price concessions, or similar items. • Probability-weighted or most likely amount of consideration that the entity is entitled to from the customer, depending on which method is the most predictive of the amount of consideration the entity will be entitled.

Time value of money
• Transaction price adjusted for time value of money if contract includes a significant financing component e.g. indicators: - variance in amounts, - payment timing lag, - explicit/implicit interest rate (The above are subject to a one year practical expedient allowed in the proposals)

Tentative decision is to clarify the application of these indicators in the final standard

Time value of money

Adapted from ED Example 9 – Time value of money

Entity ↔ **Customer**

- Contract to sell Product A, with upfront cash receipts of CU37,500
- Delivery in 2 years
- Entity's incremental borrowing rate is 6 per cent

Applicable journal entries:

- Dr Cash CU37,500
  Cr Contract liability CU37,500
  [Recognition of contract liability upon cash receipt]

- During the two years from contract inception until the transfer of Product A:
  Dr Interest expense CU4,635 [CU37,500 × (1.06^2 – 1)]
  Cr Contract liability CU4,635
  [Recognition of interest expense on upfront payment]

- Dr Contract liability CU42,135
  Cr Revenue CU42,135
  [Recognise revenue for the transfer of Product A at end of 2 years]

How is this concept different from current practice?

Time value of money

Adapted from ED Example 9 – Time value of money

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  Cr Contract liability CU4,635
  [Recognition of interest expense on upfront payment]

- Dr Contract liability CU42,135
  Cr Revenue CU42,135
  [Recognise revenue for the transfer of Product A at end of 2 years]

Tentative decision: no discounting needed in this case if timing of transfer of goods or services is at discretion of customer

Collectibility adjustments

Tentative decision is to modify the ED proposals i.e. propose to record collectibility adjustment as an expense prominently in SOCI instead

Collectibility
Initial and subsequent assessments of collectibility presented separately from revenue (one line item immediately following revenue)

Initial recognition	
Revenue	10,000,000
Collectibility adjustments	(300,000)
Net revenue	9,700,000

Subsequent measurement of collectibility adjustment	
Revenue	10,000,000
Collectibility adjustments	(200,000)
Net revenue	9,800,000

Note that collectibility being reasonably assured is no longer a specific revenue recognition criteria.

Other guidance

How are these concepts different from current practice?

Non-cash consideration

- Measure the non-cash consideration at fair value
- If cannot reasonably estimate the fair value of the non-cash consideration, measure the consideration indirectly by reference to the stand-alone selling price of the goods or services promised.

Goods and services contributed by customers

- Assess if entity obtains control of those contributed goods or services.
- If so, account for the contributed goods or services as non-cash consideration received from the customer

Consideration payable to customer

- E.g. volume discount incentives
- Generally a reduction in transaction price, unless amounts payable is for distinct good or service from the customer
- Specific guidance on situations where amount payable exceeds fair value of distinct good or service from the customer, or when fair value cannot be reasonably estimated

How will you be impacted? (Preliminary thoughts)

Telecommunications:

- Revenue allocation to equipment (e.g. handsets, set-top boxes etc)
  - Time value of money – a handset or set-top box provided to customer for a 2 year monthly-paid contract → is this a deferred payment ‘revenue stream’?

How will you be impacted? (Preliminary thoughts)

Construction/Shipbuilding/Services industries:

- Time value of money - Long-term contracts if on 'deferred payment' terms
  - ➢ Any significant financing component → Impacting amount of sales revenue and interest component?

Technology industries:

- Variable consideration (e.g. royalties from use of license pegged to future sales by customer)
  - ➢ Clearer guidance on variable consideration in proposals → will this change future timing and amount of revenue recognised?

How will you be impacted? (Preliminary thoughts)

Oil and Gas:

- Time value of money - Upfront payments to midstream entity for construction of assets required to provide service
  - ➢ Any significant financing component → Impacting amount of sales revenue and interest component?
- Non-cash consideration – e.g. in the form of natural gas / oil
  - ➢ Determine revenue based on fair value of non-cash assets receivable?
  - ➢ Likely to be reliably determinable given nature of commodities obtained?

How will you be impacted? (Preliminary thoughts)

Mining:

- Provisional consideration – Royalties on sale of mine

  ➢ Sale of mine with consideration pegged to future output

  → should revenue be (1) recognised only when output generated or (2) estimated and recognised when mine is sold?

Step 4 - Allocate transaction price to separate performance obligations

Contract with more than one separate performance obligation

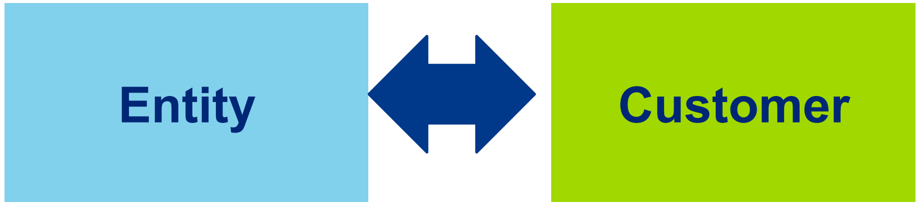
70. An entity shall allocate the transaction price to each separate performance obligation in an amount that depicts the amount of consideration to which the entity expects to be entitled in exchange for satisfying each separate performance obligation.

Allocation of transaction price to multiple performance obligations

- Allocate transaction price on a relative standalone selling price basis.
- Estimate standalone selling price if not observable e.g.
  - Expected cost-plus margin;
  - adjusted market assessment; or
  - residual (when standalone price is highly variable or uncertain).

Contract with more than one separate performance obligation

Adapted from ED Example 11 – Allocating the transaction price to separate performance obligations (1/2)



- An entity enters into a contract with a customer to sell Products A, B and C for a total transaction price of CU36.

- The entity regularly sells Products A, B and C on a stand-alone basis for the following prices:

	Stand-alone selling prices CU
Product A	*9*
Product B	*11*
Product C	*20*
Total	*40*

- The customer receives a CU4 discount (CU40 sum of stand-alone selling prices – CU36 transaction price) for buying the bundle of three products

Contract with more than one separate performance obligation

Adapted from ED Example 11 – Allocating the transaction price to separate performance obligations (2/2)

- Because Products A and B are transferred at the same time, the entity accounts for only two separate performance obligations in accordance with para 30: one for Products A and B combined and another for Product C.
- The entity regularly sells Products A and B as a bundle for CU16 (i.e. at a CU4 discount). Because the entity regularly sells Products A and B together for CU16 and regularly sells Product C for CU20, the entity has observable prices as evidence that the CU4 discount in the contract should be allocated only to Products A and B.
- Hence, the entity allocates the transaction price of CU36 as follows:

	Stand-alone selling prices CU
Products A and B	*16*
Product C	*20*
Total	*36*

If entity does not regularly sell A and B together, the discount would be allocated to each product based on their relative standalone selling prices.

Contract with more than one separate performance obligation

Adapted from ED Example 11 – Allocating the transaction price to separate performance obligations (2/2)

- Because Products A and B are transferred at the same time, the entity accounts for only two separate performance obligations in accordance with para 30: one for Products A and B combined and another for Product C.
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- Hence, the entity allocates the transaction price of CU36 as follows:

	Stand-alone selling prices CU
Products A and B	*16*
Product C	*20*
Total	*36*

How is this concept different from current practice?

Other guidance

Contingent amounts in a contract with more than one separate performance obligation

- Allocate the contingent amount entirely to a distinct good or service if consistent with EDs‘ allocation principles, and contingency relates specifically to that good or service

Changes in transaction price

- Allocate to the separate performance obligations in the contract any subsequent changes in the transaction price on the same basis as at contract inception

How are these concepts different from current practice?

How will you be impacted

Technology/Telecommunications:

- Price allocation - multiple elements contracts
  - ➢ Use of VSOE may no longer be applicable. Will ‘estimated standalone selling prices’ concept lead to material differences?
  - ➢ Complexities in variable consideration contracts – how to allocate to multiple elements?

Step 5 - Recognise revenue when performance obligations are satisfied

Step 5: Recognise revenue when performance obligations are satisfied

31. An entity shall recognise revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer.

An asset is transferred when (or as) the customer obtains control of that asset.

Control is key

Note – a service is also considered an 'asset' for this purpose

- Control - 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.

Satisfaction of performance obligations

ED Example 6 – Satisfaction of performance obligations (1/2)

Entity

- Contract to sell product
- Delivery terms – FOB shipping point (using 3rd party carrier)
- Based on past practice, entity will replace product for free if product is damaged/lost in transit.

Customer

Satisfaction of performance obligations

ED Example 6 – Satisfaction of performance obligations (2/2)

Key considerations

- Here, the entity has two performance obligations:

(a) to provide the customer with a product and

(b) to cover the risk of loss during transit.

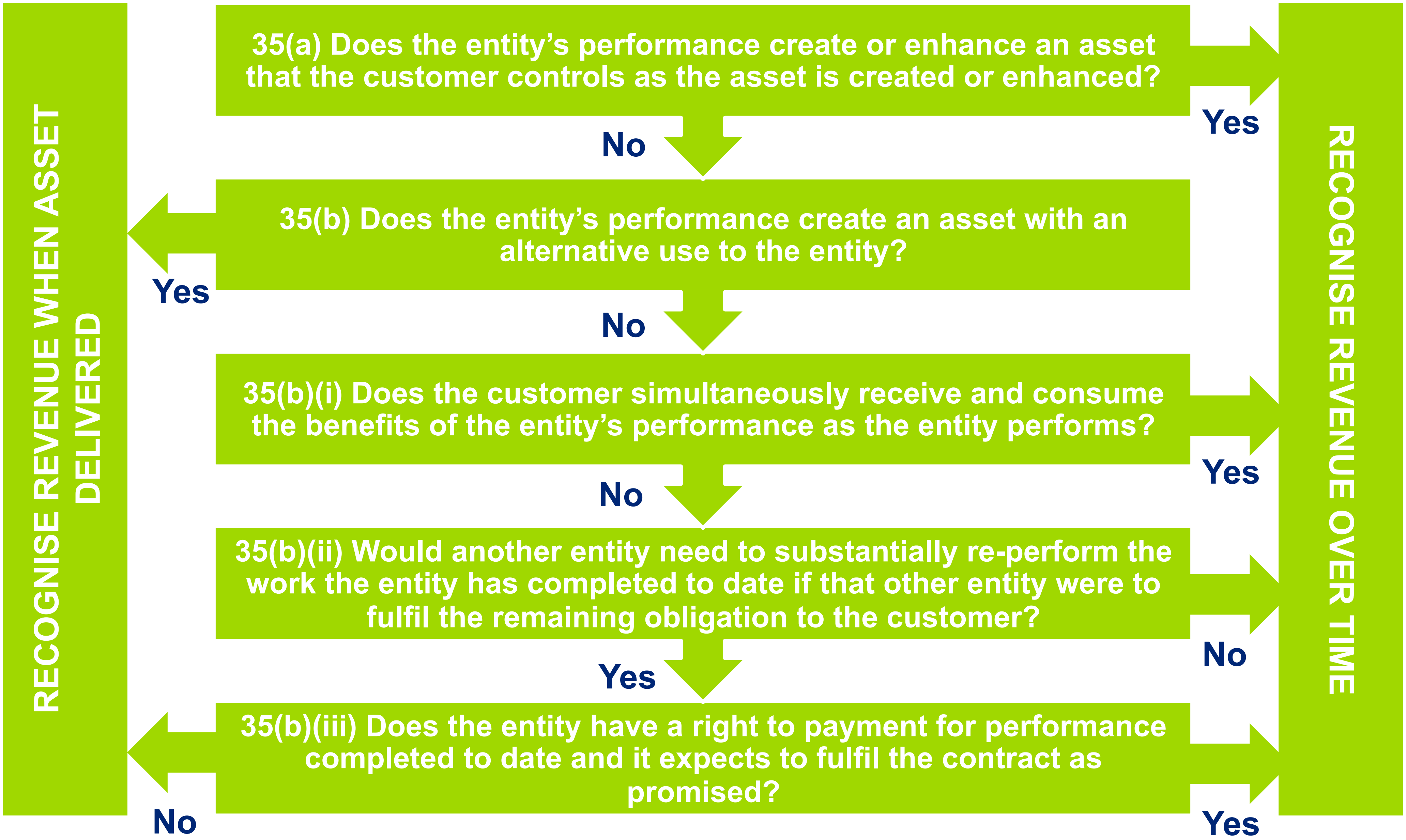
- The customer obtains control of the product at the point of shipment.
- Although it does not have physical possession of the product at that point, it has legal title and therefore can sell the product to (or exchange it with) another party.
- The entity is also precluded from selling the product to another customer.

Revenue is recognised by Entity when each performance obligation is satisfied:

- once at point of shipment for 'sales of good'; and
- once upon completion of the voyage for 'risk coverage services'.

How is this different from current practice?

Performance obligations satisfied over time



Performance obligations satisfied over time

ED Example 7 – Performance obligations satisfied over time (1/2)

An entity is developing residential real estate and starts marketing individual units (apartments). The entity has entered into the minimum number of contracts that are needed to begin construction. A customer enters into a binding sales contract for a specified unit that is not yet ready for occupancy.

Performance obligations satisf

What are the key considerations here on whether entity can recognise revenue over time?

ED Example 7 – Performance obligations sat ne (2/2)

The customer pays a non-refundable deposit at inception of the contract and also promises to make payments throughout the contract. Those payments are intended to at least compensate the entity for performance completed to date and are refundable only if the entity fails to deliver the completed unit.

The entity receives the final payment only on completion of the contract (i.e. when the customer obtains possession of the unit). To finance the payments, the customer borrows from a financial institution that makes the payments directly to the entity on behalf of the customer. The lender has full recourse against the customer.

The customer can sell his or her interest in the partially completed unit, which would require approval of the lender but not the entity. The customer is able to specify minor variations to the basic design but cannot specify or alter major structural elements of the unit's design. The contract precludes the entity from transferring the specified unit to another customer.

Performance obligations satisfied over time

ED Example 7– Performance obligations satisfied over time (2/2)

The customer pays a non-refundable deposit at inception of the contract and also promises to make payments throughout the contract. Those payments are intended to at least compensate the entity for performance completed to date and are refundable only if the entity fails to deliver th… completed unit.

The en… the cont…
when t… ce the pa…
custom… payme…
the enti… recourse ag…
customer.

“Right to payment for performance completed to date” criterion met

“No alternative use” criterion met

The customer can sell his or her interest in the partially completed u…t, which would require approval of the lender but not the entity. The custom…er is able to specify minor variations to the basic design but cannot specify …r alter major structural elements of the unit’s design. The contract precludes the entity from transferring the specified unit to another customer.

Performance obligations satisfied over time

Tentative decisions to improve these criteria in the final standard

How is this concept different from current standards e.g. IFRIC 15?

RECOGNISE REVENUE WHEN ASSET DELIVERED

...rformance create or enhance a... that the customer controls as the asset is created or enh...

No

35(b) Does the entity's performance create an asset with an alternative use to the entity?

Yes

No

35(b)(i) Does the customer simultaneously receive and consume the benefits of the entity's performance as the entity performs?

Yes

No

35(b)(ii) Would another entity 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?

No

Yes

35(b)(iii) Does the entity have a right to payment for performance completed to date and it expects to fulfil the contract as promised?

No

Yes

...COGNISE REVENUE OVER TIME

Other guidance

Measuring progress towards complete satisfaction of a performance obligation

- Objective is to depict the transfer of control of goods or services to the customer—that is, to depict an entity's performance
- Apply a method of measuring progress that is consistent with this objective

- Output methods – for example, surveys of performance completed to date, appraisals of results achieved, milestones reached or units produced
- Input methods – for example, resources consumed, labour hours expended, costs incurred, time lapsed or machine hours used.

How will you be impacted? (Preliminary thoughts)

Technology companies:

- License revenues
  - ➢ More specific guidance for recognition of license revenue
  - ➢ Likely to have more up-front recognition of license revenues when sale of license is akin to sales of goods?

Consumer business/manufacturing/mineral sales:

- Sales of goods with ‘risk of loss coverage’ type obligation (refer to Example 6 of ED)
  - ➢ Timing and amount of revenues may change in these instances?

How will you be impacted? (Preliminary thoughts)

Consumer business/manufacturing (continued):

- Transfer of products to distributorships
  - ➢ Currently, sale may not have been recorded if goods deemed to be on consignment to distributor (‘risk and rewards’ argument)
  - ➢ Under proposals, potentially ‘Control’ over goods may have transferred to distributor even when risks and rewards retained → earlier revenue recognition?

Construction/Real estate sales/Long-term service contracts:

- To recognise revenue over time or at a point-in-time
  - ➢ Criteria under proposals appear to preclude purely ‘activity-based’ revenue recognition, leading to revenue recognition only upon completion/delivery (i.e. percentage of completion accounting may not be applicable in some cases)

How will you be impacted? (Preliminary thoughts)

Mining:

- Timing of revenue recognition – delay from the time when mined metals leave the mine site until the metal is credited to metal account of supplier

  - ➢ When is control transferred to buyer?

Other guidance in the proposed standard

Other guidance in the proposed standard

Tentative decision to exclude onerous test from scope of revised standard

Onerous provisions
For a performance obligation that an entity satisfies over time 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.

Contract costs
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. [Subject to these costs not being capitalised under IAS 2 *Inventories,* IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*]

How will you be impacted

Telecommunications:

- Contract costs – diversity in practice on contract costs
  - ➢ Subscriber acquisition costs can be significant – currently may be expensed off

Technology/Telecommunications:

- Contract costs – allocation to multiple performance obligations
  - ➢ Amortisation periods may vary across different performance obligations – allocation may be a challenge

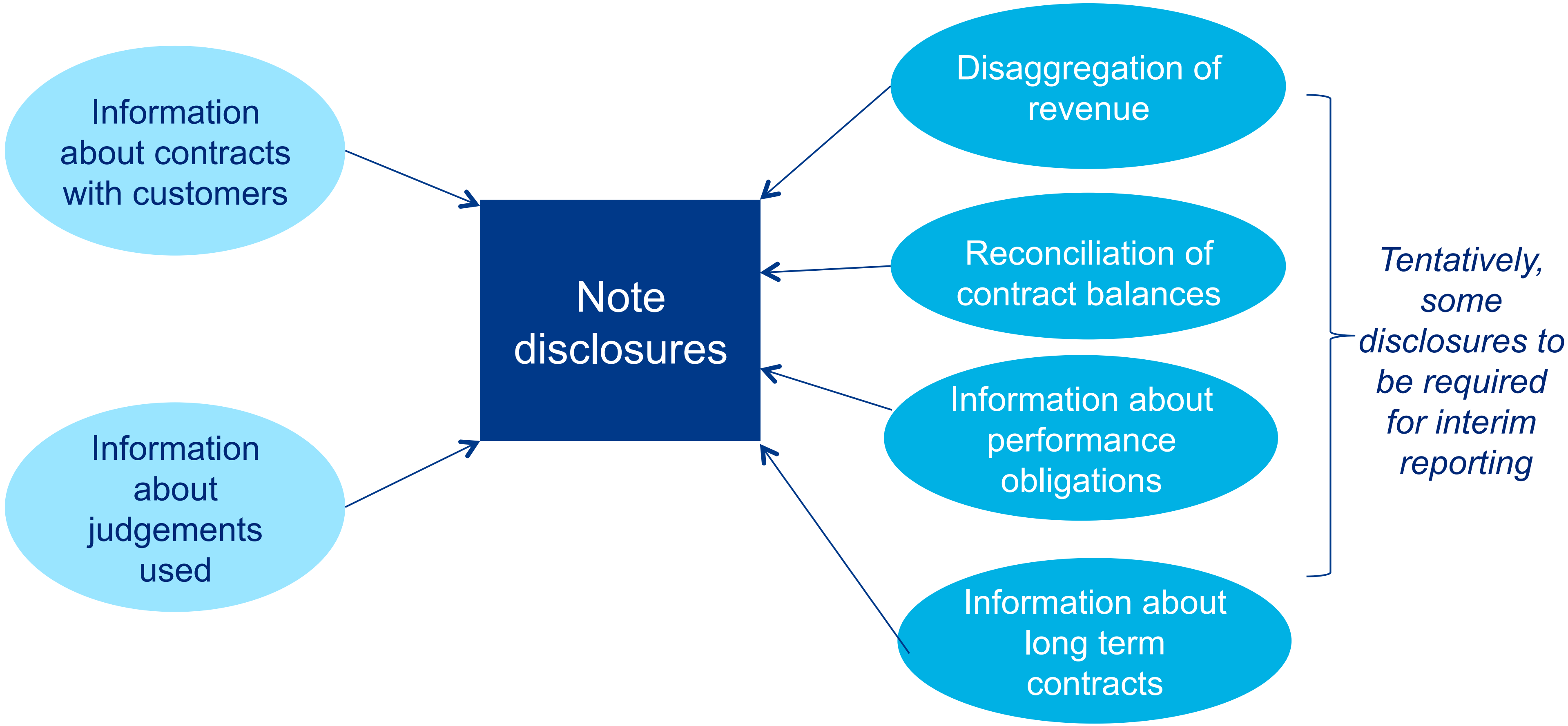
Other guidance in the proposed standard

Application guidance
The application guidance gives guidance on the following issues: (a) sale with a right of return (b) warranties (c) principal versus agent considerations (d) customer options for additional goods or services; (e) customers' unexercised rights (f) non-refundable upfront fees (g) licensing and rights to use (h) repurchase agreements (i) consignment arrangements (j) bill-and-hold arrangements (k) customer acceptance

Disclosures

Disclosures

Objective: To enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers



Information about contracts with customers

Tentative decision is to provide guidance on consideration points when determining manner of disaggregation

Disaggregation of revenue during the period
• Examples 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).

Information about contracts with customers

Reconciliation from opening to closing balance of contracts assets and contract liabilities

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).

Examples – accrued revenue

Contract Liability:
An entity's obligation to transfer goods or services to a **customer** for which the entity has received consideration from the customer.

Examples – advance payments received

[See sample disclosure on next slide]

Information about contracts with customers

Tentative decision is to require disclosures in narrative form instead

Reconciliation from opening to closing balance of contracts assets and contract liabilities – ED Example 19

Contract assets		**-**
Contract liabilities		**(2,000)**
Net contracts at 31 December 20X0		**(2,000)**
Revenue from contracts with customers:		
	Performance obligations satisfied during the reporting period	18,000
	Amounts allocated to performance obligations satisfied in previous periods	500
	Amounts recognised as receivables	(14,000)
	Payments in advance	(3,500)
	Cash sales	(1,000)
Effects of a business combination:		
	Increase of contract assets	4,000
	Increast of contract liabilities	(1,900)
Net contracts at 31 December 20X1		**100**
Contract assets		**4,500**
Contract liabilities		**(4,400)**

Information about contracts with customers

Information about performance obligations
• Includes a description of all of the following: (a) when the entity typically satisfies its performance obligations; (b) the significant payment terms; (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.

Information about contracts with customers

Information about long term contracts

- 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.

Information about judgments and estimates

Timing of satisfaction of performance

- Significant judgements made in evaluating when the customer obtains control of promised goods or services
- Methods used to recognise revenue over time, and why such methods are faithful depiction of transfer of goods and services.

Amount of revenue

Examples - assumptions used to:

- determine the transaction price
- estimate stand-alone selling prices of promised goods or services
- measure obligations for returns, refunds and other similar obligations; and
- measure the amount of the liability recognised for onerous performance obligations.

Information about contracts with customers

Other disclosures
• Details on onerous performance obligations • Reconciliation from the opening to the closing balance of the liability recognised for onerous performance obligations. • Reconciliation from the opening to the closing balance of contract costs capitalised

Tentative decision is to not retain these disclosure proposals in the final standard

Other tentative decisions

Other selected tentative decisions

Transfers of non-financial assets
• Guidance included in the proposed revenue model related to identifying a contract, transfer of control, and measurement of revenue would apply to transfers of non-financial assets that are not an output of an entity's ordinary activities. E.g. a sale of property, plant and equipment.

Transition requirements

Transition methods

Tentative decision is for retrospective application with some enhanced practical expedients. Also, no early adoption?

Full retrospective application

Retrospective application with optional transition reliefs

Potential challenges in operationalising the requirements

Operational Considerations

Revenue systems	Multiple billing and transaction systems service different customer types and channels; many are likely impacted by the proposed revenue recognition rules
Commission Impacts	Timing and amounts of revenue recognition may change, and this may impact commissions to sales people
Taxation	There may be tax impact depending on how a jurisdiction treats accounting profits
Internal Controls	New data and calculations necessities design and implementation of new/ revised internal controls
Financial reporting systems	Extensive disclosures may warrant systems re-configuration

Revenue Assessment Project Approach

The following summarises the key approach that companies could consider in addressing the requirements of the Revenue Recognition standard.

Key activities

- Evaluate significant revenue streams
- Identify, evaluate and summarise key contracts
- Capture and define key accounting issues and new policy requirements
- Identify key data gaps, process requirements
- Assess opportunities to automate key accounting steps
- Assess other potential system impacts
- Analyse / determine addl disclosure needs
- Determine long-term training requirements

Revenue Streams/ Areas of Business Focus

- Enterprise contracts
- Outsourced service arrangements
- Wholesale telecom contracts
- State-based telecom contracts

Key issues within the ED

- Definition of contract
- Variable pricing
- Measurement of performance
- Pre-contract costs
- Bundled offers/ services
- Contract modifications
- Onerous contracts
- Disclosures/ presentation

Deliverables

- Evaluation of contract types and summary of issues
- Data gap identification
- Accounting and tax issue summary
- Operational issues and process changes
- Implementation roadmap and workplan

Key Takeaways

- New Standard expected in first half of 2013
- Changes to timing and measurement of revenue for some clients
- Increased disclosures for most entities
- Sensible to start assessing impacts as soon as possible


Questions?