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IFRS bulletin from PwC

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Boards make decisions on several major outstanding revenue issues

What's new?

The IASB and FASB (the 'boards') reached decisions on when revenue from variable consideration should be recognised, presentation of amounts not expected to be collected and licences at their November meeting on revenue recognition. The boards' decisions are tentative and subject to change. Other key issues still to be redeliberated include allocation of transaction price, contract costs, disclosures and transition.

What were the key decisions?

Constraint on recognising revenue from variable consideration

The boards agreed to clarify the objective of the constraint on when revenue from variable consideration should be recognised. An entity should recognise revenue as performance obligations are satisfied only up to the amount that the entity is confident will not be subject to significant reversal in the future. An entity should assess its experience with similar types of performance obligations and determine whether, based on that experience, the entity does not expect a significant reversal in future periods in the cumulative amount of revenue recognised. The boards decided to retain the indicators included in the 2011 exposure draft as to when the constraint should apply.

The boards decided to apply the constraint to the measurement of the transaction price, as proposed in the 2010 exposure draft. This will constrain the recognition of revenue from variable consideration through the determination of the transaction price rather than creating a separate constraint on the amount recognised subsequent to allocating the transaction price. The boards expect that the amount and timing of revenue recognised should be the same regardless of where the constraint is applied, but asked the staff to consider any unintended consequences of this change.

Collectibility

The boards agreed that an entity should present any initial and subsequent impairment of customer receivables, to the extent material, as an expense in a separate line item in the statement of comprehensive income. The line should be presented below gross margin, as opposed to a line item adjacent to revenue as proposed in the 2011 exposure draft. The amount cannot be disclosed in the notes to the financial statements rather than being presented on the face of the statement of comprehensive income. This decision would apply to all contracts with customers, whether or not they contain a significant financing component.

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The boards confirmed the proposals in the 2011 exposure draft that collectibility should not be a threshold for recognition of revenue, as this is not consistent with the control-based model proposed by the boards.

Licences

The boards decided that in some cases a licence is a promise to provide a right, which transfers to the customer at a point in time, and in other cases a licence is a promise to provide access to an entity's intellectual property, which transfers benefits to the customer over time. Indicators will be provided to help determine the accounting depending on the nature of the licence and the commercial substance of the agreement.

The boards began with divergent views on whether revenue from the transfer of a licence should be recognised at a point in time or over time. The agreed approach outlined above is a compromise by the boards in which they acknowledged there might not be a ‘one size fits all’ approach to accounting for licences. The boards requested that the indicators provide guidance as to when a licence transfers at a point in time or when it provides access. They also commented that the guidance needs to be operational and result in consistent accounting for similar transactions. Board members acknowledged this might be difficult to achieve.

Is convergence achieved?

Convergence is expected for revenue recognition, as the same principles will be applied to similar transactions under both IFRS and US GAAP. Differences might continue to exist to the extent that the guidance requires management to refer to other standards before applying the guidance in the revenue standard.

Who’s affected?

The proposal will affect most entities that apply IFRS and US GAAP. Entities that currently follow industry-specific guidance should expect the greatest impact.

What’s the proposed effective date?

We anticipate the final standard to have an effective date no earlier than 2015.

What’s next?

The boards’ timeline indicates issuance of a final standard in the first half of 2013. They are expected to continue their redeliberations over the next few months and perform targeted outreach on some of the more significant changes.