Straight away

IFRS bulletin from PwC

30 July 2013

Boards re-deliberate aspects of joint revenue project

What's the issue?

The FASB and IASB (the 'boards') have reached agreement on several additional areas of the revenue recognition project. The boards' decisions are tentative and subject to change.

What are the key proposals?

Constraint on recognising revenue from variable consideration

The boards revisited proposed guidance surrounding the constraint on variable consideration in light of constituent concerns. The boards confirmed that the amount of revenue recognised from variable consideration will be constrained to the amounts that management is confident will not be subject to significant reversal. Management will assess its experience of similar types of performance obligations and determine whether, based on that experience, the amount of revenue will be constrained.

The transaction price will include any minimum amount of variable consideration expected to be received (and subsequent changes to that amount) if management has predictive experience of the arrangement's outcome and is confident that the amount will not be subject to significant reversal. The minimum amount will be included in the transaction price even if the entire amount of variable consideration cannot be estimated with confidence at inception. The same principle will be applied to all arrangements involving variable consideration whether related to sales of goods or services or licenses of intellectual property.

Consumer credit risk

Constituents have continued to request clarity on the distinction between impairment losses on accounts receivable and price concessions, particularly concessions driven by a customer's credit risk. The boards confirmed that management will need to consider all relevant facts and circumstances to make this determination and agreed to clarify the distinction between impairment and price concessions in the final standard.

Management will need to determine whether credit risk creates the likelihood or expectation of a price concession at the contract's inception. The transaction price will be reduced to reflect the expected concession, and any adjustments to that estimate will be recognised as an adjustment to revenue. Impairments of receivables however will be presented as an expense in a separate line item in the statement of comprehensive income.

Accounting for arrangements that do not need to meet the definition of a contract with a customer

The boards decided not to provide guidance on asset derecognition or cost recognition for arrangements that are not in the revenue standard's scope. Rather, existing US GAAP and IFRS standards, amended to conform with the new revenue guidance, will address these issues. Arrangements that are not within another standard's scope and do not meet the definition of a customer contract will be accounted for as follows:

- *Reassessment* - Management will reassess, at each reporting date, whether a contract that was not initially in the revenue standard's scope subsequently meets the customer contract criteria. Once the criteria are met, the revenue standard guidance will be applied.

- *Recognition* - Revenue will be recognised when there are no remaining performance obligations and either all of the consideration in the arrangement has been collected and is non-refundable or the contract is cancelled and consideration received is non-refundable.

Is convergence achieved?

Convergence is expected in the final revenue standard, except for: disclosures in interim financial statements; disclosures required for non-public entities; and the ability to adopt the standard early. There may be other differences if the guidance requires management to refer to other standards (for example impairment and onerous contract losses) when applying the revenue standard's guidance.

Am I affected?

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

What's the proposed effective date?

The FASB decided the final standard will be effective for annual reporting periods beginning after 15 December 2016 for public entities and after 15 December 2017 for non-public entities. No early adoption will be permitted.

The IASB decided the final standard will be effective for the first interim period within annual reporting periods beginning on or after 1 January 2017. Early adoption will be allowed.

What's next?

A final standard is expected later this year.