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IFRS bulletin from PwC

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FASB and IASB re-deliberations to make proposed revenue standard 'less onerous'

What's the issue?

The FASB and IASB ('the boards') met on 19 July to discuss their joint project on revenue recognition. They reached decisions on identifying separate performance obligations, performance obligations satisfied over time and onerous performance obligations. They also discussed the accounting for licences, but did not reach any decisions.

The decisions reached are tentative and subject to change. Other key issues still to be re-deliberated include the 'reasonably assured' constraint on recognition of variable consideration, collectibility, time value of money, contract combination and modification, disclosures and transition.

What are the key decisions?

Identifying separate performance obligations

A key step in the revenue recognition model is identifying the separate performance obligations in a contract. The boards agreed to clarify the principle for identifying separate performance obligations and refine the criteria for identifying when goods or services are distinct. An entity will account for a promised good or service (or a bundle of goods or services) as a separate performance obligation if it:

(a) could be distinct (the customer can benefit from the good or service either on its own or together with other resources readily available to the customer); and

(b) is distinct based on the substance of the contract (not highly dependent on or interrelated with other promised goods or services in the contract).

The boards also agreed to include indicators of when a good or service is not distinct to help with this assessment. The indicators include guidance to assist in determining whether a series of promised goods or services in the contract is a single performance obligation or a series of distinct performance obligations.

Performance obligations satisfied over time

The boards clarified the criteria to determine when a performance obligation is satisfied over time. The guidance was refined to better address service contracts. The indicators of when an asset has 'no alternative use' and when the entity has a right to payment for performance to date were also refined.

The boards agreed that an entity satisfies a performance obligation over time if:

(a) the customer is receiving and consuming the benefits of the entity's performance as the entity performs (that is, another entity would not need to substantially re-perform the work completed to date);

(b) the entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or

(c) the entity's performance does not create an asset with an alternative use to the entity, the entity has a right to payment for performance completed to date, and it expects to fulfill the contract.

Accounting for licences

The boards agreed that the implementation guidance on accounting for licences should be enhanced but did not make any decisions on this topic. We expect further discussion at a future meeting. The boards requested their staffs to conduct further analysis on applying the guidance to various types of licences, including the pattern of revenue recognition (over time or at a point in time) for term-based licences. The staffs were also asked to consider the effect of contractual restrictions on revenue recognition. It was unclear to the boards how the proposed guidance would apply in these situations.

Onerous performance obligations

The boards decided to remove the requirement to assess onerous performance obligations from the final standard. This decision was in response to concerns raised by constituents about the difficulties in applying the proposed guidance. The boards decided instead to retain current onerous loss guidance within US GAAP and IFRS.

Is convergence achieved?

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

Who's affected?

The proposal 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 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. The boards will continue to re-deliberate over the next several months and perform targeted outreach on some of the more significant changes.