EFRAG
European Financial Reporting Advisory Group

IASB Exposure Draft *Revenue from Contracts with Customers*

Consultation on industry impact

Confidentiality: **All of the information that you provide to EFRAG in response to this questionnaire and in interviews with the staff will remain confidential. Information received will be presented in such a way that to ensure it is not attributable to any individual entity.**

This Questionnaire has been prepared by EFRAG staff.

Responses are invited by 22 September 2010.

Please contact the EFRAG staff members identified at the end of this Questionnaire to arrange an interview or to forward a written response.

Introduction

1 In June 2010, the IASB published an Exposure Draft *Revenue from Contracts with Customers* ('the ED') with comments to be received by 22 October 2010.

Background

2 On 27 July 2010, EFRAG (the European Financial Reporting Advisory Group) published a draft comment letter for public comment ('the DCL'). The DCL welcomes the work being carried out by the IASB and the FASB. However, while EFRAG may agree with the IASB that the proposals in the ED have the potential of improving financial reporting in the area of revenue recognition, EFRAG believes that such improvement does not in itself justify the fundamental change made to the revenue recognition model. A change in the revenue recognition model may prove costly for both preparers and users of financial statements. EFRAG believes that these costs should be justified.

3 EFRAG therefore is undertaking an outreach programme to understand more clearly the impact of the proposals in the ED on specific industries.

Approach of this consultation

4 The approach adopted in this consultation is to interview constituents who will be affected by the proposals in the ED and ask them for their views about the operational implications of implementing the proposals. This paper includes a questionnaire that asks a number of broad questions on which we would like to have input from respondents during a telephone or face-to-face interview. Staff members from EFRAG will conduct the interviews.

5 The results of this consultation will be considered by EFRAG at its meeting in early October 2010. Although EFRAG TEG members will be provided with a list of constituents who participated, all information provided to EFRAG staff during this consultation will remain confidential and responses will be circulated in a summarised form. No response or comment will be attributed to any individual or entity.

6 The questionnaire included in the section below asks questions about the more significant proposals in the ED. However, should you have significant concerns about other areas covered by the ED, kindly include a note of these at the end of the questionnaire or raise your concerns during the interview with EFRAG staff.

Summary of the proposals in the ED

7 The ED is a result of a joint project of the IASB and the FASB, which aims to develop a fully converged revenue recognition standard based on a single set of principles for recognition and measurement that would be applied to revenue-generating activities in contracts with customers. The ED proposes a single principle-based revenue recognition model under which an entity recognises revenue as it transfers control over a promised good or service to a customer.

8 The ED proposes "price interdependency" as a principle for combining and segmenting contracts, and for accounting for contract modifications. Two or more contracts would be combined and thus accounted for together if their prices are *interdependent*. Conversely, if goods or services are priced *independently*, then a single contract would be segmented into individual contracts, which would be accounted for separately.

9 Within each contract, an entity would be required to identify performance obligations (i.e., goods and services that have been promised to the customer), which would be accounted for separately to the extent that they are "distinct" and are satisfied at different times. The goods or services are distinct if they are sold separately, i.e., they have a distinct function and a distinct profit margin.

10 The transaction price under the ED is determined as the *probability-weighted* amount of consideration that an entity expects to receive from a customer in exchange for transferring goods or services. The transaction price would be adjusted to reflect the customer's credit risk (i.e., collectability) and, if the contract includes a material financing component, the time value of money. In addition, if the transaction price includes a variable component, then such variable component would be reflected only to the extent that it can be reasonably estimated by reference to relevant experience.

11 The transaction price would be allocated to separate performance obligations based on their relative stand-alone selling prices. The allocated transaction price

would be recognised as revenue as the related performance obligations are satisfied by transfer of control over goods or services to the customer. Under the ED, the transfer of control may occur at a point in time or on a continuous basis.

12 Under the ED, the onerous test would be performed on a performance obligation level rather than on a contract level, thus a liability would be recognised if a performance obligation included in an overall profitable contract is onerous.

13 The ED also includes application guidance on issues such as rights of return, product warranties, licensing arrangements and sale and repurchase arrangements.

Questions to constituents

Impact on the current pattern of revenue recognition

1 Would the proposals in the ED significantly change the timing or amount of revenue that your company recognises?

If the proposals the ED are expected to change significantly the timing or amount of revenue that your company recognises, then please answer the questions below to provide the details of the expected changes.

2 If you are currently recognising revenue using the percentage of completion method, would the ED require your company to *stop* using it?

---

3 If you are currently recognising revenue at a single point in time when all criteria in IAS 18.14 are met, would the ED require your company to *start* recognising revenue *continuously*?

---

4 Would the proposals regarding *segmentation and combination of contracts or separation into performance obligations* change the timing or amount of revenue that your company recognises (e.g., transactions that are currently accounted for separately might need to be combined thereby changing the timing of revenue recognition)?

---

5 Would the amount of revenue that you company recognises change because of the way in which the ED requires the *transaction price* to be calculated? For example, the ED provides guidance on the following issues:

(a) Estimating the probability-weighted amount of revenue;

(b) Variable consideration;

(c) Adjusting both revenue received in advance and receivable in arrears for the time value of money if a contract includes a material financing component.

---

6 Please specify if there are any *other* proposals in the ED that may affect the timing or amount of revenue that your company recognises.

Implementation costs and timeline

7 Which systems – for example, information systems, internal controls or accounting and reporting systems – would be most affected by the proposals in the ED? How would you rate the amount of effort required to change those systems?

---

8 Please provide an estimate of the time required to implement the proposed changes.

---

9 Are there any another operational concerns or implementation issues that you would like to raise?

Overall view and any other matters

10 Overall, do you consider that the operational cost of implementing the proposals and the costs of ongoing application of the proposals outweigh the benefits? Please provide the basis for this assessment and a brief explanation to support your response.

---

11 Do you have any other comments you would like to make?

EFRAG
European Financial Reporting Advisory Group

European Financial Reporting Advisory Group

35 Square de Meeûs

1000 Brussels

Belgium

EFRAG Contacts for this project:

Project managers:

Rasmus Sommer: rasmus.sommer@efrag.org

Irina Ipatova irina.ipatova@efrag.org