IFRS Developments

Boards revisit disclosure, transition and effective date in the revenue project

Overview
The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) (collectively, the Boards) have substantially completed their joint re-deliberations of the proposed revenue recognition standard.

At their joint meeting in February 2013, the Boards reached tentative decisions about the transition method and effective date for the proposed standard. They also addressed several of the disclosures that were proposed in the November 2011 exposure draft (ED), including: the disaggregation of revenue; reconciliations of contract balances and capitalised contract costs; analyses of remaining performance obligations; and interim disclosure requirements.

The Boards plan to issue a new standard by the end of June 2013.

Tentative decisions

Effective date, early adoption and transition
The Boards tentatively decided that the proposed revenue standard will be effective for annual periods beginning on or after 1 January 2017. The significant delay between the issuance of the new standard in 2013 and the effective date is intended to provide entities with adequate time to prepare for the adoption of the new standard.

In a change from the ED, the IASB tentatively decided that early adoption will not be allowed for existing IFRS preparers. The FASB tentatively re-affirmed their decision not to permit early adoption of the new standard.

What you need to know
- The Boards tentatively agreed that the new standard will be applied to annual periods beginning on or after 1 January 2017.
- Entities will be allowed to apply the new standard either retrospectively or on a modified retrospective basis.
- The Boards tentatively decided to require narrative disclosures rather than tabular reconciliation of contract assets and liabilities and capitalised contract costs.
- The Boards have substantially completed their joint re-deliberations and anticipate issuing the new standard by the end of June 2013.
The new revenue standard will be effective for annual periods beginning on or after 1 January 2017.

The ED proposed retrospective application of the new revenue standard, with some practical expedients. The Boards tentatively agreed to allow either retrospective application, as proposed, or the following modified retrospective application:

- Entities will be required to present comparative information under legacy revenue requirements (i.e., IAS 11, IAS 18 and related interpretations) and the current period (period of initial application) under the new standard.
- Entities would apply the new revenue standard to new and existing contracts as at the effective date.
  - Entities would recognise a cumulative catch-up adjustment to the opening balance of retained earnings at the effective date for existing contracts (i.e., those that still require performance by the entity in the period of initial application as determined in accordance with the entity’s legacy revenue requirements).
  - Entities would disclose all line items in the current period as if they were prepared under the legacy revenue standard.

**How we see it**

We believe the Boards intend for listed entities to apply the new standard in the interim periods in the year of initial application. For example, a listed entity with a December year-end that reports bi-annually would be required to apply the new standard during the six months ended 30 June 2017.

The Boards hope entities will accumulate transition information on a real-time basis during the extended transition period.

**Disclosures – disaggregation of revenue**

The Boards had previously proposed in the ED that revenue be presented in suggested categories such as the type of good or service, the country or region, the type of customer and contract, the timing of transfer, the contract duration or the sales channel. These disclosures are intended to illustrate how economic factors affect the nature, amount, timing and uncertainty of revenue.

To address concerns raised by preparers and users of the financial statements, the Boards decided that an entity would be required to consider how management and market participants analyse revenue when determining the level of disaggregation to present, rather than presenting revenue based on the previously suggested categories. The Boards tentatively decided to include application guidance in the standard to help entities prepare these disclosures. The Boards also tentatively decided that entities would be required to discuss how their disaggregated revenue disclosures relate to their segment disclosures.

**Disclosures – reconciliations of contract balances and capitalised contract costs**

The Boards tentatively decided to require narrative explanations of changes in contract asset and liability balances rather than disclosures in the tabular format that they previously proposed in the ED. The Boards decided that the disclosure would include:

- Opening and closing balances of an entity’s contract assets, contract liabilities and trade receivables (if not disclosed elsewhere).
- An explanation of any unusual or non-recurring changes in the contract balances.
- Revenue recognised in the current period for performance obligations satisfied in previous periods.
- Revenue recognised in the current period that had been deferred in previous periods.
The Boards tentatively decided not to require reconciliations of costs to obtain or fulfil a contract. Instead, the Boards will require disclosure of certain quantitative and qualitative information about the costs to obtain or fulfil a contract such as:

- The nature and amount capitalised
- Closing balances
- The amount of amortisation recognised
- Significant accounting judgements, estimates and assumptions used to determine the amount capitalised
- The amortisation method

**Disclosures – remaining performance obligations**

The ED proposed that entities disclose a qualitative and quantitative analysis of an entity’s remaining performance obligations. Based on respondents’ comments, the Boards clarified that renewals would not be included in the determination of remaining performance obligations. Furthermore, an entity would not be precluded from disclosing contracts of less than twelve months in the analysis of remaining performance obligations. In addition, the transaction price disclosed would be the amount that would not be subject to a significant revenue reversal (i.e., the constrained amount).

The Boards tentatively re-affirmed their decision that entities would be required to disclose qualitative information about remaining performance obligations, including goods or services the entity has promised to transfer, when the entity typically satisfies its performance obligations, significant payment terms, obligations for rights of return, refunds and other similar obligations, and types of warranties and related obligations. The Boards also tentatively decided to require qualitative disclosure about significant accounting judgements, estimates and assumptions used when variable consideration is recognised (so as to explain how an entity determined the minimum amount of revenue that would not be subject to significant revenue reversal). In response to users’ requests, entities would also be required to disclose certain accounting policy elections related to the time value of money and contract costs.

The Boards also agreed to remove the disclosures for onerous performance obligations, consistent with their previous tentative decision to eliminate the onerous performance obligation requirement from the revenue standard.

**Disclosures: interim requirements**

In the ED, the Boards requested feedback on their proposal to amend IAS 34 *Interim Financial Reporting* and ASC 270 *Interim Reporting*, which specified that an entity would be required to include in its interim financial statements disclosures for the disaggregation of revenue, a reconciliation of contract balances, an analysis of remaining performance obligations, and assets recognised from the costs to obtain or fulfil contracts.

Several preparers raised concerns about the volume of proposed interim requirements. Some users shared these concerns, while other users noted that having the same disclosures in interim and annual financial statements would improve their analyses.

In a change from the ED, the IASB tentatively agreed to require entities to disclose only the disaggregation of revenue in their interim financial statements in addition to the existing requirements in IAS 34. In contrast, the FASB tentatively agreed to require entities to disclose in their interim financial statements the disaggregation of revenue, the balance of contract assets and contract liabilities with an explanation of unusual or non-recurring movements in those balances, and an analysis of the entity’s remaining performance obligations.

**How we see it**

The proposed requirements for IFRS reporters align more closely with existing interim reporting requirements. In contrast, the volume of required disclosures may significantly increase for entities applying US GAAP in their interim financial statements.

**What’s next**

The Boards have substantially completed their joint re-deliberations on the ED. The staffs will now spend several months drafting the final standard. The Boards will address any remaining sweep issues and analyse the costs and benefits of the final revenue standard over the next few months. The staffs anticipate that the new standard will be issued by the end of June 2013.
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EYG no. AU1446

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