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IFRS bulletin from PwC

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IASB and FASB to re-expose proposed revenue standard

What's new?

The IASB and FASB (the boards) have decided to re-expose the proposed revenue standard, pushing the expected timeline for issuing a final standard into 2012. The boards in their May and June meetings also reaffirmed that a retrospective application transition method would be required but that certain 'transition reliefs' would be provided to reduce the burden on preparers.

The boards discussed the effect of the proposed model on the telecommunications industry; the FASB separately deliberated whether to retain certain revenue guidance for rate-regulated entities and whether to exempt non-public entities from certain disclosure requirements. These decisions are tentative and subject to change.

What are the key decisions?

Re-exposure

The boards agreed that re-exposure will ensure a transparent process for this key project. The revised exposure draft will include questions that request feedback on the more significant changes from the June 2010 exposure draft. These questions are expected to address:

- Performance obligations satisfied over time (that is, service arrangements);
- Presentation of the effects of credit risk adjacent to revenue;

- The 'reasonably assured' constraint on revenue recognition; and
- Applying the onerous test.

The boards will also ask whether the requirements are presented clearly and whether it is operational. The exposure draft is expected to be released in August or September 2011 and will have a 120-day comment period.

Transition requirements

The boards tentatively decided that an entity could transition to the new standard using either full or 'limited' retrospective application. This would reduce the burden on preparers by:

- not requiring the restatement of contracts that begin and end within the same prior accounting period;
- allowing the use of hindsight in estimating variable consideration;
- not requiring the onerous test to be performed in comparative periods unless an onerous contract liability was recognised previously; and
- not requiring disclosure of the maturity analysis of remaining performance obligations in the first year of application.

Disclosure of a qualitative assessment of the likely effect of applying the reliefs is required.

Telecommunications industry

The boards discussed whether to modify the proposed standard for concerns raised by the telecommunications industry. These concerns relate to allocating the total transaction price between handsets and network services based on stand-alone selling price. The boards concluded that the revenue model should be applied consistently by all industries and did not revise their decisions for the concerns raised by the telecommunications industry.

Rate-regulated entities (FASB only)

The FASB decided that existing guidance in ASC 980, 'Regulated Operations', will be retained for the recognition of regulatory assets and liabilities from alternative revenue programmes.

Disclosure requirements for non-public entities (FASB only)

The FASB decided that non-public entities will be exempt from many of the proposed disclosure requirements. However, these entities will be required to disclose:

- disaggregated revenue;
- certain qualitative information; and
- information about judgements and the methods, inputs and assumptions used by the entity.

Who's affected?

The proposal will affect most entities that apply IFRS or US GAAP. 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 target date for issuing a final standard has been extended from December 2011 to September 2012. The exposure draft is expected in August or September 2011 and will have a 120-day comment period.