EUROPEAN FIELD-TEST OF THE IASB'S EXPOSURE DRAFT REVENUE FROM CONTRACTS WITH CUSTOMERS

UTILITIES

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EFRAG
European Financial Reporting Advisory Group

Preparation of the feedback statement

Summary of the input received from utility providers

This note summarises the input received from European utility providers' field-tests of the IASB's Exposure Draft *Revenue from Contracts with Customers* ('the ED'), published in November 2011.

This feedback statement has been prepared for the convenience of European constituents by EFRAG's secretariat. It has been reviewed by participants in the field-test.

About the field-test

Focus on application issues, the effect on financial statements and cost of applying the proposal

The purpose of the European field-test of the ED was to:

- identify potential implementation and application difficulties;
- assess the potential effect that the proposals could have on financial statements;
- estimate the effort required to implement and apply the proposals.

The field-test did not assess whether the requirements proposed in the ED represent an improvement to current accounting practice. The field-test only provides some input for such an assessment.

The participants in the field-test were asked to select some of their contracts, apply the requirements proposed in the ED on these contracts and report their findings at workshops.

All European entities expressing a wish to participate in the field-test were invited to participate. The entities participating in the field-test do therefore not constitute a representative sample of the entities that will be affected by the proposals. Similarly, the effects on financial statements assessed by the participants only reflect participants' assessments of the outcome of applying the ED's proposal to contracts relative to the accounting practices currently chosen for those contracts.

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Participating companies

Two companies participated in the field test

Two utility providers participated in the field-test.

The results of each company's tests were presented at a workshop held on 13 January 2012 by video-conference.

Results of the field-test – implementation and application

Members of the IASB staff were present at the workshop and provided explanations on many of the issues raised by participants. The issues listed below reflect implementation and application problems that were identified by participants before the additional explanations were provided.

Guidance on how to account for assets received

Participants were uncertain about how to recognise and measure assets received from customers

IFRIC 18 *Transfers of Assets form Customers* specifies in paragraph 11 that, if the entity concludes that the definition of an asset is met, it shall recognise the transferred asset as an item of property, plant and equipment, in accordance with paragraph 7 of IAS 16 *Property, Plant and Equipment*, and measure its cost on initial recognition at its fair value in accordance with paragraph 24 of IAS 16.

Participants noted that the ED would supersede IFRIC 18 and that the ED did not provide specific guidance on how to recognise and measure assets received from customers. Participants were therefore uncertain about how to recognise and measure assets received from customers under the ED.

Contract modifications

Participants considered it unclear whether delivery for a given period should be considered as one performance obligation or as a bundle of short-term performance obligations

Paragraph 21 of the ED specifies that an entity shall account for a contract modification as a separate contract if the contract modification results in the addition to the contract of both of the following:

- promised goods or services that are distinct; and
- an entity's right to receive an amount of consideration that reflects the entity's stand-alone selling price of the promised good(s) or service(s) and any appropriate adjustments to that

price to reflect the circumstances of the particular contract.

For a contract modification that is not a separate contract in accordance with paragraph 21, paragraph 22 of the ED specifies that an entity shall evaluate the remaining goods or services in the modified contract. How an entity shall account for the modification then depends on whether the remaining goods or services are distinct from the goods or services transferred on, or before, the date of the contract modification.

Participants considered a scenario where the entity would prospectively increase its prices of utilities. Participants were uncertain as to how the delivery of utilities for a given period should be considered. On the one hand, participants thought that the delivery of utilities for a contracted period could be considered as one integrated performance obligation that was only partially satisfied at the date of a price change. On the other hand, participants also thought that the contract could be considered as a collection of many short-term distinct services, in which case the remaining deliveries would be distinct from the utilities already delivered.

Disclosures

Participants were uncertain about what disclosures would be relevant when the entity did not have any work-in-progress

The ED states that the objective of the disclosure requirements included in the ED is to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The ED includes a list of specific disclosure requirements.

A participant understood that the general materiality threshold, as stated in paragraph 31 of IAS 1 *Presentation of Financial Statements,* would apply when considering what disclosures to provide. However, the participant was unsure about what information would be relevant to provide when an entity did not have any work-in-progress. The participant was particularly unsure about what information to present in the reconciliation of contract balances required by the ED.

Results of the field-test – impact on financial statements

The ED would change how credit risk is presented

The test identified that the proposal would affect how the participants present the effects of credit risk. The ED would require this effect to be presented in profit or loss, as a separate line item adjacent to the revenue line item. None of the participants currently presented credit risk in that manner.

Results of the field-test – Costs

A participant assessed that complying with the disclosure requirements would be costly

A participant in the field-test considered that it would be costly to identify what information would not be material and where the entity would therefore not have to provide the required disclosures.