Staff paper

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IASB® meeting

Date	**September 2023**
Project	**Second Comprehensive Review of the *IFRS for SMEs®* Accounting Standard**
Topic	**Proposed revised Section 23 *Revenue from Contracts with Customers*—Findings from fieldwork**
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Purpose of the paper

1. This paper discusses the findings from the fieldwork on the requirements for revenue proposed by the International Accounting Standards Board (IASB) in its Exposure Draft *Third edition of the* IFRS for SMEs *Accounting Standard* (Exposure Draft). The fieldwork focused on the judgements that an SME would be required to make when applying Section 23 *Revenue from Contracts with Customers* of the Exposure Draft. The methodology used for the fieldwork is described in Agenda Paper 30D *Proposed revised Section 23—Fieldwork methodology* of this meeting.

2. This paper is provided for information only; the IASB is not asked to make any decisions.

Structure of the paper

3. This paper is structured as follows:

   (a) terminology used (paragraphs 4–8);

   (b) overall findings from the fieldwork (paragraphs 9–17);

(c) SMEIG discussion (paragraphs 19–21);

(d) staff analysis (paragraphs 22–43);

(e) next steps (paragraph 44);

(f) question for the IASB; and

(g) Appendix—Findings from fieldwork.

Terminology used

4. In this paper, the term SMEs refers to entities that are eligible to apply the *IFRS for SMEs* Accounting Standard or local accounting requirements based on the *IFRS for SMEs* Accounting Standard.

5. This paper uses the following terms to give a broad indication of participants' views:

Term	Extent of response among participants
Almost all	all except a very small minority
Most	a large majority, with more than a few exceptions
Many	a small majority or large minority
Some	a small minority, but more than a few
A few	a very small minority

6. The staff also assessed whether comments appeared to be concentrated in specific geographical areas or among particular types of participants.

7. The fieldwork sample is a convenience sample and is not representative of the population of SMEs.

8. The findings from the fieldwork are discussed for two subgroups of participants:

   (a) participants able to make the judgements required to apply the proposed revised Section 23 and participants unable to make the judgements; and

   (b) participants familiar with IFRS 15 *Revenue from Contracts with Customers* and participants unfamiliar with IFRS 15.[1]

Overall findings from the fieldwork

9. Most participants were able to make most of the judgements required to apply the proposed revised Section 23 in the Exposure Draft.

10. Participants' ability to make the judgements differed depending on whether they were familiar with IFRS 15 or not. In general, most participants who were unable to make the judgements were unfamiliar with IFRS 15. Of the participants who were unfamiliar with IFRS 15, there were equal numbers that:

    (a) were able to make most of the judgements required to apply the proposed revised Section 23; and.

    (b) were unable to make many or most of the judgement required to apply the proposed revised Section 23.

11. Participants were generally unable to make a judgement for one of the following reasons:

    (a) the information needed to make the judgement could not be obtained from the participants' clients. This was mostly because the information is not documented by the client (for example, information about contract modifications described in paragraph A55 of this paper).

[1] Participants were identified as being either familiar or unfamiliar with IFRS 15 *Revenue from Contracts with Customers* based on their experience of full IFRS Accounting Standards. See paragraphs A19–A20 of Agenda Paper 30D *Proposed revised Section 23—Fieldwork methodology* of this meeting for more details.

(b) the requirements in proposed revised Section 23 about the judgement are unclear (for example, the requirements for costs of fulfilling a contract described in paragraph A117 of this paper).

(c) the amount of judgement needed to apply the proposed requirements is too great (for example, the requirements for customers' unexercised rights (breakage) described in paragraph A121 of this paper).

12. For the requirements about the judgements in proposed revised Section 23, participants identified:

(a) aspects of the drafting that could be clearer;

(b) areas where more guidance could be provided;

(c) possible simplifications.

13. Participants also identified characteristics of SMEs that make it difficult to make the judgements in the proposed revised Section 23. In some instances, the characteristics were identified as specific to SMEs in particular jurisdictions or industries.

14. Participants' comments described the extent to which proposed requirements were:

(a) relevant to SMEs and their contracts with customers; and

(b) expected to change SMEs' current revenue recognition policies.

15. Some participants unfamiliar with IFRS 15 did not understand the rationale of some of the proposed requirements.

16. Some participants thought the proposed revised Section 23 would be inappropriate for SMEs. Most of these participants suggested that the Section could be made more appropriate by providing educational materials, however, many of these participants suggested the IASB leave the current Section 23 unchanged.

17. Some participants had concerns that the language used in the proposed revised Section 23 was complex. A few participants had concerns that the Section's length was too long. A few participants also had concerns that differences between their

jurisdiction's tax laws and regulations for the measurement of income and the requirements in the Section would introduce complexity for SMEs.

18. The detailed findings from the fieldwork are included in the Appendix to this paper.

SMEIG discussion

19. The SME Implementation Group (SMEIG) met on 13 July 2023 to discuss the findings from the fieldwork. SMEIG members said the findings were consistent with their expectations.

20. One SMEIG member said the findings illustrate the significant learning process that will be required of SMEs implementing the proposed revised Section 23. The member said educational materials would be needed to help SMEs with this process.

21. One SMEIG member commented on participants being unable to make the judgements required to apply the proposed revised Section 23 because the necessary information could not be obtained from the participant's clients (see paragraph 11(a) of this paper). The member said that entities implementing IFRS 15 experienced similar challenges and had to make changes to their processes and systems to provide the necessary information to apply the Standard.

Staff analysis

22. The staff analysis considers the findings from the fieldwork in relation to other feedback on the proposed revised Section 23, and aspects of the proposals that were focused on by participants. It also discusses possible approaches to address the issues identified by participants.

23. Further analysis of the findings will be presented during the IASB's redeliberation of the proposed revised Section 23.

Different experiences and perspectives

24. The *IFRS for SMEs* Accounting Standard is a stand-alone, self-contained standard. Entities do not need to be familiar with full IFRS Accounting Standards to apply the *IFRS for SMEs* Accounting Standard. Consequently, most preparers of SMEs' financial statements are expected to be unfamiliar with full IFRS Accounting Standards.

25. The fieldwork provides feedback from accounting practitioners with no or limited experience of full IFRS Accounting Standards, which is considered typical of those applying the *IFRS for SMEs* Accounting Standard. This contrasts with the feedback from comment letters on the Exposure Draft, where most respondents' comments indicate they are familiar with full IFRS Accounting Standards.

Participants' familiarity with IFRS 15

26. The proposed revised Section 23 introduces a new revenue recognition model based on the principles and language in IFRS 15. It is therefore unsurprising that participants familiar with IFRS 15 were more likely to be able to make the judgements required to apply the proposed revised Section 23 compared with participants unfamiliar with IFRS 15, with limited exceptions.

27. The exceptions noted in paragraph 26 of this paper relate to the judgements made when combining contracts, and accounting for warranties and financing transactions. The requirements in IFRS 15 for warranties and financing transactions were simplified for SMEs in the proposed revised Section 23 and are therefore different from IFRS 15.

28. The findings suggest the differences between the requirements in IFRS 15 and the requirements in the proposed revised Section 23 for warranties and financing transactions could make applying the requirements in the proposed Section 23:

    (a) easier for practitioners unfamiliar with IFRS 15; and

    (b) more difficult for practitioners familiar with IFRS 15.

29. SMEIG members discussed the consequences of differences between the requirements in IFRS 15 and those in the proposed revised Section 23. Similar to the consequence for practitioners familiar with IFRS 15 described in paragraph 28(b) of this paper, some SMEIG members said simplifying the requirements of IFRS 15 in the *IFRS for SMEs* Accounting Standard makes it more difficult for preparers familiar with IFRS 15 to determine the differences between both standards.

Practical challenges and effects

30. The findings from the fieldwork are generally focused on the practical challenges and effects of the proposed revised Section 23. This includes how the requirements and terminology in the Section will be interpreted and applied by practitioners and their clients. This contrasts with the feedback from comment letter respondents, which generally relates to the simplifications proposed to the requirements of IFRS 15 and the extent of alignment with those requirements.

31. The findings from the fieldwork identify the level of change for practitioners and their clients of implementing a new revenue recognition model, and the knowledge required to do so. This learning process will be greater for practitioners unfamiliar with IFRS 15.

32. When considering the judgements required to apply the proposed revised Section 23, participants often focused on:

    (a) what new information would need to be requested from clients; and

    (b) what input would be needed from clients to make the judgements.

33. This reflects practitioners' involvement in preparing clients' financial statements, which is typically periodic and done without access to the same information that would be available to the practitioner if they were an employee of the client.

34. Practitioners' involvement in preparing clients' financial statements was also reflected in participants' comments on sales ledger entries and period end adjustments. At the end of the reporting period, figures from clients' sales ledgers are adjusted so the total amount of revenue is accounted for in accordance with Section 23. Clients typically maintain their own sales ledgers during the reporting period. Therefore, practitioners often focused on how this process would affect how the proposed revised Section 23 is understood and applied by SMEs, for example:

    (a) instances when a client would be required to recognise receivables before the related invoices are recorded on their sales ledger (see paragraph A37 of this paper); and

    (b) the adjustments needed to account for options for additional goods or services if a client does not account for these options during the reporting period (see paragraph A67 of this paper).

Extent of change

35. The fieldwork findings indicate whether the proposals are expected to change SMEs' current revenue recognition policies. Some characteristics of SME reporting mean that the extent of change is expected to be limited. For example, paragraph A75 of this paper explains that the amount of consideration received by an SME might be known by the time their financial statements are prepared. Consequently, one participant expected that an SME's estimates of variable consideration would be based on the actual amount of consideration received.

36. The findings do not cover potential changes in the amount and timing of revenue recognised. This is because participants were not asked to assess how the requirements in the proposed revised Section 23 would apply to actual contracts.

Areas of common concern

37. Although fieldwork participants' comments raised different issues compared with those raised by respondents to the Exposure Draft, there were some general areas of common concern. These included:

    (a) the length of the proposed revised Section 23 (see paragraph A139 of this paper); and

    (b) the need for education material on the proposed revised Section 23.

38. The fieldwork participants' comments identified different roles that the education material should fulfil. These included making the requirements more understandable and providing guidance about how to apply the requirements (see paragraphs A131–A132 of this paper).

Addressing identified issues

39. The staff will consider the findings from the fieldwork during the IASB's redeliberation of the proposed revised Section 23. This will include how to address the difficulties and suggested changes in paragraphs 11–12 of this paper. Paragraphs 40–42 of this paper provide an overview of the possible approaches to addressing those difficulties.

Information could not be obtained from the client

40. The staff will consider whether the costs of obtaining the information needed to make the judgements (for example, system changes) are justified by the benefits for SMEs and users of their financial statements from the improvement to financial reporting applying the proposed revised Section 23. The staff will also consider any further benefits to SMEs of obtaining the information, for example, better knowledge of

contracts and improved internal controls. Similar benefits were identified during phase 1 of the post-implementation review of IFRS 15.[2]

Requirements are unclear

41. The staff will consider if the understandability of the requirements in the proposed revised Section 23 can be improved, for example, whether the requirements can be expressed in simpler, more concise language. The staff will also examine the consequences of SMEs misinterpreting the requirements, and whether in such circumstances the recognition of revenue would not faithfully represent the underlying economics of the contract.

Level of judgement is too great

42. The staff will consider if the level of judgement can be reduced, by simplifying the requirement, or made easier, by providing guidance on making the judgement. This will include considering how SMEs would account for the topic if it was not covered in the proposed revised Section 23 (that is, omitted from the *IFRS for SMEs* Accounting Standard), and whether the recognition of revenue would faithfully represent the underlying economics of the contract.

43. In addition to the considerations outlined in paragraphs 40–42 of this paper, the staff will consider if the difficulties are challenges of initially applying the proposed revised Section 23 that SMEs would be expected to overcome as they become more familiar with the new requirements.

[2] See paragraph 11 of *Request for Information* Post-implementation Review of IFRS 15 *Revenue from Contracts with Customers*.

Next steps

44. At its future meetings, the IASB will be asked to discuss:

    (a) the overall approach to aligning Section 23 of the *IFRS for SMEs* Accounting Standard with IFRS 15 (that is, whether and how to proceed with the proposal in the Exposure Draft); and

    (b) possible changes to the proposed revised Section 23 arising from topics that need to be redeliberated.

    Further analysis of the findings from the fieldwork will be included in the papers on both areas.

Question for the IASB

Question for the IASB
Do IASB members have any views, comments, or questions on the findings discussed in this paper?

Appendix—Findings from fieldwork

A1. This appendix sets out the findings from the fieldwork on the proposed revised Section 23.

A2. The findings are based on questionnaire responses from 31 participants and discussions with 24 participants. The participants were accounting practitioners involved in the preparation of SMEs' financial statements who were familiar with the *IFRS for SMEs* Accounting Standard or local requirements based on the *IFRS for SMEs* Accounting Standard. They were from 26 organisations in 12 jurisdictions and had clients that operated in a variety of industrial sectors.

A3. The questionnaire focused on the judgements that an SME would be required to make when applying the proposed revised Section 23. Participants were asked if they were able to make each judgement for the types of contracts commonly entered into by their clients and that relate to their client's main sources of revenue.

A4. The questionnaire and an overview of the participants is provided in Appendices A–B of Agenda Paper 30D of this meeting.

A5. The findings are discussed based on the structure of the questionnaire as follows:

(c) common areas of judgement, Part 2 of the questionnaire (paragraphs A6–A40);

(d) other areas of judgement, Part 3 of the questionnaire (paragraphs A41–A126);

(e) general comments about the judgements in Parts 2 and 3 of the questionnaire (paragraphs A127–A132);

(f) other comments, Part 4 of the questionnaire (paragraphs A133–A143).

Common areas of judgement

A6. Part 2 of the questionnaire asked about the judgements made by an entity when accounting for revenue from any contract with a customer. Participants were asked if they would be able to make the judgements for contracts that are commonly entered into by their clients and relate to the client's main sources of revenue.

A7. Some participants answered Part 2 of the questionnaire based on whether their clients would be able to make the judgement, rather than whether they are able to make the judgement themselves. This depended on the participant's role in the preparation of SMEs' financial statements (for example, if the participant prepares financial statements on behalf of SMEs, provides assurance on SMEs' financial statements, or both). When participants were assessing their clients' ability to make the judgement, this is noted.

Overall findings

A8. Most participants were able to make all, or all but one, of the six judgements in Part 2 of the questionnaire.

A9. Most participants who were able to make all, or all but one, of the judgements in Part 2 of the questionnaire were familiar with IFRS 15. Some of these participants thought they would still be able to make the judgements if they were unfamiliar with IFRS 15 because the proposed revised Section 23 is easier to apply than IFRS 15 as a result of the simplifications proposed to the requirements of IFRS 15.

A10. Many participants who were able to make all, or all but one, of the judgements in Part 2 of the questionnaire said this was because SMEs have simple contracts with customers. However, most of these participants acknowledged that SMEs could have contracts with customers that contain complex terms and conditions that make the judgements more complicated.

A11. Some participants who were able to make all, or all but one, of the judgements in Part 2 of the questionnaire said this was because the requirements in the proposed revised Section 23 are clear and understandable.

A12. Some participants were unable to make many or most of the judgements in Part 2 of the questionnaire. Most of these participants were unfamiliar with IFRS 15.

A13. Of the participants who were unfamiliar with IFRS 15, there were equal numbers that:

(a) were able to make all, or all but one, of the judgements; and

(b) were unable to make many or most of the judgements.

A14. Paragraphs A15–A40 of this paper provide an overview of comments received on each judgement in Part 2 of questionnaire.

Identifying promises in a contract

A15. Most participants were able to identify the promises in a contract. Of the participants who were unable to make the judgement, most were unfamiliar with IFRS 15.

A16. Among participants who were unfamiliar with IFRS 15, most were able to make the judgement.

A17. Participants' comments on the identification of promises in a contract mostly focused on the information needed to do so. Some participants said identifying promises in a contract could be difficult because the contract may be oral or implied by an SME's customary business practices. One participant said the judgement could be difficult due to the lack of detail in SMEs' written contracts.

A18. Participants also commented on whether identifying promises in a contract would be a change to how SMEs recognise revenue currently. One participant explained the judgement was similar to separating sales invoices into different components, which is done by SMEs to help them make management decisions. However, one participant said separately identifying incidental goods and services that are provided to customers for free would be a significant change to current practice.

A19. One participant said their clients would find the term 'promise', used in the proposed revised Section 23 to identify the unit of account for goods and services promised in a contract, more understandable than the term 'performance obligation' used in IFRS 15.

Allocating the transaction price to promises in a contract

A20. Most participants were able to allocate the transaction price to the promises in a contract. Of the participants who were unable to make the judgement, most were unfamiliar with IFRS 15.

A21. Among participants who were unfamiliar with IFRS 15, there were comparable numbers who were able to make the judgement and who were unable to make the judgement.

A22. A few participants suggested restricting the instances when an SME is required to allocate the transaction price to the promises in the contract, for example, not requiring allocation when the contract is less than 12 months.

A23. One participant explained that, compared with entities that apply IFRS 15, SMEs are less likely to sell goods and services separately that are usually sold together. Therefore, SMEs are less likely to be able to directly observe the stand-alone selling price of those goods or services which will make it more difficult for them to determine this price.

Determining if a promise is satisfied over time or at a point in time

A24. Most participants were able to determine if a promise is satisfied over time or at a point in time. All participants who were unable to make the judgement were unfamiliar with IFRS 15.

A25. Of the participants who were unfamiliar with IFRS 15, most were able to make the judgement.

A26. Participants who raised concerns about determining if a promise is satisfied over time or at a point in time were unfamiliar with IFRS 15.

A27. A few participants suggested that the proposed requirements about the judgement make it clear that the timing of when an entity invoices the customer, or receives consideration from the customer, does not determine if a promise is satisfied over time or at a point in time. One participant explained that as these activities prompt entries on an SME's sales ledger, they are likely to be considered by the SME when making the judgement.

A28. A few participants found the example of 'routine or recurring services' as a promise satisfied over time in paragraph 23.78 of the proposed revised Section 23 confusing.

The participants explained that services that are performed periodically could be satisfied at a point in time.

Determining the point in time a promise is satisfied

A29. All but one participant was able to determine the point in time at which a promise is satisfied.

A30. A few participants described how the requirements about determining the point in time at which a promise is satisfied could be difficult for SMEs to understand and apply. These participants were familiar with IFRS 15. Difficulties—each noted by one participant—included:

(a) understanding that a contract with a customer which contains promises that are satisfied at different points in time, and therefore can be partially complete; and

(b) waiting until the SME receives the customer's acceptance before being able to conclude that the customer has obtained control of a good or service, in circumstances in which a contract includes a customer acceptance clause and transfer of control cannot be objectively determined (see paragraph 23.87 of the proposed revised Section 23).

Measuring progress towards complete satisfaction of a promise

A31. Most participants were able to select a method of measuring progress that depicts an entity's performance in satisfying a promise. Of the participants who were unable to make the judgement, most were unfamiliar with IFRS 15.

A32. Among participants who were unfamiliar with IFRS 15, most were able to make the judgement.

A33. A few participants who were unfamiliar with IFRS 15 said that the proposed requirements should clarify that recognising revenue based on when an entity invoices a customer is not necessarily an appropriate method of measuring progress. The participants explained that recognising revenue when an entity invoices a customer is common practice for many SMEs.

A34. A few participants expected that SMEs would measure progress using input methods instead of output methods because:

(a) inputs can be measured more reliably than outputs; and

(b) input methods are consistent with the methods recommended by the tax authority in their jurisdiction for determining taxable income.

Distinguishing between a contract asset and a receivable

A35. Most participants were able to distinguish between a contract asset and a receivable. Of the participants who were unable to make the judgement, most were unfamiliar with IFRS 15.

A36. Among participants who were unfamiliar with IFRS 15, there were comparable numbers who were able to make the judgement and who were unable to make the judgement.

A37. All participants who commented on distinguishing between a contract asset and a receivable said the requirements about the judgement should be clearer. Most participants said more guidance is needed on identifying circumstances when a right to consideration is conditional and gives rise to a contract asset. One participant explained that SMEs typically recognise receivables solely based on the consideration invoiced but unpaid at the reporting date. They suggested that guidance should explain when amounts should be excluded or included from this balance and presented as a contract asset.

A38. In addition to circumstances when a right to consideration is conditional, the following areas—each noted by one participant—were identified as unclear:

(a) whether the distinction between a contract asset or receivable should be made for each promise in a contract or the contract as a whole;

(b) the purpose of the requirement to exclude any amounts presented as a receivable when recognising a contract asset (see paragraph 23.116 of the proposed revised Section 23); and

(c) the effect the requirement to present contract assets and receivables separately has on the information in the financial statements (see paragraph 23.118 of the proposed revised Section 23).

Contract liabilities

A39. The requirements about contract assets and receivables in the proposed revised Section 23 also cover contract liabilities.

A40. No question was included in Part 2 of the questionnaire about contract liabilities. However, one participant said SMEs may be unaware that a contract liability should be recognised when consideration is due from a customer, but not yet received, before the SME has transferred the goods or services to the customer. They explained that because the SME has yet to perform and receive any consideration from the customer, the transaction will be intangible in nature and therefore difficult to identify.

Other areas of judgement

A41. Part 3 of the questionnaire asked about judgements made by an entity when accounting for revenue from contracts that contain specific features. Participants were asked whether they would be able to make the judgements for contracts that are commonly entered into by their clients and relate to the client's main sources of revenue, where the feature is material to such contracts.

A42. Consistent with Part 2, some participants answered Part 3 of the questionnaire based on whether their clients would be able to make the judgement, rather than whether they would be able to make the judgement themselves. This depended on the participant's role in the preparation of SMEs' financial statements (for example, if the participant prepares financial statements on behalf of SMEs, provides assurance on

SMEs' financial statements, or both). When participants are assessing their clients' ability to make the judgement, this is noted.

Overall findings

A43. Most participants were able to make all or most of the judgements in Part 3 of questionnaire. Most of these participants were familiar with IFRS 15.

A44. Some participants were unable to make many or most of the judgements in Part 3 of the questionnaire. Most of these participants were unfamiliar with IFRS 15.

A45. Among participants who were unfamiliar with IFRS 15, there were comparable numbers that:

(a) were able to make all or most of the judgements; and;

(b) were unable to make many or most of the judgements.

A46. The judgements in Part 3 of the questionnaire apply to certain types of contracts and are relevant to SMEs depending on the nature of their operations and activities. Consequently, participants typically did not give an overall view about whether they would be able to make all the judgements in Part 3 of questionnaire, unlike those in Part 2. Each judgement was commented on by most participants.

A47. Paragraphs A48–A126 of this paper provide an overview of comments received on each judgement in Part 3 of the questionnaire. It is based on the views of participants who commented on each judgement. To give a broad indication of participants' views, we have excluded participants who did not comment from the total participants when using the terms in paragraph 5 of this paper.

Combination of contracts

A48. Most participants were able to determine whether to combine two or more contracts and account for them as a single contract. In contrast to other judgements, most participants who were unable to make the judgement were familiar with IFRS 15.

A49. Among participants who were unfamiliar with IFRS 15, most were able to make the judgement.

A50. One participant said the criterion in paragraph 23.12(a) of the proposed revised Section 23 was difficult to understand. The criterion specifies that contracts negotiated as a package with a single commercial objective shall be combined.

A51. One participant who was unfamiliar with IFRS 15 said they did not understand the difference between whether an entity accounts for two or more contracts separately or accounts for them as a single contract. The participant considered it unnecessary for SMEs to combine contracts.

Contract modifications

A52. Most participants were able to identify how to account for a contract modification. Of the participants who were unable to make the judgement, most were unfamiliar with IFRS 15.

A53. Among participants who were unfamiliar with IFRS 15, there were comparable numbers who were able to make the judgement and who were unable make the judgement.

A54. Many participants who were unable to identify how to account for a contract modification said the requirements about the judgement were unclear and difficult to understand. The participants were unfamiliar with IFRS 15. Suggestions—each made by one participant—of how to make the requirements more understandable included:

(a) expressing the requirements in relation to whether the modification results in the customer receiving something different or similar to the goods or services promised in the existing contract; and

(b) expressing the requirements as a change in accounting estimate.

A55. Some participants who were unable to identify how to account for a contract modification said that the information needed to make the judgement would not be available from their clients because:

(a) the information relates to contracts that would be completed by the time the clients' financial statements are prepared and so the information might not be retained by the client;

(b) their clients' contracts with customers are less formal compared with entities that apply IFRS 15; and

(c) their clients operate in industries and economies where contract modifications occur frequently, making it impractical to record information about each contract modification.

A56. In contrast to the views of participants in paragraph A55 of this paper, one participant said the information needed from their clients to identify how to account for a contract modification would be available because of the significant nature of such changes.

Warranties

A57. Most participants were able to identify if a warranty should be accounted for as a separate promise or not. In contrast to other judgements, most participants who were unable to make the judgement were familiar with IFRS 15.

A58. Among participants who were unfamiliar with IFRS 15, most were able to make the judgement.

A59. Many of the participants who were unable to identify if a warranty should be accounted for as a separate promise said the information needed to make the judgement would not be available because the terms of the warranties provided by their clients are often not documented. The participants explained that activities which result in a warranty being provided are performed informally as part of SMEs' customary business practice, and therefore it would be difficult to identify and account for these activities.

A60. Some participants commented on circumstances where warranties are provided by SMEs and the nature of these warranties. Comments—each made by one or two participants—included:

(a) SMEs often act as agents of the manufacturer when selling warranties to customers. In such instances, the SME has no further obligation to the customers in respect of the warranty.

(b) warranties provided by SMEs are often statutory warranties required by the law.

(c) the risks associated with warranties mean that warranties provided by SMEs often:

(i) have short coverage periods; and

(ii) only provide assurance that products comply with agreed-upon specifications.

A61. Paragraph 23.28 of the proposed revised Section 23 permits an SME to account for a warranty that provides a customer with both a service and the assurance that the product complies with agreed-upon specifications as single promise if the SME cannot reasonably account for these components separately. A few participants said they would expect SMEs to use this exemption.

Non-refundable upfront fees

A62. All but one participant was able to determine whether a non-refundable fee relates to the transfer of a good or service to the customer.

A63. A few participants questioned whether a non-refundable upfront fee that does not relate to the transfer of goods or services to the customer is an advance payment. One participant commented on the interaction between the requirements for upfront fees and financing transactions.

Customer options for additional goods or services and renewal options

A64. Most participants were able to determine whether and how to account for customer options. Of the participants who were unable to make the judgements, most were unfamiliar with IFRS 15.

A65. Among participants who were unfamiliar with IFRS 15, many were able to make the judgement.

A66. The questionnaire asked about the judgements required to determine whether, and how, to account for customer options for:

(a) additional goods or services; and

(b) renewal options.

Almost all participants' comments were about customer options for additional goods or services rather than renewal options. Most participants' comments focused on the judgements required to determine how to account for these options, rather than whether they should be accounted for.

A67. Some participants said the judgements required to account for a customer option that provides a material right to a customer as a separate promise were too difficult for SMEs. All these participants were unfamiliar with IFRS 15. One participant explained that if these options were not accounted for by an SME during the reporting period, the adjustment needed to reflect the options at the end of the reporting period could be unduly complex.

A68. Some participants commented that SMEs would need systems that capture information about customer options to account for them in accordance with the proposed revised Section 23. Many of these participants noted that SMEs typically do not have systems that capture information about customer options if:

(a) customers are not expected to return and exercise the options; or

(b) the options are immaterial and relate to a large volume of contracts.

A69. A few participants suggested ways of simplifying how to account for customer options for additional goods or services. Suggestions—each made by one participant—included:

(a) requiring SMEs to account for a customer option that provides a material right to a customer as a separate promise if the information necessary to do so can be obtained without undue cost or effort (that is, introduce an undue cost or effort exemption); and

(b) providing criteria that an option would need to meet for it to be accounted for as a separate promise.

Principal versus agent

A70. All participants were able to identify if an SME is a principal or an agent.

A71. One participant said the requirements in the proposed revised Section 23 for identifying if an SME is a principal or an agent were easier to apply than those in the current Section 23.

A72. One participant who was familiar with IFRS 15 had concerns about the reference to inventory risk in the explanation of circumstances that would result in an SME acting as a principal in paragraph 23.38(b) of the proposed revised Section 23. The participant suggested that it should be clear that:

(a) inventory risk is an indicator that an SME may meet the circumstance described in paragraph 23.38(b) of the proposed revised Section 23, not a determining factor; and

(b) physical possession of inventory does not necessarily result in an SME having inventory risk.

Variable consideration

A73. Most participants were able to estimate the variable consideration to include in the transaction price. Of the participants who were unable to make the judgement, almost all were unfamiliar with IFRS 15.

A74. Most participants who were unfamiliar with IFRS 15 were unable to make the judgement.

A75. Some participants said their clients would find it difficult to estimate variable consideration because it involves significant judgement and complex calculations. A few participants commented that by requiring SMEs to estimate variable consideration, the revenue recognised for a contract and actual consideration received may differ. These participants considered that requiring SMEs to recognise revenue using actual figures is preferable to requiring them to recognise revenue using estimates. One participant expected that variable consideration would be received (or receivable) by the time their clients' financial statements are prepared, which would make it easy to estimate variable consideration.

A76. Some participants noted common types of variable consideration that occur in contracts between SMEs and their customers. All these participants mentioned prompt payment discounts.

Refunds

A77. The questionnaire asked participants whether they would be able to make the following judgements when accounting for refunds:

(a) determining when to recognise a refund liability and how to estimate the liability; and

(b) identifying how to account for products sold with a right of return.

A78. Most participants were able to make the judgements in paragraph A77 of this paper. Of the participants who were unable to make the judgements, most were unfamiliar with IFRS 15.

A79. Among participants who were unfamiliar with IFRS 15, many were able to make the judgements.

A80. Some participants said that estimating a refund liability would be difficult because it involves significant judgement. One of these participants said the information needed from their clients to make this estimate would not be available.

A81. One participant suggested simplifying the accounting for refunds by only requiring SMEs to recognise a refund liability if the terms for a refund exceed those required by the law (that is, the customer's rights exceed the minimum statutory refund rights).

A82. A few participants said that refunds to customers are uncommon amongst their clients. One participant noted that typically refunds occur only if the good or service provided to the customer is defective.

A83. Participants expressed different views about how SMEs account for refunds currently. One participant said their clients recognise a refund liability based on the amount of consideration that is received at the reporting date and refunded to customer after that date (that is, provide for actual returns only). Another participant said their clients recognise refunds only when they occur.

Financing transactions

A84. Most participants were able to determine whether a promised amount of consideration should be adjusted for the time value of money. In contrast to other judgements, most participants who were unable to make the judgement were familiar with IFRS 15.

A85. Among participants who were unfamiliar with IFRS 15, most were able to make the judgement.

A86. Some participants said the requirements about when a promised amount of consideration should be adjusted for the time value of money could be clearer. The following areas—each noted by one participant—were identified as unclear:

(a) whether variable consideration should be adjusted for the time value of money;

(b) the interaction between:

  (i) the assessment of whether payment is deferred beyond normal business terms; and

  (ii) the exemption in paragraph 23.59 of the proposed revised Section 23 (making no adjustment for the time value of money when payment is expected to be deferred by one year or less); and

(c) how to determine the discount rate for adjusting the promised amount of consideration for the time value of money.

A87. Participants expressed different views about the exemption in paragraph 23.59 of the proposed revised Section 23. One participant suggested that the exemption should be mandatory to reduce the level of judgement needed to apply the proposed revised Section 23. Another participant said the exemption should be amended so the time period specified for SMEs in jurisdictions where inflation is high is less than one year.

A88. Participants also expressed differing views about when their clients adjust promised amounts of consideration for the time value of money currently. A few participants said their clients adjust when payment exceeds a specified time period, whilst another participant said their clients adjust when a customer exceeds the contractual payment terms. A few participants explained that SMEs often consider adjustments for the time value of money to be complicated and costly, and therefore generally avoid making such adjustments.

Advance payments

A89. Requirements about adjusting advance payments for the time value of money are not included in the proposed revised Section 23.

A90. A few participants said that SMEs receive advance payments from customers. One participant explained that advance payments typically occur when SMEs offer discounts to customers who pay in advance. Another participant said any adjustments for the time value of money associated with advance payments would not materially change the amount of revenue recognised by their clients.

Non-cash consideration

A91. Most participants were able to measure non-cash consideration received from a customer in exchange for a good or service. Most participants who were unable to make the judgement were unfamiliar with IFRS 15.

A92. Among participants who were unfamiliar with IFRS 15, there were equal numbers that were able to make the judgement and who were unable to make the judgement.

A93. Many participants who were unable to measure non-cash consideration said this was because it involves significant judgement.

A94. Paragraph 23.60 of the proposed revised Section 23 permits an SME to measure non-cash consideration by reference to the price of the goods or services sold if the fair value of the consideration cannot be reasonably estimated. One participant commented that SMEs are typically required to measure items at fair value only if a reliable measure of fair value is available without undue cost or effort. The participant said the requirements for measuring non-cash consideration would be easier to understand if the requirement to measure non-cash consideration by reference to the price of goods or services sold was expressed in these terms (that is, as an undue cost or effort exemption).

A95. Some participants' comments indicated that they had misinterpreted the meaning of 'non-cash consideration'. Transactions—each identified by one participant—considered incorrectly within scope of the proposed requirements about non-cash consideration included:

(a) non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers (see paragraph 23.1(d) of the proposed revised Section 23);

(b) cash received via an electronic transfer system; and

(c) incidental goods and services that are provided to customers for free.

A96. Some participants commented on how frequently SMEs receive non-cash consideration from customers. Whilst most of these participants said these transactions occur infrequently amongst their clients:

(a) one participant said SMEs in their jurisdiction commonly receive non-cash consideration from customers because inflation is high; and

(b) one participant said SMEs commonly receive non-cash consideration when selling high value goods.

A97. Both participants identified in paragraph A96(a)–(b) of this paper were from Latin America.

Allocation of discounts and variable consideration

A98. The questionnaire asked participants whether they would be able to allocate:

(a) a discount to the promises in a contract; and

(b) variable consideration to the promises in a contract.

A99. The number of participants who were able to allocate a discount to the promises in a contract was comparable to the number who were unable to make the judgement. Of the participants who were unable to make the judgement, many were unfamiliar with IFRS 15. Among participants who were unfamiliar with IFRS 15, most were able to make the judgement.

A100. Many of participants were able to allocate variable consideration to the promises in a contract. Of the participants who were unable to make the judgement, most were unfamiliar with IFRS 15. Among participants who were unfamiliar with IFRS 15, most were unable to make the judgement.

A101. Some participants said the information needed from their clients to allocate discounts and variable consideration to the promises in a contract would be difficult to obtain. Many of these participants explained that the terms for variable consideration and discounts are often approved by oral agreement and not documented. One participant said obtaining the necessary information would be difficult because SMEs often have flexible pricing models where contracts typically include discounts and variable consideration.

A102. Some participants noted that allocating discounts and variable consideration to the promises in a contract would be straightforward once the information needed to make the judgement is obtained.

A103. Some participants said their clients would find it difficult to understand and identify when a customer has received a discount, as described in paragraph 23.68 of the proposed revised Section 23. One participant thought it would be challenging for an SME to differentiate between a discount and variable consideration because variable consideration can arise because of a discount offered by the SME (for example a cumulative quantity discount).

Changes in the transaction price

A104. Most participants were able to determine how to account for changes in the transaction price. Many participants who were unable to make the judgement were unfamiliar with IFRS 15.

A105. Among participants who were unfamiliar with IFRS 15, most were able to make the judgement.

A106. One participant said that the information needed from their clients to determine how to account for changes in the transaction price would not be available because they operate in industries and economies where contract modifications occur frequently. The participant was from an emerging economy and made a similar comment about contract modifications (see paragraph A55(c) of this paper).

Licensing

A107. Most participants were able to determine if a promise to grant a licence is satisfied over time or satisfied at a point in time. Most participants who were unable to make the judgement were unfamiliar with IFRS 15.

A108. Among participants who were unfamiliar with IFRS 15, most were able to make the judgement.

A109. A few participants' comments indicated that they had misinterpreted the guidance on licencing. The participants thought the guidance applies to SMEs that are granted rights to the intellectual property of another entity, rather than SMEs that grant customers rights to their own intellectual property (that is, the guidance applies to licensees not licensors).

A110. One participant who was familiar with IFRS 15 suggested the description of the changes to the intellectual property in paragraph 23.97(a) of the proposed revised Section 23 should be consistent with IFRS 15 (that is, they should be described as changes to the 'form or functionality' of the intellectual property instead of changes to its 'substance').

Costs to obtain a contract

A111. Most participants were able to determine whether costs to obtain a contract with a customer should be recognised as an asset or as an expense. All participants who were unable to make the judgement were unfamiliar with IFRS 15.

A112. Most participants who were unfamiliar with IFRS 15 were able to make the judgement.

A113. Many participants who were unable to make the judgement thought the rationale for recognising costs to obtain a contract that meet the criteria in the proposed revised Section 23 as an asset was unclear. The participants were unfamiliar with IFRS 15.

A114. One participant said it was unclear in the requirements about costs to obtain a contract whether costs can be recognised as an asset if the contract has yet to be obtained.

Costs of fulfilling a contract

A115. Most participants were able to determine whether costs of fulfilling a contract with a customer should be recognised as an asset. Of the participants who were unable to make the judgement, almost all were unfamiliar with IFRS 15.

A116. Many participants who were unfamiliar with IFRS 15 were able to make the judgement.

A117. Some participants said the requirements about costs of fulfilling a contract were unclear. The following areas—each noted by one participant—were identified as unclear:

(a) what is meant by 'costs of fulfilling a contract';

(b) determining whether costs 'enhance resources of the entity' (and meet the criterion in paragraph 23.107(b) of the proposed revised Section 23); and

(c) the explanation of why costs of resources to be used to satisfy promises in the future are recognised as an asset in paragraph 23.108 of the proposed revised Section 23.

A118. One participant said their clients considered the ongoing accounting for assets recognised from the costs of fulfilling a contract to be costly.

Customer's unexercised rights (breakage)

A119. Most participants were able to make the judgements required to account for customers' unexercised rights (breakage). All participants who were unable to make the judgements were unfamiliar with IFRS 15.

A120. Among participants who were unfamiliar with IFRS 15, there were comparable numbers who were able to make the judgements and who were unable to make the judgements.

A121. Many participants who were unable to make the judgements required to account for breakage said the judgements were too difficult. Most of these participants described difficulties in estimating the amount of breakage. Participants explained that estimating the amount of breakage would be difficult if:

(a) the customer is not a regular customer, so the SME cannot look to past practice; or

(b) the period that the customer has to exercise their rights is significant or unlimited (that is the customer's rights do not expire or expire after a long period of time).

A122. A few participants said the information needed from their clients to account for breakage would not be available.

A123. Some participants thought that contracts where breakage may occur (for example, gift cards) are not significant to their clients' businesses.

A124. Some participants explained how their clients account for breakage currently. Most of these participants said their clients either:

(a) recognise breakage as revenue when a customer's rights expire; or

(b) recognise estimated breakage as revenue immediately on the receipt of a prepayment from a customer.

A125. In contrast to the views of the participants in paragraph A124 of this paper, one participant explained that their client recognises a liability based on an estimate of customers' rights not yet exercised at the end of the period, adjusted for the estimated breakage.

A126. One participant said the guidance in paragraph B47 of IFRS 15 about unexercised rights required to be remitted to another party is relevant to SMEs in their jurisdiction.

General comments

A127. Paragraphs A128–A132 of this paper set out general comments made by participants about the judgements necessary to apply the proposed revised Section 23.

Client information

A128. Some participants said they would need to request new information from their clients to make the judgements necessary to apply the proposed revised Section 23. Of these participants, many did not think they would be able to obtain this information.

A129. One participant said that if they were unable to obtain information about the agreed-upon terms in their clients' contracts with customers, they would have to rely on the following sources to make the judgements necessary to apply the proposed revised Section 23:

(a) their knowledge of their client's business model; and

(b) information on their client's sales invoices.

Oral contracts

A130. Some participants noted that SMEs can often have contracts with customers that are oral or include terms that have been approved by oral agreement (oral contracts). Many of these participants said it would be difficult to make the judgements necessary to apply the proposed revised Section 23 for oral contracts. In contrast, one participant said SMEs would be able to remember the goods or service they have provided, and the consideration they are entitled to, under oral contracts and therefore it would be straightforward to make the judgements for these contracts.

A131. One participant said they would have to rely on discussions with their clients to make the judgements necessary to apply the proposed revised Section 23 for oral contracts in the absence of information about these contracts. The participant noted that entities applying IFRS 15 can often have oral contracts. They explained that entities applying IFRS 15 have more resources to provide documentation about these contracts compared with SMEs, and suggested that guidance was needed that lists the information that SMEs should record to account for oral contracts.

Illustrative examples

A132. Most participants who were unfamiliar with IFRS 15 said they would like examples that illustrate the requirements in the proposed revised Section 23. Participants typically requested examples about judgements they found unclear. A few participants specified that the examples should be provided separately from the *IFRS for SMEs* Accounting Standard.

Other comments

A133. Part 4 of the questionnaire asked participants to share any other comments on the proposed revised Section 23. Paragraphs A134–A143 of this paper provide an overview of these comments.

Appropriateness of the proposed revised Section 23

A134. Some participants thought the proposed revised Section 23 was not appropriate for SMEs. Most of these participants were unfamiliar with IFRS 15. Many participants thought proposed revised Section 23 was not appropriate because:

(a) the proposed requirements are too difficult for SMEs to understand;

(b) SMEs do not have the resources to apply the proposed requirements; and

(c) the costs of applying the Section outweigh any potential benefits.

A135. Most participants who thought the proposed revised Section 23 was not appropriate for SMEs suggested how the Section could be made more appropriate. Suggestions made by participants included:

(a) providing guidance and illustrative examples;

(b) providing training; and

(c) simplifying the judgements that SMEs are required to make under the proposed revised Section 23.

A136. Of the participants who thought the proposed revised Section 23 was not appropriate for SMEs, many suggested the IASB leave the current Section 23 *Revenue* unchanged. One participant noted that the requirements in the current Section 23 are sufficient, and the proposed revised Section 23 includes requirements that apply to complex transactions undertaken by only a few large SMEs.

A137. In addition to the participants who thought the revised Section 23 was not appropriate for SMEs, some participants thought SMEs would not have the expertise to make the judgements necessary to apply the Section and would have to obtain external advice to do so. All these participants were familiar with IFRS 15. In contrast, a few participants said the judgements would be easy for SMEs because of their direct knowledge of their business.

Benefits of the proposed revised Section 23

A138. Some participants commented on the benefits of applying the proposed revised Section 23 for SMEs and users of financial statements. Benefits—each noted by one participant—included:

(a) more comparable information;

(b) information that more faithfully represents an SME's performance; and

(c) more comprehensive requirements for measuring revenue.

Length of the proposed revised Section 23

A139. Some participants commented on the length of the proposed revised Section 23. Many of these participants said the IASB had condensed the requirements in IFRS 15 appropriately in the proposed revised Section 23. However, many participants who commented on the Section's length thought it was too long. These participants said the length was problematic for readers because:

(a) they would find it difficult to find information;

(b) they would have to read many requirements that are not applicable to them; and

(c) they would be intimidated by number of requirements they have to understand and apply.

A140. Participants had different views on how to solve the problems caused by the length of proposed revised Section 23 described in paragraph A139(a)–(c) of this paper. These included removing guidance from the Section or explaining the requirements using simpler concepts. As an alternative to reducing the Section's length, one participant suggested introducing a screening test that minimises the need for SMEs with simple contracts with customers to make a detailed assessment of the requirements that cover each step of the revenue recognition model in the Section.

Language used in the proposed revised Section 23

A141. Some participants commented on the language used in the proposed revised Section 23. Most of these participants said the language should be simplified. The participants noted that simple, non-technical language is necessary for readers without an accounting background or for whom English is not their first language.

Looking to full IFRS Accounting Standards

A142. Some participants said they look to the requirements and guidance in full IFRS Accounting Standards when their client have transactions that Section 23 does not specifically address (consistent with the guidance in paragraph 10.6 of the *IFRS for SMEs* Accounting Standard). One participant said they look to full IFRS Accounting Standards mostly when selecting a revenue recognition accounting policy for large SMEs with complex business models, whilst another participant said they look to full IFRS Accounting Standards infrequently. One participant noted that in addition to full IFRS Accounting Standards, they look at practice amongst listed entities in their jurisdiction.

Interaction with tax laws and regulations

A143. Some participants noted differences between their jurisdiction's tax laws and regulations for the measurement of income and the requirements in the proposed revised Section 23. These participants were from Latin America and Southeast Asia. Most participants who noted these differences said, the differences would introduce complexity for SMEs when determining the amount of taxable income.