

Exposure Draft *Third edition of the IFRS for SMEs Accounting Standard*
Revised Section 23 *Revenue* (renamed *Revenue from Contracts with Customers*)

Purpose of this document

On 8 September 2022, the International Accounting Standards Board (IASB) published Exposure Draft *Third edition of the IFRS for SMEs Accounting Standard*.

One of the IASB's proposed revisions, as set out in its Exposure Draft, is to align Section 23 of the *IFRS for SMEs Accounting Standard* with the principles and language used in IFRS 15 *Revenue from Contracts with Customers*.

This document includes an extract from the Exposure Draft; the extract is included for the purpose of conducting fieldwork on the proposed revised Section 23. Further details about the fieldwork can be found [here](#).

Terms that are defined in the Exposure Draft are reproduced in **bold type** the first time they appear in this document.

The title of Section 23 is amended. New text is underlined>.

Section 23 ***Revenue from Contracts with Customers***

Section 23 is revised. For ease of reading, revised text is not underlined.

Scope of this section

- 23.1 This section applies to all **contracts with customers**, except:
- (a) **lease** agreements within the scope of Section 20 *Leases*;
 - (b) **insurance contracts**;
 - (c) **financial instruments** and other contractual rights or obligations within the scope of Section 9 *Consolidated and Separate Financial Statements*, Section 11 *Financial Instruments*, Section 14 *Investments in Associates* and Section 15 *Joint Arrangements*; and
 - (d) non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers.
- 23.2 A contract with a customer may be partially within the scope of this section and partially within the scope of other sections in paragraph 23.1 (for example, a lease agreement that includes the provision of services). If the other section specifies how to separate or initially measure any parts of the contract, then an entity shall first apply the separation or measurement requirements in that section. Otherwise, the entity shall apply this section to separate or initially measure those parts of the contract.

Revenue recognition model

- 23.3 This section establishes a **revenue** recognition model for accounting for revenue from contracts with customers. The objective of the model is for an entity to recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To apply the model, an entity shall take the following steps:
- (a) Step 1—Identify the contract(s) with a customer (see paragraphs 23.6–23.15);
 - (b) Step 2—Identify the promises in the contract (see paragraphs 23.16–23.40);
 - (c) Step 3—Determine the transaction price (see paragraphs 23.41–23.60);
 - (d) Step 4—Allocate the transaction price to the promises in the contract (see paragraphs 23.61–23.74); and
 - (e) Step 5—Recognise revenue when (or as) the entity satisfies a **promise** (see paragraphs 23.75–23.101).

- 23.4 An entity shall apply this section consistently to contracts with similar characteristics and in similar circumstances.
- 23.5 This section specifies the accounting for an individual contract with a customer. An entity may apply this section to a portfolio of similar contracts (or promises) if the entity reasonably expects that the result of doing so would not differ materially from the result of applying this section to the individual contracts (or promises) within that portfolio.

Step 1—Identify the contract(s) with a customer

- 23.6 An entity shall apply the revenue recognition model to account for a contract with a customer that is within the scope of this section only when all of the following criteria are met:
- (a) the parties to the contract have approved the contract and are committed to perform their respective obligations;
 - (b) the entity can identify each party's rights regarding the goods or services to be transferred;
 - (c) the entity can identify the payment terms for the goods or services to be transferred;
 - (d) the contract has commercial substance; and
 - (e) it is **probable** that the entity will collect the consideration to which it will be entitled in exchange for the goods or services to be transferred to the customer.
- 23.7 The criterion in paragraph 23.6(e) is met when the customer has the ability and intention to pay the consideration when due.
- 23.8 If a contract with a customer meets the criteria in paragraph 23.6 at inception, reassessment is only required if there is an indication of a significant change in relevant facts and circumstances.
- 23.9 If a contract with a customer does not meet the criteria in paragraph 23.6, an entity shall initially recognise any consideration received from the customer as a **liability**, and continue to reassess the contract until the criteria are met.
- 23.10 An entity shall recognise the consideration initially recognised as a liability in accordance with paragraph 23.9 as revenue when either:
- (a) the contract is complete and all, or substantially all, of the consideration promised by the customer has been received and is non-refundable; or
 - (b) the contract is terminated and the consideration received is non-refundable.

- 23.11 Some contracts with customers may have no fixed duration or may automatically renew periodically. An entity shall apply this section to the duration of the contract (that is, the contractual period) in which the parties to the contract have present enforceable rights and obligations, except for contract renewal options within the scope of paragraph 23.36.

Combination of contracts

- 23.12 An entity shall combine two or more contracts entered into at or near the same time with the same customer (or **related parties** of the customer) and account for the contracts as a single contract if one or more of the following criteria are met:
- (a) the contracts are negotiated as a package with a single commercial objective;
 - (b) the amount of consideration to be paid in one contract depends on the price or performance of the other contract; or
 - (c) the goods or services promised in the contracts (or some goods or services promised in each of the contracts) are a single promise in accordance with paragraphs 23.16–23.24.

Contract modifications

- 23.13 A contract modification is a change in the scope or price (or both) of a contract that is approved by the parties to the contract. A contract modification either creates new enforceable rights and obligations, or changes such rights and obligations that already exist.
- 23.14 An entity shall account for contract modifications as follows:
- (a) if the remaining goods or services are distinct from the goods or services transferred on or before the date of the contract modification, an entity shall account for the contract modification as if it were a termination of the existing contract and the creation of a new contract. The transaction price for the new contract is the sum of:
 - (i) the consideration included in the estimate of the transaction price for the existing contract that had not been recognised as revenue; and
 - (ii) any additional consideration promised as part of the contract modification.
 - (b) if the remaining goods or services are not distinct from the goods or services transferred on or before the date of the contract modification, an entity shall account for the contract modification as if it were part of the existing contract. The effect that the contract modification has on the transaction price, and on the entity's measure of progress towards complete satisfaction of the promise, shall be recognised as an adjustment to revenue at the date of the contract modification (that is, on a cumulative catch-up basis).

- 23.15 As an alternative to the treatment set out in paragraph 23.14(a) and instead of terminating the existing contract, an entity may choose to account for a contract modification as a separate contract if:
- (a) the modification increases the scope of the existing contract because of additional goods or services promised that are distinct from those in the existing contract; and
 - (b) the modification increases the price of the existing contract by an amount of consideration that reflects the entity's stand-alone selling price of the additional goods or services and any appropriate adjustments to that price to reflect the circumstances of that contract.

Step 2—Identify the promises in the contract

- 23.16 At contract inception, an entity shall assess the goods and services promised in a contract with a customer and shall identify each promise to transfer a distinct good or service (or a distinct bundle of goods or services).
- 23.17 If an entity is to transfer a series of distinct goods or services that are substantially the same, the series shall be accounted for as a single promise if both of the following criteria are met:
- (a) each distinct good or service in the series that the entity promises to transfer to the customer would meet the criteria in paragraph 23.78 to be satisfied over time; and
 - (b) in accordance with paragraphs 23.88–23.93, the same method would be used to measure the entity's progress towards complete satisfaction of the promise to transfer each distinct good or service in the series to the customer.
- 23.18 A contract with a customer generally explicitly states the goods or services that an entity promises to transfer. However, promises may be implied by an entity's customary business practices, published policies or specific statements if these create a valid expectation of the customer that the entity will transfer a good or service to the customer.
- 23.19 Promises do not include activities that an entity must undertake to fulfil a contract unless those activities directly transfer a good or service to the customer (for example, set-up activities and administrative tasks that do not transfer a good or service to the customer).

Distinct goods or services

- 23.20 A good or service that is promised by an entity to a customer is distinct if both of the following criteria are met:
- (a) the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (that is, the good or service is capable of being distinct); and
 - (b) the entity's obligation to transfer the good or service is separate from other obligations in the contract (see paragraph 23.23).

- 23.21 The criterion in paragraph 23.20(a) is satisfied for goods or services that the entity regularly sells separately.
- 23.22 For the purpose of applying the criterion in paragraph 23.20(a), readily available resources are:
- (a) goods or services sold separately (by the entity or another entity); or
 - (b) goods or services that the customer has already obtained from the entity (including goods or services transferred to the customer under the contract) or from other transactions or events.
- 23.23 The purpose of the criterion in paragraph 23.20(b) is to determine if the nature of the entity's obligation, within the context of the contract, is to transfer the good or service individually, rather than to transfer a combined item or items to which the good or service is an input. Factors that indicate that two or more goods or services promised in a contract are inputs to a combined item or items and are therefore not distinct include, but are not limited to, the following:
- (a) the entity provides a significant service of integrating the goods or services with other goods or services promised in the contract into a bundle of goods or services that represent the combined output or outputs for which the customer has contracted. In other words, the entity is using the goods or services as inputs to produce or deliver the combined output or outputs specified by the customer. A combined output or outputs might include more than one phase, element or unit. An example is a construction contract when an entity provides an integration (or contract management) service to manage and co-ordinate the various construction tasks necessary for the construction of an **asset**.
 - (b) one or more of the goods or services significantly modifies or customises, or is significantly modified or customised by, one or more of the other goods or services promised in the contract. An example is a software contract when an entity promises to provide existing software and to customise that software, if the customisation service significantly modifies the software.
 - (c) the goods or services are highly interdependent or highly interrelated. In other words, each of the goods or services is significantly affected by one or more of the other goods or services in the contract. For example, in some cases, two or more goods or services are significantly affected by each other because an entity would not be able to fulfil its promise by transferring each of the goods or services independently.
- 23.24 If a good or service promised to a customer is not distinct, an entity shall combine that good or service with other goods or services in the contract until it identifies a bundle of goods or services that is distinct. In some cases, this will result in the entity accounting for all the goods or services in a contract as a single promise.

Warranties

- 23.25 An entity might provide a warranty in connection with the sale of a product (whether a good or service).
- 23.26 If a customer has the option to purchase a warranty separately (that is, there is a choice of purchasing the product either with or without a warranty), the warranty is distinct because the entity promises to provide a service to the customer in addition to the product that has the functionality described in the contract. In those circumstances, an entity shall account for the warranty as a separate promise in accordance with paragraphs 23.16–23.24.
- 23.27 If a customer does not have the option to purchase a warranty separately, an entity shall account for the warranty in accordance with Section 21 *Provisions and Contingencies* unless:
- (a) the warranty is significant to the contract; and
 - (b) the warranty, or part of the warranty, provides the customer with a service in addition to the assurance that the product complies with agreed-upon specifications.
- 23.28 If the conditions in paragraph 23.27 are met, the service that the warranty provides to the customer is a separate promise. Therefore, the entity shall allocate the transaction price to the product and the service. If a warranty provides the customer with both a service and the assurance that the product complies with agreed-upon specifications, but an entity cannot reasonably account for these components separately, the entity shall account for both the components together as a single promise.

Non-refundable upfront fees

- 23.29 In some contracts, an entity charges a customer a non-refundable upfront fee at or near contract inception. Examples include joining fees in health club membership contracts, set-up fees in some service contracts and initial fees in some supply contracts.
- 23.30 Often a non-refundable upfront fee relates to an activity that the entity is required to undertake to fulfil the contract but that activity does not directly transfer a good or service to the customer. If a non-refundable upfront fee relates to the transfer of a good or service, an entity shall evaluate whether to account for the good or service as a separate promise in accordance with paragraphs 23.16–23.24. Otherwise, the non-refundable upfront fee is included in the transaction price and allocated to the promises in the contract.
- 23.31 An entity may charge a non-refundable fee that gives customers an option to renew the contract on similar terms. Such options that provide a customer with a material right identified in accordance with paragraph 23.32 are accounted for in accordance with paragraph 23.36, instead of as separate promises in accordance with paragraphs 23.16–23.24.

Customer options for additional goods or services

- 23.32 In some contracts, customers are granted the option to acquire additional goods or services for free or at a discount. If the option provides the customer with a material right that it would not receive without entering into that contract, the option gives rise to a separate promise in addition to the other promises in the contract. If customers are granted the option to acquire additional goods or services at a price that would reflect the stand-alone selling prices for that good or service, the option does not provide the customer with a material right and does not give rise to a separate promise.
- 23.33 Options that may provide a material right to customers include sales incentives, customer award credits (or points), contract renewal options or other discounts on future goods or services.
- 23.34 If an option provides a material right to a customer, the customer is in effect paying the entity in advance for future goods or services. As a consequence, the entity recognises revenue when those future goods or services are transferred or when the option expires.
- 23.35 An entity shall account for an option that provides a material right to a customer as a separate promise only when the effect of doing so is significant to the accounting for the individual contract.
- 23.36 If a customer is granted an option to renew a contract on similar terms (that is, provide goods or services that are similar to the original goods or services in the contract) and the option provides the customer with a material right, an entity shall not account for the option as a separate promise. Instead, an entity shall account for a contract that includes such an option based on:
- (a) the expected contract term (that is, including expected renewal periods); and
 - (b) the corresponding expected consideration (that is, the consideration that the entity expects to receive in exchange for the goods or services that the entity expects to provide).

Principal versus agent considerations

- 23.37 When another party is involved in providing goods or services to a customer, an entity shall determine whether the nature of its promise is to provide the specified goods or services itself (that is, the entity is a principal) or to arrange for those goods or services to be provided by the other party (that is, the entity is an agent). An entity shall determine whether it is a principal or an agent for each promise in a contract. A specified good or service is a distinct good or service (or a distinct bundle of goods or services) to be provided to the customer (see paragraphs 23.20–23.24).

- 23.38 An entity is a principal if:
- (a) it is primarily responsible for fulfilling the promise to provide the specified good or service, including responsibility for the acceptability of the specified good or service (for example, the entity has primary responsibility for the good or service meeting the customer's specifications);
 - (b) it obtains control of the specified good as **inventory** before it transfers to the customer (for example, the entity has inventory risk before the specified good is transferred to the customer); or
 - (c) it obtains control of the specified service or right to the specified good or service before:
 - (i) it transfers to the customer; or
 - (ii) it directs another party who is acting on the entity's behalf to provide the service to the customer.

If none of the circumstances in (a)–(c) apply, the entity is an agent.

23.39 An entity that is a principal shall recognise revenue in the gross amount of consideration to which the entity expects to be entitled in exchange for the specified good or service transferred as it satisfies its promise.

23.40 An entity that is an agent shall recognise revenue in the amount of any fee or commission to which the entity expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party as it satisfies its promise. An entity's fee or commission might be the net amount of consideration that the entity retains after paying the other party the consideration received in exchange for the goods or services to be provided by that party.

Step 3—Determine the transaction price

23.41 An entity shall consider the terms of the contract and its customary business practices to determine the transaction price. The transaction price is the amount of consideration to which the entity expects to be entitled in exchange for transferring goods or services promised to a customer, excluding amounts collected on behalf of third parties (for example, some sales taxes).

23.42 For the purpose of determining the transaction price, an entity shall assume that the goods or services will be transferred to the customer in accordance with the existing contract and that the contract will not be cancelled, modified or renewed, except for contract renewal options within the scope of paragraph 23.36.

Variable consideration

- 23.43 If the consideration promised in a contract includes a variable amount (for example, because of some discounts, rebates, refunds, penalties or performance bonuses), an entity shall estimate the variable amount in the transaction price that reflects the amount that is expected to become due, determined in accordance with paragraphs 23.44–23.50.
- 23.44 An entity shall first estimate an amount of variable consideration by using either of the following methods:
- (a) the expected value—the expected value is the sum of probability-weighted amounts in a range of possible consideration amounts. An expected value may be an appropriate estimate of the amount of variable consideration if an entity has a large number of contracts with similar characteristics.
 - (b) the most likely amount—the most likely amount is the single most likely amount in a range of possible consideration amounts (that is, the single most likely outcome of the contract). The most likely amount may be an appropriate estimate of the amount of variable consideration if the contract has only two possible outcomes (for example, an entity either achieves a performance bonus or does not).
- 23.45 An entity shall apply one method consistently throughout the contract when estimating the amount of variable consideration. The information that an entity uses to estimate the amount of variable consideration would typically be similar to the information that the entity’s management uses during the bid-and-proposal process and in establishing prices for the goods or services promised to the customer.
- 23.46 An entity shall include in the transaction price some or all of an amount of variable consideration estimated in accordance with paragraph 23.44 only to the extent that it is **highly probable** that this amount will become due when the uncertainty associated with the variable consideration is subsequently resolved.
- 23.47 At the end of each **reporting period**, an entity shall update the estimate of variable consideration included in the transaction price to reflect any relevant changes in circumstances. An entity shall account for changes in the estimate of the transaction price in accordance with paragraphs 23.72–23.73.

Sales-based or usage-based royalties

- 23.48 An entity shall not apply paragraphs 23.44–23.47 to a sale-based or usage-based royalty provided in exchange for a licence of intellectual property when the licence of intellectual property is the sole or predominant item to which the royalty relates. Instead, an entity shall recognise revenue for such royalties when (or as) the later of the following events occurs:
- (a) the subsequent sale or usage takes place; and

- (b) when (or as) the promise to which some or all of the sales-based or usage-based royalty has been allocated has been satisfied (or partially satisfied).

Refund liabilities

- 23.49 If an entity receives consideration from a customer and expects to refund some or all of that consideration to the customer, the entity shall recognise as a refund liability the amount of consideration that the entity reasonably expects to refund to the customer. For example, the terms of a fixed-price service contract may require a customer to pay upfront and provide the customer with a full refund of the amount paid if the customer is dissatisfied with the service at any time. At the end of each reporting period, an entity shall update the estimate of the refund liability (and transaction price) to reflect any relevant changes in circumstances. An entity shall account for changes in the estimate of the transaction price in accordance with paragraphs 23.72–23.73.
- 23.50 To account for a refund liability relating to a sale with a right of return, an entity shall apply paragraphs 23.51–23.56.

Sale with a right of return

- 23.51 In some contracts, an entity transfers control of a product to a customer and also grants the customer the right to return the product for various reasons (such as dissatisfaction with the product) and receive any combination of the following:
- (a) a full or partial refund of any consideration paid;
 - (b) a credit that can be applied against amounts owed, or that will be owed, to the entity; and
 - (c) another product in exchange.
- 23.52 Exchanges by customers of one product for another of the same type, quality, condition and price (for example, one colour or size for another) are not considered returns for the purposes of applying the requirements in paragraphs 23.53–23.56.
- 23.53 To account for revenue for the transfer of products with a right of return (and for some services that are provided subject to a refund), an entity shall recognise the following:
- (a) revenue only for products expected not to be returned;
 - (b) a refund liability for consideration received (or receivable) for products expected to be returned; and
 - (c) a refund asset, classified as inventory, for products expected to be returned (and corresponding adjustment to cost of sales).

- 23.54 To determine the amount of consideration that should be recognised in accordance with paragraph 23.53(a), an entity shall recognise revenue only to the extent that it is highly probable that the products will not be returned. The amount of consideration received (or receivable) that is not recognised as revenue shall be recognised as a refund liability in accordance with paragraph 23.53(b).
- 23.55 A refund asset recognised by an entity in accordance with paragraph 23.53(c) shall initially be measured at the former **carrying amount** of the product (for example, inventory), less:
- (a) any expected costs to recover those products; and
 - (b) allowances for potential decreases in the value to the entity of those products (for example, because of damage, obsolescence or declining selling prices).
- 23.56 At the end of each reporting period, an entity shall update its assessment of products expected to be returned. The entity shall:
- (a) recognise changes in the amount of revenue recognised as adjustments to the refund liability, and vice versa; and
 - (b) recognise adjustments to the asset recognised for products expected to be returned in cost of sales.
- 23.57 Contracts in which a customer may return a defective product in exchange for a functioning product shall be evaluated in accordance with the guidance on warranties in paragraphs 23.25–23.28.

Time value of money

- 23.58 If payment is deferred beyond normal business terms, the arrangement constitutes a financing transaction (see paragraph 11.13). An entity shall adjust the promised amount of consideration for the effects of the time value of money and recognise the interest revenue in accordance with Section 11. The entity shall present interest revenue separately from revenue from contracts with customers.
- 23.59 An entity need not adjust the promised amount of consideration for the effects of the time value of money if the entity expects, at contract inception, that the period between when the entity transfers the good or service promised to a customer and when the customer pays for that good or service will be one year or less.

Non-cash consideration

- 23.60 To determine the transaction price for contracts in which a customer promises consideration in a form other than **cash**, an entity shall measure the non-cash consideration (or promise of non-cash consideration) at **fair value**. If an entity cannot reasonably estimate the fair value of the non-cash consideration, the entity shall measure the consideration indirectly by reference to the stand-alone selling price of the goods or services promised to the customer (or class of customer) in exchange for the consideration.

Step 4—Allocate the transaction price to the promises in the contract

23.61 An entity shall allocate the transaction price to each promise identified in the contract on a relative stand-alone selling price basis in accordance with paragraphs 23.63–23.67, unless allocating discounts or variable amounts on an alternative basis in accordance with paragraphs 23.68–23.71.

23.62 Paragraphs 23.63–23.71 do not apply if:

- (a) a contract contains a single promise; or
- (b) all promises in a contract are satisfied at the same point in time in accordance with paragraph 23.83.

However, paragraph 23.71 applies if an entity accounts for a series of distinct goods or services as a single promise in accordance with paragraph 23.17 and the consideration promised in the contract includes a variable amount.

Allocation based on stand-alone selling prices

23.63 An entity shall determine the stand-alone selling price at contract inception of the distinct good or service underlying each promise in the contract and allocate the transaction price in proportion to those stand-alone selling prices.

23.64 The stand-alone selling price is the price at which an entity would sell a good or service promised in a contract separately to a customer. The best evidence of a stand-alone selling price is the observable price of a good or service when the entity sells that good or service separately in similar circumstances and to similar customers.

23.65 If a stand-alone selling price is not directly observable, an entity shall estimate it. When estimating a stand-alone selling price, an entity shall take into account all information that is reasonably available to the entity, including market conditions, entity-specific factors and information about the customer or class of customer. An entity shall apply estimation methods consistently in similar circumstances.

23.66 Suitable estimation methods include, but are not limited to, the following:

- (a) adjusted market assessment approach—an entity could evaluate the market in which it sells goods or services and estimate the price that a customer in that market would be willing to pay for those goods or services. That approach might also include referring to prices from the entity’s competitors for similar goods or services and adjusting those prices as necessary to reflect the entity’s costs and margins.
- (b) expected cost plus a margin approach—an entity could forecast its expected costs of transferring the good or service promised to a customer and then add an appropriate margin for that good or service.

- (c) residual approach—only if the stand-alone selling price of a good or service is highly variable or uncertain, then an entity may estimate the stand-alone selling price by reference to the total transaction price less the sum of the observable or estimated stand-alone selling prices of other goods or services promised in the contract.
- 23.67 When estimating the stand-alone selling price for a customer’s option to acquire additional goods or services identified in accordance with paragraphs 23.32–23.36, an entity shall reflect the discount that the customer would obtain when exercising the option, adjusted for both:
- (a) any discount that the customer could receive without exercising the option; and
- (b) the likelihood that the option will be exercised.

Allocation of a discount

- 23.68 A customer receives a discount if the sum of the stand-alone selling prices of the goods or services promised in the contract exceeds the promised consideration.
- 23.69 An entity shall allocate a discount to the entire contract on a relative stand-alone selling price basis, unless this basis does not depict the amount of consideration to which the entity expects to be entitled in exchange for transferring the goods or services promised to the customer. In that case, the entity shall allocate the discount using a method that reflects such an amount.

Allocation of variable consideration

- 23.70 An entity shall allocate variable consideration in a transaction price to the entire contract on a relative stand-alone selling price basis, unless this basis does not depict the amount of consideration to which the entity expects to be entitled in exchange for transferring the goods or services promised to the customer. In that case, the entity shall allocate the variable consideration using a method that reflects such an amount.
- 23.71 An entity shall allocate variable consideration in a transaction price to all the distinct goods or services promised in a series of distinct goods or services that forms part of a single promise in accordance with paragraph 23.17, unless this basis does not depict the amount of consideration to which the entity expects to be entitled in exchange for transferring the goods or services promised to the customer. In that case, the entity shall allocate the variable consideration using a method that reflects such an amount.

Changes in the transaction price

- 23.72 After contract inception, an entity’s estimate of the amount of consideration to which it expects to be entitled in exchange for transferring goods or services may change. For example, an entity updates its estimate of variable consideration included in the transaction price to reflect any relevant changes in circumstances.

- 23.73 To account for changes in the estimate of the transaction price, an entity shall allocate any changes to promises in the contract on the same basis as at contract inception. Consequently, an entity shall not reallocate the transaction price to reflect changes in stand-alone selling prices after contract inception. Amounts allocated to a promise that has been satisfied shall be recognised as revenue, or as a reduction of revenue, in the period in which the estimate of the transaction price changes.
- 23.74 A change in transaction price as a result of a contract modification arises from separate and subsequent negotiation between the parties to the contract that changes the enforceable rights and obligations of those parties. Such a change shall be accounted for in accordance with paragraphs 23.13–23.15.

Step 5—Recognise revenue when (or as) the entity satisfies a promise

- 23.75 An entity shall recognise revenue when (or as) the entity satisfies a promise to transfer a good or service or bundle of goods or services to a customer. A good or service is transferred when (or as) the customer obtains control of that good or service.
- 23.76 For each promise identified in accordance with paragraphs 23.16–23.24, an entity shall determine at contract inception whether the promise is satisfied over time (in accordance with paragraphs 23.78–23.82) or satisfied at a point in time (in accordance with paragraphs 23.83–23.87).
- 23.77 Goods and services are assets, even if only momentarily, when they are received and used (as in the case of many services). Control of an asset refers to the ability to direct the use of, and obtain substantially all of the remaining economic benefits that may flow from, the asset.

Promises satisfied over time

- 23.78 An entity transfers control of a good or service over time, and therefore satisfies a promise over time, if one of the following criteria is met:
- (a) the customer receives and consumes the benefits of the entity's performance as the entity performs (for example, routine or recurring services such as a cleaning service);
 - (b) the entity's work carried out to date would not need to be substantially reperformed if another entity were to fulfil the remainder of the promise to the customer (for example, a freight logistics contract);
 - (c) the entity's performance creates or enhances an asset that the customer obtains control of as the asset is created or enhanced (for example, in the case of a construction contract in which the customer controls the work in progress); or
 - (d) the entity's performance creates an asset that cannot be readily redirected to another customer and the customer is obliged to compensate the entity for work carried out to date (see paragraphs 23.79–23.82).

- 23.79 An asset created by an entity's performance cannot be readily redirected to another customer if:
- (a) to sell the asset in its completed state, the entity would either recognise a significant loss or incur significant costs to rework the asset (for example, if an asset was highly customised for a particular customer); or
 - (b) substantial contractual restrictions exist that preclude the entity from selling the asset to another customer during the creation or enhancement of that asset (for example, if the entity is legally obliged to sell the asset to the customer).
- 23.80 An assessment of whether an asset can be readily redirected to a customer is made at contract inception. Reassessment of whether an asset can be readily redirected to a customer shall occur only if there is a contract modification that substantially changes the promise.
- 23.81 An obligation for a customer to compensate an entity for work carried out to date may arise from specific terms in the contract or laws that apply to that contract. An obligation for a customer to compensate the entity exists if the entity has either:
- (a) a present unconditional right to payment for work carried out to date; or
 - (b) an enforceable right to demand or retain payment for work carried out to date if the contract were to be terminated before completion for reasons other than the entity's failure to perform as promised.
- 23.82 An amount that would compensate an entity for work carried out to date would be an amount that approximates the selling price of the goods or services transferred to date (for example, recovery of the cost incurred by the entity in satisfying the promise plus a reasonable profit margin).

Promises satisfied at a point in time

- 23.83 If a promise is not satisfied over time, an entity satisfies the promise at a point in time. To determine the point in time at which a customer obtains control of a promised asset, an entity shall consider indicators of the transfer of control, which include but are not limited to the following:
- (a) the entity has a present right to payment for the asset;
 - (b) the customer has legal title to the asset;
 - (c) the customer has physical possession of the asset;
 - (d) the customer has the significant risks and rewards of ownership of the asset; and
 - (e) the customer has accepted the asset (see paragraphs 23.86–23.87).

- 23.84 The existence or absence of an indicator in paragraph 23.83 does not determine whether control of a promised asset has transferred. For example, an entity may retain legal title of an asset that a customer controls as protection against the customer's failure to pay. Conversely, in a consignment arrangement, the other party (for example a dealer or distributor) has physical possession of a product that an entity controls. An entity shall not recognise revenue upon delivery of a product to another party if the delivered product is held on consignment.
- 23.85 Indicators that an arrangement is a consignment arrangement include, but are not limited to, the following:
- (a) the product is controlled by the entity until a specified event occurs, such as the sale of the product to a customer of the distributor or until a specified period expires;
 - (b) the entity is able to require the return of the product or transfer the product to a third party (such as another distributor); and
 - (c) the distributor does not have an unconditional obligation to pay for the product (although it might be required to pay a deposit).

Customer acceptance

- 23.86 Customer acceptance clauses allow a customer to cancel a contract or require an entity to take remedial action if a good or service does not meet agreed-upon specifications. If a contract includes a customer acceptance clause, an entity shall consider the effect of the clause when evaluating when a customer obtains control of the asset.
- 23.87 If an entity can objectively determine (that is, determine based on information available to the entity) that control of a good or service has been transferred to the customer in accordance with the agreed-upon specifications in the contract, then customer acceptance is a formality that would not affect the entity's determination of when the customer has obtained control of the good or service. However, if an entity cannot objectively determine that the good or service provided to the customer is in accordance with the agreed-upon specifications in the contract, then the entity would not be able to conclude that the customer has obtained control until the entity receives the customer's acceptance.

Measuring progress towards complete satisfaction of a promise

- 23.88 For each promise satisfied over time in accordance with paragraphs 23.78–23.82, an entity shall recognise revenue over time by measuring its progress towards complete satisfaction of that promise.
- 23.89 An entity shall select a method of measuring progress that depicts the entity's performance in transferring control of goods or services promised to a customer (that is, the satisfaction of the promise). An entity shall apply a single method of measuring progress for each promise satisfied over time and

shall apply that method consistently to similar promises and in similar circumstances.

- 23.90 At the end of each reporting period, an entity shall remeasure its progress towards complete satisfaction of a promise satisfied over time and update its measure of progress. Such changes to an entity's measure of progress shall be accounted for as a change in **accounting estimate** in accordance with paragraphs 10.14C–10.18.
- 23.91 In determining a method of measuring progress, an entity shall consider the nature of the good or service that the entity will transfer to the customer. Appropriate methods of measuring progress include methods that recognise revenue based on:
- (a) measurements of the value to the customer of the goods or services transferred to date relative to the remaining goods or services to be transferred under the contract (referred to as output methods); and
 - (b) the entity's efforts or inputs to the satisfaction of a promise relative to the total expected inputs to satisfy the promise (referred to as input methods).
- 23.92 Common methods, and circumstances when they may be appropriate, include:
- (a) an output method based on surveys of work completed, when the surveys provide an objective measure of an entity's performance to date;
 - (b) an output method based on units delivered, when each item transfers an equal amount of value to the customer on delivery;
 - (c) an output method based on time elapsed, when control of the goods or services is transferred evenly over time;
 - (d) an input method based on time elapsed, when an entity's efforts or inputs are expended evenly throughout the performance period; and
 - (e) an input method based on costs incurred, when there is a relationship between costs incurred and the transfer of control of goods or services to a customer.
- 23.93 If an entity has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the entity's work to date (for example, a service contract in which an entity bills a fixed amount for each hour of service provided), the entity may recognise revenue in the amount to which the entity has a right to invoice.

Licensing

- 23.94 A licence establishes a customer's rights to the intellectual property of an entity (such as software, technology, trademarks, patents, franchises, music and motion picture films).

- 23.95 If a contract with a customer includes a promise to grant a licence (or licences) in addition to other goods or services, an entity shall apply paragraphs 23.16–23.24 to identify each of the promises in the contract. If the promise to grant a licence is not distinct from the other goods or services in the contract, an entity shall apply paragraphs 23.75–23.87 to determine whether the promise (which includes the licence) is satisfied either over time or at a point in time. If the promise to grant a licence is distinct from the other goods or services in the contract, an entity shall apply paragraphs 23.96–23.101 to determine whether the promise is satisfied over time or satisfied at a point in time.
- 23.96 To determine if the promise to grant a licence is satisfied over time or satisfied at a point in time, an entity shall consider whether the nature of the entity's promise in granting the licence provides the customer with either:
- (a) a right to access the entity's intellectual property as it exists throughout the licence period; or
 - (b) a right to use the entity's intellectual property as it exists at the point in time at which the licence is granted.
- 23.97 A licence provides a customer with a right to access an entity's intellectual property if the entity expects to undertake activities that either:
- (a) will significantly affect the benefit the customer obtains from the intellectual property by changing the substance of the intellectual property; or
 - (b) could significantly affect the benefit the customer obtains from the intellectual property by directly exposing the customer to any positive or negative effects of those activities.
- 23.98 An entity's expected activities may be included in the terms of a contract or arise from those activities that the customer reasonably expects the entity will undertake. The assessment of whether a licence provides a customer with a right to access an entity's intellectual property shall not include activities that result in the transfer of a good or service to the customer as those activities occur.
- 23.99 Activities that change the substance of the intellectual property include activities that change the intellectual property's design, content or ability to perform a function or task (for example, development activities that change the content to which the customer has rights). Activities that expose the customer to positive or negative effects of those activities include activities that support or maintain the value of intellectual property (for example, ongoing activities that maintain the value of the brand to which the customer has rights).
- 23.100 If the criteria in paragraph 23.97 are met, the promise to grant a licence is satisfied over time because a customer receives and consumes the benefits of an entity's performance of providing access to its intellectual property as the entity performs. An entity shall apply paragraphs 23.88–23.93 to select an

appropriate method to measure its progress towards complete satisfaction of that promise.

- 23.101 If the criteria in paragraph 23.97 are not met, the licence provides the customer with a right to use the entity's intellectual property as it exists at the point in time at which the licence is granted. Types of licences that often provide customers with a right to use an entity's intellectual property include licences relating to software, biological compounds or drug formulas, and completed media content (for example, motion picture films, television shows and music recordings). An entity shall apply paragraphs 23.83–23.87 to determine the point in time at which the licence transfers to the customer. Revenue cannot be recognised for a licence that provides a right to use the entity's intellectual property before the beginning of the period during which the customer is able to use and benefit from the licence.

Contract costs

Costs to obtain a contract

- 23.102 An entity may incur costs in its effort to obtain a contract with a customer. An entity shall recognise such costs as an asset if:
- (a) the costs would not have been incurred by the entity if the contract had not been obtained (for example, a sales commission payable on obtaining a contract); and
 - (b) the costs are expected to be recovered.
- 23.103 If an entity is unable to identify whether costs to obtain a contract meet the criteria in paragraph 23.102 without undue cost or effort, the entity shall recognise such costs as an **expense** when incurred.
- 23.104 Costs to obtain a contract that would have been incurred regardless of whether the contract was obtained shall be recognised as an expense when incurred, unless those costs are explicitly chargeable to the customer regardless of whether the contract is obtained.
- 23.105 An entity may recognise the costs to obtain a contract that meet the criteria in paragraph 23.102 as an expense when incurred if the amortisation period of the assets that the entity otherwise would have recognised is one year or less.

Costs of fulfilling a contract

- 23.106 An entity shall account for the costs incurred in fulfilling a contract with a customer in accordance with the relevant section of this Standard for those costs (for example, Section 13 *Inventories*, Section 17 *Property, Plant and Equipment*, Section 18 *Intangible Assets other than Goodwill*).
- 23.107 If the costs incurred in fulfilling a contract are not within the scope of another section of this Standard, an entity shall recognise those costs as an asset if:

- (a) the costs relate directly to a contract or to an anticipated contract that the entity can specifically identify (for example, direct costs of a specific anticipated contract);
 - (b) the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) promises in the future; and
 - (c) the costs are expected to be recovered.
- 23.108 An asset recognised in accordance with paragraph 23.107 gives rise to resources that the entity will use to satisfy future promises in the contract. Conversely, costs that relate to promises that are satisfied (or partially satisfied) shall be recognised as expenses when incurred, as those costs relate to past performance.

Measurement after recognition

- 23.109 After initial **recognition**, an entity shall measure assets recognised in accordance with paragraph 23.102 or 23.107 at cost less accumulated **amortisation** and any accumulated **impairment losses**.
- 23.110 An asset recognised in accordance with paragraph 23.102 or 23.107 shall be amortised in accordance with the pattern of transfer and revenue recognition of the goods or services to which the asset relates.
- 23.111 If an asset has been recognised in accordance with paragraph 23.102 or 23.107, an entity shall follow Section 27 *Impairment of Assets* for recognising and measuring the impairment of the asset. However, an entity shall apply paragraph 23.112 instead of paragraphs 27.11–27.20 to estimate the **recoverable amount** of such an asset.
- 23.112 The recoverable amount of an asset recognised in accordance with paragraph 23.102 or 23.107 is:
- (a) the remaining amount of consideration that the entity expects to receive in exchange for the goods or services to which the asset relates; less
 - (b) the costs that relate directly to providing those goods or services and that have not been recognised as expenses.
- 23.113 In applying paragraph 23.112(a), an entity shall determine the amount of consideration that the entity expects to receive by adjusting the transaction price for any consideration received to date and the effects of the customer's credit risk.

Contract balances

- 23.114 When either party to a contract has performed, an entity shall present the contract in the **statement of financial position** as a **contract asset** or a **contract liability**, depending on the relationship between:
- (a) the entity's performance in transferring goods or services to the customer; and

- (b) the customer's payment.
- 23.115 If an entity has received consideration (or consideration is due) from the customer before the entity transfers a good or service to the customer, the entity shall recognise a contract liability when the payment is made or the payment is due (whichever is earlier). A contract liability is an entity's obligation to transfer goods or services to a customer for which the entity has received consideration (or the amount is due) from the customer. When (or as) the entity transfers those goods or services to the customer, the entity shall derecognise the contract liability (or part of a contract liability) and recognise revenue, in accordance with paragraphs 23.75–23.93.
- 23.116 If an entity transfers a good or service to a customer before the customer pays consideration (or before payment is due), the entity shall recognise a contract asset, excluding any amounts presented as a receivable. A contract asset is an entity's right to consideration in exchange for goods or services that the entity has transferred to a customer when that right is conditioned on something other than the passage of time (for example, the entity transferring other goods or services promised in the contract). When the customer pays the consideration (or the consideration becomes due), the entity shall derecognise the contract asset. An entity shall assess a contract asset for impairment, and recognise any impairment loss, in accordance with Section 11.
- 23.117 A receivable is an entity's right to consideration that is unconditional. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due. For example, an entity would recognise a receivable if it has a present right to payment even though that amount may be subject to refund in the future.
- 23.118 An entity shall present contract assets and receivables separately.

Customers' unexercised rights

- 23.119 When an entity receives an upfront non-refundable payment that gives the customer a right to receive a good or service in the future (for example, a gift card), this gives rise to a contract liability. However, customers might not exercise all of their contractual rights. Those unexercised rights are often referred to as breakage.
- 23.120 If an entity expects to be entitled to a breakage amount in a contract liability, the entity shall recognise the expected breakage amount as revenue in proportion to the pattern of rights exercised by the customer when those future goods or services are transferred. If an entity does not expect to be entitled to a breakage amount, the entity shall recognise the expected breakage amount as revenue when the likelihood of the customer exercising its remaining rights becomes remote.

Disclosures

- 23.121 An entity shall disclose the revenue it recognised from contracts with customers disaggregated into categories, showing separately, at a minimum, revenue arising from:

- (a) the sale of goods;
 - (b) the rendering of services;
 - (c) royalties;
 - (d) commissions; and
 - (e) any other significant types of revenue from contracts with customers.
- 23.122 Unless the amounts are presented separately in the **statement of comprehensive income** by applying other sections of this Standard, an entity shall disclose the amount of impairment losses recognised (by applying Section 11) for the reporting period on any receivables or contract assets arising from an entity's contracts with customers, which the entity shall disclose separately from impairment losses from other contracts for the reporting period.
- 23.123 An entity shall disclose:
- (a) the opening and closing balances of receivables, contract assets and contract liabilities from contracts with customers, if not otherwise separately presented or disclosed;
 - (b) revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period; and
 - (c) revenue recognised in the reporting period from promises satisfied or partially satisfied in previous periods (for example, changes in estimates of variable consideration).
- 23.124 An entity shall disclose information about its promises in contracts with customers, including a description of:
- (a) when the entity typically satisfies its promises (for example, upon shipment, upon delivery, as services are rendered or upon completion of service);
 - (b) the significant payment terms (for example, when payment is typically due, whether the contract includes a financing transaction, and whether the consideration amount is variable);
 - (c) obligations for returns, refunds and other similar obligations; and
 - (d) types of warranties and related obligations.
- 23.125 For promises that an entity satisfies over time, the entity shall disclose the methods it used to recognise revenue—for example, a description of the output methods or input methods used and how those methods are applied.
- 23.126 An entity shall provide a quantitative or qualitative explanation of the significance of unsatisfied promises and when they are expected to be satisfied. However, an entity need not disclose such information for a promise if either of the following conditions is met:
- (a) the promise is part of a contract that has an original expected duration of one year or less; or

- (b) the entity recognises revenue from the satisfaction of the promise in accordance with paragraph 23.93.
- 23.127 An entity shall disclose:
 - (a) the closing balances of assets recognised from the costs incurred to obtain or fulfil a contract with a customer (in accordance with paragraphs 23.102 and 23.107), by main category of asset (for example, costs to obtain contracts with customers, pre-contract costs and set-up costs); and
 - (b) the amount of amortisation and any impairment losses recognised in the reporting period.
- 23.128 If an entity elects to use the options in paragraph 23.59 (making no adjustment for the time value of money) or paragraph 23.105 (costs of obtaining a contract), the entity shall disclose that fact.
- 23.129 If an entity recognises the costs to obtain a contract as expenses when incurred because it is unable to identify whether those costs meet the criteria in paragraph 23.102 without undue cost or effort, the entity shall disclose that fact and the reasons why identifying the costs that meet the criteria in paragraph 23.102 would involve undue cost or effort.