

Accounting Standards Board of Japan (ASBJ)

Fukoku Seimei Building 20F, 2-2, Uchisaiwaicho 2-chome, Chiyoda-ku, Tokyo 100-0011, Japan
Phone +81-3-5510-2737 Facsimile +81-3-5510-2717 URL <http://www.asb.or.jp/>



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International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sir or Madame

**Comments on Discussion Paper
“Preliminary Views on Revenue Recognition in Contracts with Customers”**

We appreciate the many years of efforts by the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) on the Revenue Recognition project and welcome the opportunity to provide comments on the Discussion Paper (the DP) “Preliminary Views on Revenue Recognition in Contracts with Customers”. The views mentioned below are those of the Technical Committee for Revenue Recognition, which has been set up in the Accounting Standards Board of Japan (ASBJ). As part of its Convergence project, the Technical Committee has been reviewing accounting standards on revenue recognition in Japan.

The attachment to this letter sets out our general comments and our responses to individual questions placed at the end of each section in the DP.

We hope that our comments contribute to the IASB’s future deliberations in this project.

Sincerely yours,

A handwritten signature in black ink that reads 'S. Sakase'.

Shigeo Sakase

Chairman, Technical Committee for Revenue Recognition
Vice Chairman, Accounting Standards Board of Japan

Appendix

General comments

The original transaction price measurement approach is a must

1. We believe that the primary emphasis should be placed on the objective of financial reporting (i.e. providing information about an entity's performance results that helps predicting future cash flows) in developing accounting standards on revenue recognition. From this perspective, we support the original transaction price measurement approach that the Boards propose in the DP for the measurement of performance obligations¹. We understand that, under IASB's and FASB's conceptual frameworks, revenue is recognised in an amount that equals to customer consideration when result of transaction becomes certain. That is, revenue is recognised by focusing on the obligation that is required to be satisfied in order to receive the customer consideration. Reporting an entity's actual result in a contract when such result becomes certain enables users to update their previous evaluations on the entity's performance. Such feedback would lead to the information relevant to predicting future cash flows (feedback value of the information). (See paragraphs 9–11.)

The measurement objective should be reexamined

2. It is inappropriate to specify that the measurement objective of performance obligations is to depict the entity's obligation at each financial statement date (paragraph 5.7). It is unclear how such depiction enhances predicting future cash flows, and specifying such measurement objective could potentially hinder the communication of certain revenue information mentioned in paragraph 1 that has proven to be useful and reflects the actual performance of the entity, by theoretically making the original transaction price approach an exception. Accordingly, we disagree that such objective is included in the accounting standard for revenue recognition. (See paragraphs 48 and 49.)

Recognising a separate liability from performance obligation is preferable to remeasurement

3. When a contract is deemed onerous, the DP makes an exception to the original transaction

¹ The DP states: “[b]y focusing on changes in assets and liabilities, the Boards do not intend to abandon the earnings process approach. On the contrary, the Boards think that focusing on changes in assets and liabilities will bring discipline to the earnings process approach so that entities can recognise revenue more consistently.”(paragraph 1.19) This statement means that, in a customer consideration measurement approach, it is revenue that determines the amount of assets and liabilities when an entity satisfies its performance obligations. In this regard, the Boards' proposed approach is similar to the earnings process approach.

price measurement approach which generally recognises performance obligations at the transaction price and not updating it subsequently. In this limited case, the DP proposes to remeasure the performance obligation. We suggest this exception could be eliminated by recognising a separate liability (i.e. a provision) rather than remeasuring the performance obligation. The expected net loss in a contract due to the increase in the expected cost required to transfer goods and services is an increase in the future cost of inventory rather than the cost of satisfying performance obligation. We believe our alternative would achieve consistent measurement of performance obligations including cases where the contract is deemed onerous. (See paragraphs 39–41.)

The meaning of *transferring control* needs to be clarified

4. The DP proposes to focus on the transfer of control of the promised goods and services in a contract with a customer. We believe the proposed model is essentially the same as the earnings process model because revenue is recognised when goods or services are provided, and hence we have no objection to such an approach. Under the earnings process model, revenue is recognised by focusing on the fulfillment of the obligation in a contract (i.e. the fact of providing goods and services as the obligation), which is required for the completion of the earning process.
5. However, clarifying the notion of ‘transferring control’ is crucially important in order to achieve the objective of this project. It is difficult to achieve consistent application without clear meaning. The concept of transferring control in the DP is highly abstract and leaves vast room for interpretation when implementing at practice. (See paragraphs 22–25, 27, 31 and 51.)

The percentage of completion method should be retained

6. We believe that, for the construction-type contracts that meet certain criteria, revenue recognition using the percentage of completion method provides more useful information that serves the objective of financial reporting. Existing accounting standards have required or permitted revenue recognition using the percentage of completion method for construction-type contracts because, for certain types of contracts, it is believed that revenue recognition using the percentage of completion method results in more relevant information in predicting future cash flows compared to other methods, such as the completion of contract method. The Boards’ proposed model seems to require recognising revenue at the completion of construction activities except where a contract continuously transfers the asset being constructed to a customer. This proposal overturns the established view on the usefulness of information resulting from the percentage of completion method.

However, the DP does not provide sufficient evidence for overturning such view in light of the objective of financial reporting. Accordingly, we believe revenue recognition using the percentage of completion method should be retained for certain types of construction-type contracts that meet certain criteria. (See paragraphs 32–37.)

Winning support from broad constituents is critical

7. Weighing potential benefits against drawbacks (i.e. potential adverse effects to the usefulness of the information that is provided under existing accounting models) and winning support from market participants is critical when making substantial changes to a pervasive accounting model in which our financial reporting resides. Revenue recognition in contracts with customers is the crux of financial reporting, which describes an entity's performance that is required by the users of financial statements in predicting the entity's uncertain future performance. While some of the requirements under the proposed model are under development, considerable costs, including systems investments would be called for to implement the new revenue recognition model. We believe that the Boards are mandated to convince market participants, preparers in particular, that potential benefits of the proposed model exceed relevant implementation costs.

8. Besides conceptual robustness, the proposed model needs to prove its applicability to real-world transactions and its ability to ensure appropriate implementation beforehand in order to achieve its proposed objective (e.g. providing more decision-useful information than existing models). We acknowledge that the Boards intentionally kept the model simple to facilitate the understanding of constituents when drafting the preliminary views. However, we urge the Boards to consider, in elaborating the proposed model, the complexities inherent in practice.

Response to the specific questions in the DP

Question 1

Do you agree with the boards' proposal to base a single revenue recognition principle on changes in an entity's contract asset or contract liability? Why or why not? If not, how would you address the inconsistency in existing standards that arises from having different revenue recognition principles?

Question 2

Are there any types of contracts for which the boards' proposed principle would not provide decision-useful information? Please provide examples and explain why. What alternative principle do you think is more useful in those examples?

9. We agree the Boards' preliminary views on the revenue recognition principles as far as the following measurement approach is applied because these are the characteristics of a revenue recognition model that provides decision-useful information:
- total revenue recognised equals total customer consideration;
 - performance obligations are measured using customer consideration amount and revenue is not recognised at contract inception; and
 - performance obligations are not basically remeasured subsequently and revenue is recognised only when performance obligations are satisfied².

However, the measurement method of related assets and liabilities determines whether the revenue recognition principle based on changes in an entity's contract assets or contract liabilities results in the provision of useful performance information for predicting future cash flows.

10. We believe that the proposed principle leads to a decision-useful revenue recognition that describes an entity's actual performance, as long as the original transaction price approach (i.e. initially recognise the performance obligations at the customer consideration without updating them subsequently) is applied and revenue is recognised only when performance obligations are satisfied. The proposed revenue recognition model is consistent with the IASB's and the FASB's conceptual frameworks³ if this measurement approach is applied.

² The DP states that the changes in performance obligations due to remeasurement when deemed onerous have no impact on revenue.

³ For example, the IASB's *Framework* states:
the procedures normally adopted in practice for recognizing income, for example, the

That is, revenue is recognised when the result becomes certain, at the customer consideration amount, which represents an entity's performance in the contract with the customer (cash inflow). In other words, reporting an entity's performance in a contract when actual result becomes certain enables users to update their previous estimates on the entity's performance in light of actual results. Measuring the performance obligation at the customer consideration amount and not updating it subsequently results in revenue recognition relevant to the provision of performance information with feedback value useful for decision-making, even if revenue is recognised from changes in assets and liabilities.

11. As mentioned above, the ultimate goal of establishing a revenue recognition principle is to achieve the objective of financial reporting, which is to provide useful information in predicting future cash flows. Accordingly, any revenue recognition standard needs to be developed from this viewpoint.
12. The DP implies that some types of contracts with certain characteristics may be excluded from the scope of the proposed revenue recognition principle (see paragraphs S11 and S13). We agree that there may be some contracts for which the Boards' proposed principle would not provide decision-useful information. This is the inevitable corollary of pursuing the objective of financial reporting, which is to assist in predicting future cash flows. For example, revenue recognition models could differ by contract if what is expected as a result of investment is significantly different depending on the type of the contract.
13. We are of the view that construction contracts is one such example where the proposed model based solely on the satisfaction of performance obligations does not necessarily result in decision-useful information. Our view on this issue is expressed in the comments

requirement that revenue should be earned, are applications of the recognition criteria in this Framework, and that such procedures are generally directed at restricting the recognition as income to those items that can be measured reliably and have a sufficient degree of certainty (paragraph 93).

Similarly, the FASB's *Statement of Financial Accounting Concepts* also states:

revenues are inflows or other enhancements of assets of an entity or settlements of its liabilities (or a combination of both) from delivering or producing goods, rendering services, or other activities that constitute the entity's ongoing major or central operations. (SFAC No.6, paragraph 78); and

Earnings focuses on what the entity has received or reasonably expects to receive for its output (revenues) and what it sacrifices to produce and distribute that output (expenses). Earnings also include results of the entity's incidental or peripheral transactions and some effects of other events and circumstances stemming from the environment (gains and losses). (SFAC No.5, paragraph 38).

to Question 9.

Question 3

Do you agree with the boards' definition of a contract? Why or why not? Please provide examples of jurisdictions or circumstances in which it would be difficult to apply that definition.

14. We agree with the Boards' definition of a contract because it is concise and covers most contracts.

Question 4

Do you think the boards' proposed definition of a performance obligation would help entities to identify consistently the deliverables in (or components of) a contract? Why or why not? If not, please provide examples of circumstances in which applying the proposed definition would inappropriately identify or omit deliverables in (or components of) the contract.

15. We believe that the definition of a performance obligation proposed by the Boards is appropriate. However, the following points should be addressed for clarification.
16. First, the Boards should clearly state that the deliverables in (or components of) a contract to be identified generally include whole deliverables (or components) to be transferred to a customer both directly and indirectly. In our view, the amount spent on goods or services that constitute indirect components is a part of the acquisition cost of the components directly provided to a customer, even when only the direct components are to be identified. For example, in a painting contract, the amount spent on indirect components (such as scaffolding or paint brushes) would be included in the cost of the services directly provided to a customer (such as paint, primer or painting service).
17. Second, the Boards should clarify whether revenue arising from the use of the entity's assets by others (e.g. interest, royalties and dividends) is within the scope of the proposed model. While IAS 18 specifies revenue arising from interest, royalties and dividends as well as revenue arising from the sale of goods and rendering of services, it is unclear whether the proposed model is applied to the use of the entity's assets by others.
18. Third, the Boards should narrow down and specify the cases in which construing an

implicit agreements as performance obligations are relevant in predicting future cash flows. Assuming implicit agreements between parties involved does not always reflect the substance of a transaction. The DP proposes to identify, without exception, a performance obligation when an obligation to transfer assets to a customer emerges as a result of entering into contract, even if the obligation is primarily arising from legal requirements or commercial practice (paragraph 3.7). Meanwhile, the DP expresses concern about potential failure of exhaustive recognition of performance obligation at contract inception (paragraph 5.23). One of the causes of the concern seems to be the inappropriateness of construing an implicit agreement when the transacting parties actually have no such intentions.

Question 5

Do you agree that an entity should separate the performance obligations in a contract on the basis of when the entity transfers the promised assets to the customer? Why or why not? If not, what principle would you specify for separating performance obligations?

19. We agree that an entity should separate performance obligations in a contract on the basis of when the entity transfers the promised assets to the customer, provided the timing of transferring the promised assets is appropriately determined (see paragraph 23 onward).
20. The unit of identification would be the unit of the promise (i.e. the entity fulfills each unit of the promise) if the performance obligation is defined as the promise to transfer an asset to the customer. Since the promise in question is the promise of transferring the asset, the unit of promise would be equivalent to the unit of transferring the asset.
21. However, the DP sets out a misleading explanation that implies the identification of performance obligations in a specific contract could be affected by how these performance obligations are treated in other contracts in the market. For example, the DP introduces a separability criterion (i.e. whether goods and services in question could be sold separately) in explaining performance obligations (see paragraph 3.11). In addition, the DP focuses on whether goods and services could be sold separately in other entities' contracts in the market (see paragraph A5). To avoid misunderstanding, the Boards should clarify that the unit of sales (i.e. the unit of identification for performance obligations) should be determined exclusively by the terms of a specific contract that the performance obligations relate to. (See paragraph 23 onward.)
22. The Boards should also make the meaning of the transfer of assets clearer because it is the

transfer of assets that separates performance obligations. The Boards' proposed model replaces *the completion of the earning process* with *the satisfaction of performance obligations*, which is then rephrased by *the transfer of control* of goods and services. However, the transfer of control is also a highly abstract concept and there is vast room for interpretation when applying it to a specific transaction. The concept of the transfer of assets could potentially lead to divergent practice in revenue recognition, depending on how it is interpreted. To achieve the objective of this project, which is to reduce inconsistencies in the practice of revenue recognition and room for interpretation, clarifying the meaning of this notion is required.

23. The DP implies that transfer of control should be determined not solely on the basis of the form of the physical possession of individual goods and services, but based on the substance (see paragraphs 4.31 and 4.56). This notion is appropriate and we strongly support it.
24. The DP proposes to determine transfer of control based on the terms of the specific contract that defines the timing of the transfer of control over goods and services. For example, if the contract terms are such that the customer will not obtain control of any of the equipment until the final piece is transferred, then the customer is effectively the custodian of the equipment until the final component of the equipment is delivered (see paragraph 4.31). Separating performance obligations based on the transfer of assets will result in the unit of revenue recognition that reflects the original unit of promise between the transacting parties⁴. If the timing of transfer of control is consistently determined by focusing on the substance of the transaction, revenue will be recognised when the promise is fulfilled, which leads to appropriate results.
25. The Boards should explicitly state this fundamental principle, regarding how to determine the transfer of control, as a general rule. This principle is applicable in general, and referring to it only in relation to a specific example is insufficient. Besides stating this general principle of interpretation, demonstrating how this general principle applies to actual cases in illustrative examples would be also very important and we urge the Boards to elaborate the explanation in the appendix to the DP.

⁴ When individual goods and services in a contract are not separately traded between the transaction parties, contractual terms usually do not specify the timing of the transfer of control of each good and service. However, even in such cases, the implicit contractual terms will be determined by reasonable interpretation of the contract because the *contract* is not limited to the terms explicit in contractual documents.

Question 6

Do you think that an entity's obligation to accept a returned good and refund the customer's consideration is a performance obligation? Why or why not?

26. Although the answer depends on specific contractual terms, such an obligation is a performance obligation of the entity in many cases.
27. For example, consider a contract that specifies that an entity must unconditionally accept returned goods for a certain period after the control of the goods is transferred to the customer. Our understanding is that the transfer of the control of the goods and that of the return service will be recognised as separate performance obligations because each of the transfers occurs at different times (as suggested by paragraph 3.24). However, it is important to account for this transaction based on its economic substance regardless of its form because apparently similar transactions may differ in their substance.

Question 7

Do you think that sales incentives (eg discounts on future sales, customer loyalty points and 'free' goods and services) give rise to performance obligations if they are provided in a contract with a customer? Why or why not?

28. In our view, an entity's obligation to pay sales incentives is usually a separate performance obligation distinguished from the sale of goods, according to the notion proposed in paragraph 3.24 of the DP.

Question 8

Do you agree that an entity transfers an asset to a customer (and satisfies a performance obligation) when the customer controls the promised good or when the customer receives the promised service? Why or why not? If not, please suggest an alternative for determining when a promised good or service is transferred.

29. We agree that an entity transfers the control of the goods or services to a customer when the customer obtains the control of the goods or services.
30. The question here is which party holds the control when either the entity or the customer clearly controls the goods or services. The timing of the transfer of control from the entity

to the customer and the timing at which the customer obtains the control from the entity are the two sides of the same coin.

31. When applying this concept to individual cases, it is necessary to interpret what decides the timing. As stated in our comments to Question 5 (see paragraphs 24 and 25), it is important to clarify that the timing of the transfer of control to a customer depends on the interpretation of contractual terms.

Question 9

The boards propose that an entity should recognise revenue only when a performance obligation is satisfied. Are there contracts for which that proposal would not provide decision-useful information? If so, please provide examples.

32. The Boards' proposed model would not always provide decision-useful information in construction-type contracts that meet certain criteria. For these contracts, a percentage of completion method should be retained for revenue recognition.
33. As stated (see paragraph 10), revenue should be recognised as the actual result when such result becomes certain. This leads to the provision of useful information with feedback value for users of financial statements in predicting future cash flows. In most cases, revenue is recognised when the obligation in a contract is satisfied because it indicates when the performance becomes certain. However, if the DP proposes to recognise revenue based solely on the satisfaction of performance obligations in isolation from the original purpose described here, the proposed model would not always result in providing decision-useful information.
34. The reason why the percentage of completion method has been required for revenue recognition in construction-type contracts is that the method is considered to provide more useful information than the completion of contract method in predicting future cash flows. That is, for construction-type contracts that meet certain criteria, the progress of construction in accordance with the specifications is the critical fact that makes an entity's performance in the contract certain. In other words, for such construction-type contracts, even if a performance obligation has not been satisfied legally, revenue is recognised as the performance becomes certain, for the purpose of providing more decision-useful information to predict future cash flows.

35. On the other hand, the DP assumes that a partially constructed asset generally does not have much value to the customer until it is completed and, accordingly, in most cases, contractual terms are interpreted to mean that the control will be transferred to the customer when the asset is completed and delivered to the customer. That is, most construction-type contracts are viewed as contracts in which the control of assets constructed does not transfer continuously to the customer even though the DP acknowledges there are exceptions in which the customer controls partially constructed assets where revenue may be recognised as the construction progresses. This would overturn current practice where revenue is recognised on a percentage-of-completion basis for most construction-type contracts and then abruptly require lump-sum recognition of revenue at the completion of construction. As a result, revenue would be recognised much later than in current practice.
36. The DP states that the principles in IAS 11 and IAS 18 are inconsistent. However, we understand that both standards share the fundamental underlying notion as described in paragraph 33 and are consistent on that level. Beyond the apparent difference on the surface, the current standards elect to adopt revenue recognition models depending on the characteristics of the contract to maintain consistency at the fundamental level (i.e. revenue is recognised when the result of a contract becomes certain).
37. To justify the proposal that will dramatically change the principle of the revenue recognition for construction-type contracts, the Boards must prove that the proposed model improves the decision-usefulness of the information to be provided and convince market participants. Otherwise, a percentage of completion method should be retained for construction-type contracts that meet certain criteria.

Question 10

In the boards' proposed model, performance obligations are measured initially at the original transaction price. Subsequently, the measurement of a performance obligation is updated only if it is deemed onerous.

(a) Do you agree that performance obligations should be measured initially at the transaction price? Why or why not?

38. We agree that the performance obligations should be initially measured at the transaction price (i.e. customer consideration). (See paragraphs 9 to 11.)

(b) Do you agree that a performance obligation should be deemed onerous and

remeasured to the entity's expected cost of satisfying the performance obligation if that cost exceeds the carrying amount of the performance obligation? Why or why not?

39. We agree that the contract should be deemed onerous and the difference between the expected cost and the carrying amount should be accounted as a loss when an entity's cost of satisfying the performance obligations exceeds the carrying amount of the performance obligations (i.e. cost trigger). However, we disagree that such loss is recognised through the remeasurement of the performance obligations.
40. The onerous trigger and the remeasurement when deemed onerous should exclude the margin. As described in the DP, a trigger with a margin or the remeasurement with a margin would be unnecessarily complex for most contracts with customers due to the high frequency of remeasurement (see paragraph 5.72). In addition, it would also report gains and losses that do not reflect the economic substance of an entity. In other words, the remeasurement with a margin would lead to the recognition of a fictitious loss that includes the amount of the margin that an entity does not have to pay for the satisfaction of performance obligations, and the fictitious loss will be then reversed as a gain if costs are incurred as expected. Such information, which does not reflect economic substance, would be detrimental to predicting future cash flows.
41. In addition, the loss arising from an onerous contract should be accounted through the recognition of separate liability (e.g. a provision) other than performance obligations. The expected net loss in a contract due to the increase in the expected cost required to transfer goods and services is an increase in the future cost of inventory rather than the cost of satisfying performance obligation. Performance obligations should be measured consistently and should not be updated subsequently, including cases where the contract is deemed onerous. We consider our alternative achieves more consistent application than the proposal in the DP.
- (c) Do you think that there are some performance obligations for which the proposed measurement approach would not provide decision-useful information at each financial statement date? Why or why not? If so, what characteristic of the obligations makes that approach unsuitable? Please provide examples.**
- (d) Do you think that some performance obligations in a revenue recognition standard should be subject to another measurement approach? Why or why not? If so, please**

provide examples and describe the measurement approach you would use.

42. We would like to comment on the underlying assumptions of these questions. Paragraph 5.7 notes that the objective of measuring performance obligations is to depict decision-useful information about an entity's:
- (1) obligation at each financial statement date arising from its promise to transfer goods and services to a customer;
 - (2) contractual performance during the reporting period.
43. We agree on the second measurement objective (i.e. depicting contractual performance in the comprehensive income). As stated earlier (see paragraph 10), measuring the performance obligation at the customer consideration amount and not updating it subsequently results in revenue recognition that provides useful information (with feedback value) in predicting future cash flows.
44. However, we disagree with the first measurement objective (i.e. depicting the present obligations of an entity arising from its promise to transfer goods and services to a customer) because it is unclear whether such measurement (i.e. measuring performance obligations at the amount required to satisfy the obligation at the financial statement date) results in useful information in predicting future cash flows. Rather, pursuing such measurement objective could potentially hinder the provision of performance information, which is provided by the statement of comprehensive income and the decision-usefulness of which has been confirmed empirically. Such measurement objective makes, in theory, the original transaction price approach an exception, which leads to the discussion that transforms the nature of decision-useful information (see paragraphs 5.34–5.38 and 5.90). Accordingly, the measurement objective specified in paragraph 5.7(b) is inappropriate and should be removed from the proposed revenue recognition principle.

Question 11

The boards propose that an entity should allocate the transaction price at contract inception to the performance obligations. Therefore, any amounts that an entity charges customers to recover any costs of obtaining the contract (eg selling costs) are included in the initial measurement of the performance obligations. The boards propose that an entity should recognise those costs as expenses, unless they qualify for recognition as an asset in accordance with other standards.

- (a) Do you agree that any amounts an entity charges a customer to recover the costs of**

obtaining the contract should be included in the initial measurement of an entity's performance obligations? Why or why not?

45. We agree that an entity should measure performance obligations at the customer consideration amount, because revenue should be recognised when actual result becomes certain (see paragraph 10). Uncertain result, which is only management's ex-ante expectation, should never be recognised as revenue.

(b) In what cases would recognising contract origination costs as expenses as they are incurred not provide decision-useful information about an entity's financial position and financial performance? Please provide examples and explain why.

46. The answer depends on the scope of the *contract origination costs*. The usefulness of information may be diminished if the costs related to probable future benefits (which should otherwise be capitalised as assets) are included in the contract origination costs and are expensed as incurred.
47. An entity's costs that lead to the probable inflow of future economic benefits meet the recognition criteria of asset. Accordingly, when control of goods and services is transferred to a customer, such costs will be recognised as expenses through the derecognition of those assets and the corresponding revenue will be recognised at the same time. On the other hand, the same entity's costs would be expensed as incurred if the costs do not meet the recognition criteria. The contract with customers connects an entity's costs with the inflow of future benefits and it would be reasonable to distinguish the probability of the inflow of benefit based on whether the costs relate to existing contract with customers. (For example, the costs spent in relation to the sales activities to obtain contracts with potential customers are not related to existing contracts and thus expensed as incurred.)

Question 12

Do you agree that the transaction price should be allocated to the performance obligations on the basis of the entity's stand-alone selling prices of the goods or services underlying those performance obligations? Why or why not? If not, on what basis would you allocate the transaction price?

48. We agree that the transaction price should be allocated to performance obligations based on the stand-alone selling prices of the goods or services.

49. The selling price is usually the transaction price determined by the agreement between an entity and its customer. If stand-alone selling prices of the goods and services are explicitly specified in the contract, such stand-alone selling prices should represent consideration for satisfying each of the performance obligations.

Question 13

Do you agree that if an entity does not sell a good or service separately, it should estimate the stand-alone selling price of that good or service for purposes of allocating the transaction price? Why or why not? When, if ever, should the use of estimates be constrained?

50. We agree that an entity should estimate the stand-alone selling prices of the goods or services when these prices are not explicitly given, so far as the related performance obligations need to be separated because timing of transferring these goods or services differs.
51. However, when an entity does not sell goods or services separately and needs to estimate the stand-alone selling prices of these goods or services without reliable evidence, the entity should examine whether performance obligations are separable in the first place. Such situation may often indicate that these goods and services, in specific contractual terms, are transferred at the same time because an entity generally will not transfer control of goods or services to the customer before the consideration for the transfer is ensured.