



30 Cannon Street, London EC4M 6XH, United Kingdom
Tel: +44 (0)20 7246 6410 Fax: +44 (0)20 7246 6411
Email: iasb@iasb.org Website: www.iasb.org

International
Accounting Standards
Board

This observer note is provided as a convenience to observers at IFRIC meetings, to assist them in following the IFRIC's discussion. Views expressed in this document are identified by the staff as a basis for the discussion at the IFRIC meeting. This document does not represent an official position of the IFRIC. Decisions of the IFRIC are determined only after extensive deliberation and due process. IFRIC positions are set out in Interpretations.

Note: The observer note is based on the staff paper prepared for the IFRIC. Paragraph numbers correspond to paragraph numbers used in the IFRIC paper. However, because the observer note is less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

IFRIC meeting: September 2006, London

Project: IAS 11 *Construction Contracts* / IAS 18 *Revenue*
Allocation of profit in unsegmented contracts
(Agenda Paper 8(v))

Introduction

1. At its March 2006 meeting, the IFRIC considered an issue identified when deliberating revenue recognition and measurement relating to certain service concession arrangements. The issue concerned whether it was appropriate, in an unsegmented contract, to allocate different profit margins to the different components of a contract. The IFRIC noted that this issue had ramifications beyond service concession arrangements and asked the staff to give priority to a separate project to analyse IAS 11 and IAS 18 to determine whether it is appropriate, in an unsegmented contract, to allocate different profit margins to the different components.
2. At its July meeting, the IFRIC agreed with the staff that, where a contract provides for construction services and other services not directly related to construction activities, it was appropriate to split the contract into construction (to which IAS 11 segmenting requirements would apply) and other components (to which the IAS 18 requirements for recognising components would apply).

The consequence was that different profit margins might be recognised on the different components.

3. The IFRIC also considered this issue in the context of the Customer Loyalty Programmes and Service Concession Arrangements projects. The IFRIC tentatively decided not to take the item onto its agenda but deferred publishing formal wording for this decision, pending the publication of the Draft Interpretation on Customer Loyalty Programmes which will propose relevant guidance on a similar issue (see paragraph 7 and BC 8 to BC 10 quoted in the appendix of this agenda paper).
4. This agenda paper sets out a re-drafted wording for rejection. **The staff ask IFRIC members for their comments on this wording and whether it is appropriate to publish it following publication of the draft Interpretation on Customer Loyalty Programmes.**

Proposed wording for rejection (without track changes)

[Paragraphs omitted from observer note].

Proposed wording for rejection (with track changes)

[Paragraphs omitted from observer note].

APPENDIX

[Paragraphs omitted from observer note].