

March 2012

Financial Accounting Standards Board



FASB staff document

Revenue recognition – Potential changes to U.S. GAAP

This document has been prepared by the staff of the FASB. The views expressed in this document are those of the FASB staff, not necessarily those of the Financial Accounting Foundation or the FASB. Official positions of the FASB are reached only after extensive due process and deliberations.



Background

Who would be affected by the revised Exposure Draft amendments?

- Any entity that enters into contracts with customers unless those contracts are in the scope of other standards (such as insurance contracts or lease contracts (see slide 6)).

Why are the FASB and IASB issuing the revised Exposure Draft?

- To clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and IFRSs that would:
 - Remove inconsistencies and weaknesses in existing revenue requirements.
 - Provide a more robust framework for addressing revenue issues.
 - Improve comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets.
 - Provide more useful information to users of financial statements through improved disclosure requirements.
 - Simplify the preparation of financial statements by reducing the number of requirements to which an entity must refer.

New
Framework

Transfer of control (see slide 5)



Purpose

The purpose of this FASB staff document is to:

- Highlight anticipated key differences between the revised Exposure Draft and current U.S. GAAP.
- Assist stakeholders in identifying key topics of potential change they may want to evaluate further.
- Provide a mapping to key FASB pronouncements expected to be affected by the revised Exposure Draft, if issued as proposed.



Purpose (cont'd)

- This document is not intended to:
 - represent a complete identification of all potential differences between the revised Exposure Draft and current U.S. GAAP or all potential current guidance that would be affected
 - replace independent research and assessment and management judgment
 - address all areas within the revenue recognition guidance, including industry-related topics
- Feedback and questions are welcome – please contact the FASB staff – and see the project website for more information (see slide 52)



Underlying revenue recognition concepts

5

Current guidance^{1, 2}

Realized or realizable and earned³

General recognition concepts

Persuasive evidence of an arrangement exists (see slide 7).

Delivery has occurred or services have been rendered (see slide 8).

Price is fixed or determinable (see slide 10).

Collectibility is reasonably assured (see slide 9).

Construction- and production-type contracts (Subtopic 605-35)

Various industry-specific guidance

Software (Subtopic 985-605)

Real estate sales (Subtopic 360-20)



Proposed model*

The transfer of a promised good or service determines when revenue is recognized and occurs when (or as) the customer obtains control of the asset. Transfer can be made either at a point in time or over time.

See:

- Slide 11 for the limitation on the amount of cumulative revenue that can be recognized
- Slide 15 for criteria for recognizing revenue over a period of time.

[Exposure Draft paragraphs 31–37, IG63, and IG64]

1 = In absence of industry-specific principles, SEC registrants follow the general recognition concepts from SAB Topic 13. Non-SEC registrants may or may not analogize to SAB Topic 13 or Subtopic 985-605, Software (formerly Statement of Position 97-2, Software Revenue Recognition).

2 = Throughout this document, SEC pronouncements are indicated where they pertain to given revenue recognition Topics. However, the revised Exposure Draft does not replace or affect guidance issued by the SEC or its staff for public companies in their filings with the SEC. Content in the SEC Sections is expected to change over time in accordance with the SEC's normal procedures for making changes to SEC rules, regulations, interpretive releases, and staff guidance.

3= Concepts Statement No. 5, Recognition and Measurement in Financial Statements of Business Enterprises.

* See slides 30 and 31 for Codification guidance that would be affected by the revised Exposure Draft.

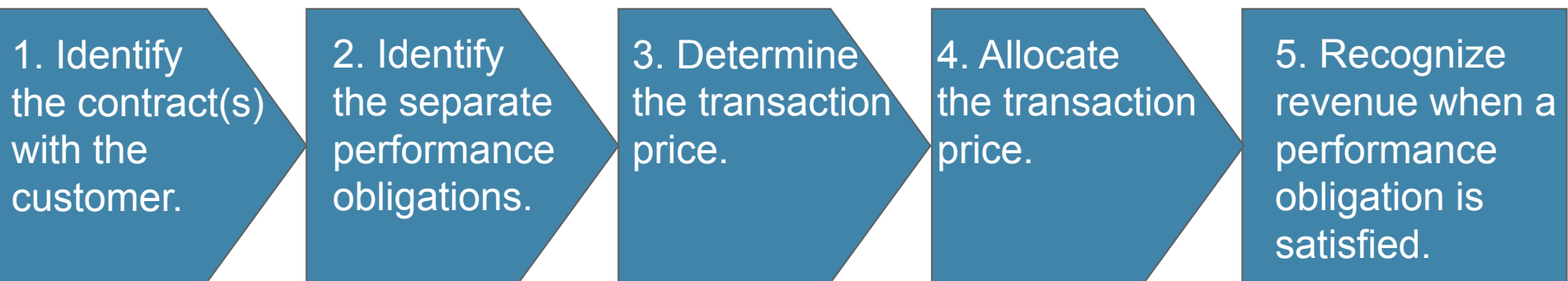


Overview of the revised proposals

Core principle:

Recognize revenue to depict the transfer of 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.

Steps to apply the core principle:



Scope: The revised proposals apply to all contracts with customers except for lease contracts within the scope of Topic 840, insurance contracts within the scope of Topic 944, nonmonetary exchanges between entities in the same line of business to facilitate sales to customers (or to potential customers) other than parties to the exchange, guarantees within the scope of Topic 460, and contractual rights and obligations within the scope of Topics 310, 320, 405, 470, 815, 825, and 860 [Exposure Draft paragraph 9].

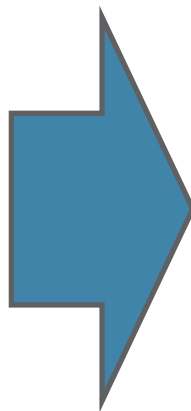


Persuasive evidence

Current guidance

The term *persuasive evidence* refers to evidence of the final understanding between parties about the specific nature and terms of an agreed-upon transaction.

- Persuasive evidence is one of four revenue recognition conditions (see slide 5).
- The form of persuasive evidence must be consistent with customary business practice (e.g., contract, purchase order, etc.).



Proposed model*

A contract is an agreement that creates legally enforceable rights and obligations.

- A contract with a customer must exist to be within scope of the model.
- May be oral, written, or implied by customary business practices.
- To recognize revenue for a contract with a customer, the following criteria must be met:
 - Contract has commercial substance
 - Parties have approved contract and are committed to perform
 - Rights are identifiable
 - Payment terms are identifiable.

[Exposure Draft paragraphs 12–15]

* See slide 32 for Codification guidance that would be affected by the revised Exposure Draft..

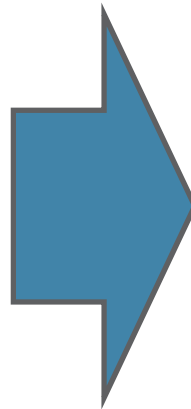


Delivery of product or performance of service

Current guidance

Revenue should not be recognized until the seller has substantially accomplished what it must do pursuant to the terms of the arrangement.

- Substantial accomplishment of performance usually occurs upon delivery of good(s) or performance of service(s).
- Delivery/performance is one of four revenue recognition conditions (see slide 5).
- Risks and rewards of ownership of the good(s) / service(s) must pass upon delivery / performance for revenue to be recognized.



Proposed model*

Delivery of goods or the performance of services is an indicator that control over contractually promised goods or services has transferred to the customer and that revenue may be recognized. Delivery or performance may occur at a point in time or over time.

Indicators of the transfer of control include, but are not limited to, the following:

- Right to payment
- Passage of legal title
- Physical possession
- Significant risks and rewards
- Customer acceptance.

See slide 15 for criteria for recognizing revenue over a period of time.

[Exposure Draft paragraphs 31, 32, 35, and 37]

* See slide 33 for Codification guidance that would be affected by the revised Exposure Draft..



Collectibility

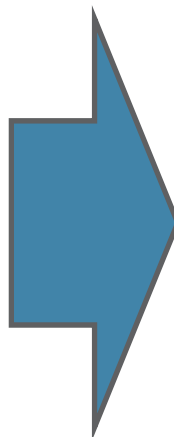
Current guidance

An arrangement's consideration (the seller's price) must be considered collectible for revenue to be recognized.

- Collectibility is one of four revenue recognition conditions (see slide 5).
- Collectibility must be reasonably assured.

Real estate and some industry-specific guidance, such as that for franchisors, provide factors to consider when evaluating collectibility.

If a receivable has been recorded and revenue recognized, the receivable may be considered impaired if it is subsequently assessed as uncollectible (Sections 310-10-35 and 450-20-25).



Proposed model*

The term *collectibility* refers to a customer's credit risk, that is, the risk that the entity will be unable to collect contract consideration from the customer to which it is entitled.

- There is no recognition threshold for expectations about collectibility.
- Revenue is recognized based on the amount to which the entity expects to be *entitled*, without regard to collection risk.
- If collectibility is significantly in doubt, a contract may not exist.
- Any impairment losses (and reversals) would be presented as a separate line item adjacent to revenue.

[Exposure Draft paragraphs 68, 69, and BC163–BC175]

* See slide 34 for Codification guidance that would be affected by the revised Exposure Draft.



Fixed or determinable

Current guidance

The seller's price (an arrangement's consideration) must be fixed or determinable for revenue to be recognized.

- A fixed or determinable sales price is one of four revenue recognition conditions (see slide 5).
- A fixed fee is a fee required to be paid at a set amount that is not subject to refund or adjustment.
- The sales price in cancellable arrangements is generally not fixed or determinable until cancellation privileges lapse.

The multiple-element arrangement guidance also contains criteria for price to be fixed or determinable. SEC guidance includes examples of determining whether a fee is fixed or determinable.



Proposed model*

A contract's transaction price represents the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer. This price may include variable consideration components.

An entity would estimate variable consideration using either:

- (1) An expected value (probability weighted amount)
- (2) The most likely amount depending on which method better predicts the amount of consideration to which the entity is entitled. If there is variable consideration, cumulative recognizable revenue may be constrained (see slide 11).

[Exposure Draft paragraphs 53–57 and IG2–IG9]

* See slide 35 for Codification guidance that would be affected by the revised Exposure Draft.

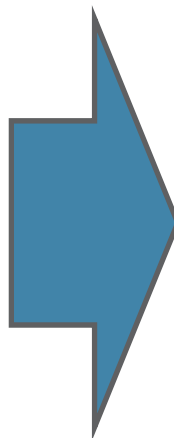


Constraint on the amount of revenue that can be recognized

Current guidance

The amount of arrangement consideration that can be recognized is limited to the amount that is fixed or determinable. As indicated on slide 10, having a fee that is fixed or determinable is one of four revenue recognition conditions (see slide 5).

Certain industry guidance provide additional revenue recognition constraint considerations (for example, the guidance for sales of real estate and nonutility generators with a power sales contract containing scheduled price changes).



Proposed model*

If consideration is variable, then the cumulative amount of revenue an entity may recognize is limited to the amount that is “reasonably assured.”

Consideration attributed to a performance obligation is considered reasonably assured – and hence revenue recognition is not restricted – if both:

- (1) The entity has experience (or other evidence) with similar types of performance obligations.
- (2) The entity’s experience (or other evidence) is predictive of the amount of consideration to which the entity will be entitled for satisfying its performance obligations.

[Exposure Draft paragraphs 81–85 and IG69–IG71]

* See slide 36 for Codification guidance that would be affected by the revised Exposure Draft.



Loss recognition (onerous test)

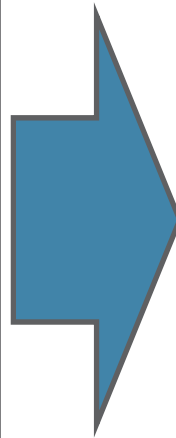
Current guidance

Guidance on loss recognition is generally limited to guidance on loss contingencies in Topic 450, Contingencies.

However, industry-specific guidance on recognizing losses on contracts is provided for construction- and production-type contracts. Under this guidance, provisions for losses are measured at the contract or segment level and consider total revenues and costs.

Other loss recognition guidance pertains to:

- Multiple-element software arrangements (concerning undelivered elements)
- Extended warranty or product maintenance contracts.



Proposed model*

Each separate performance obligation within a contract with a customer determined at contract inception that is both (a) to be delivered or performed over time and (b) satisfied over a period greater than one year is subject to the onerous test.

An onerous performance obligation, and corresponding expense, would be measured at the amount by which the lowest cost of settling the remaining performance obligation exceeds the amount of the transaction price allocated to that remaining performance obligation.

[Exposure Draft paragraphs 86–90 and 108]

Note: With respect to terminology, a “provision for loss on contract” under current guidance in Subtopic 605-35, Revenue Recognition—Construction-Type and Production-Type Contracts, is similar to an onerous performance obligation under the proposed model.

* See slide 37 for Codification guidance that would be affected by the revised Exposure Draft.



Licenses and rights to use

Current guidance

Revenue from an intellectual property licensing agreement or similar arrangement (e.g., licenses of motion pictures, software, technology, other intangibles) cannot be recognized before inception of the license term. Once the term begins, revenue should be recognized consistent with the nature of the transaction and the earnings process.

Additional license revenue recognition guidance is industry-specific.



Proposed model*

Revenue from a license or other right to use arrangement is recognized when the customer obtains control of the rights.

- Revenue cannot be recognized before the beginning of the period the customer can use and benefit from the license property.
- Revenue is generally recognized at a point in time, unless:
 - The fee is sales-based⁴.
 - The fee is not sales-based but the entity is otherwise constrained by the reasonably assured criterion.
 - The right to use is combined with other performance obligations (i.e., is not distinct).

[Exposure Draft paragraphs 85, IG33–IG37, and IG81]

⁴ = In accordance with paragraph 85 of the revised Exposure Draft, entities are not reasonably assured to be entitled to sales-based consideration related to licenses of intellectual property to customers. See slide 11 for further discussion on the reasonably assured constraint on revenue recognition.

* See slide 38 for Codification guidance that would be affected by the revised Exposure Draft.



Deliverables

Current guidance

Deliverables within an arrangement must be identified to determine whether each is a separate unit of accounting or if any/all must be treated as a bundle and accounted for as a single unit of accounting. While there is no formal definition of a *deliverable*, criteria are provided for determining whether a deliverable is a separate unit of accounting:

- (1) The delivered item(s) has standalone value to the customer.
- (2) If there is a general right of return relative to the delivered item, delivery or performance of the undelivered item or items is considered probable and substantially in control of the vendor.

For software transactions, the software guidance contains examples of deliverables.



Proposed model*

All goods or services promised in a contract with a customer must be evaluated to determine which are distinct and should be accounted for as separate performance obligations (that is, as separate units of accounting). A performance obligation is a promise to provide a good or service, and may be implied by customary business practices, published policies, or specific statements. All promises to provide goods or services must create a valid expectation of the customer that the entity will transfer those goods or services. To determine if a promised good or service is distinct, criteria in paragraphs 27–30 would be applied. Separate performance obligations are allocated a portion of the transaction price.

[Exposure Draft paragraphs 23–30]

* See slide 39 for Codification guidance that would be affected by the revised Exposure Draft.



Recognizing revenue over a period of time

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Current guidance

Generally, once all four revenue recognition conditions are met (see slide 5) for service deliverables, service revenue should be recognized on a straight-line basis, unless evidence suggests revenue is earned in a different pattern, over the contractual term or expected service period (whichever is longer). For construction- and production-type contracts, the percentage-of-completion method for recognizing income over time should be applied if all of the following criteria are met:

- (1) Reasonably dependable estimates of progress toward completion, revenues and costs can be made.
- (2) The contract stipulates enforceable rights, consideration, and settlement.
- (3) The buyer expects to satisfy all obligations.
- (4) The contractor is expected to perform.



Proposed model*

Control of a promised good or service is considered to transfer to a customer over a period of time and, hence, revenue would be recognized over a period of time, if one of two criteria is met (otherwise, control is considered to transfer at a point in time). Specifically, a performance obligation is satisfied over time if at least one of the following two criteria is met:

- (1) The customer controls the asset as it is created or enhanced.
- (2) The asset created has no alternative use to the entity *and* either (a) the customer receives a benefit (e.g., cleaning services), (b) another entity would not have to re-perform (e.g., transport), or (c) the entity has right to payment.

[Exposure Draft paragraphs 35 and 36]

* See slide 40 for Codification guidance that would be affected by the revised Exposure Draft.



Contract modifications

Current guidance

Guidance on accounting for contract modifications is limited to industry-specific guidance such as that for construction- and production-type contracts. Under the guidance for construction- and production-type contracts, contract revenue and costs must be adjusted for approved contract modifications involving scope and price. More detailed guidance is provided for unpriced change orders, which addresses the treatment for costs (expense or defer) and revenue if the percentage-of-completion method is applied.



Proposed model*

Accounting for contract modifications depends on the type of modification. The proposed model contains specific guidance to account for the following types of contract modifications:

- (1) Scope change with pending price change (unpriced change orders) [ED par. 19]
- (2) Price change only [ED par. 20]
- (3) Price and scope changes that constitute a separate contract [ED par. 21]
- (4) Price and scope changes that constitute a termination of the original contract and the creation of a new contract [ED par. 22(a)]
- (5) Price and scope change that constitute part of the original contract [ED par. 22(b)].

[Exposure Draft paragraphs 18–22 and IG61]

* See slide 41 for Codification guidance that would be affected by the revised Exposure Draft.

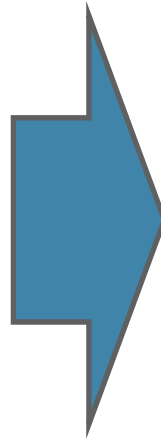
Disclosures

Current guidance

No single Topic or Subtopic provides comprehensive disclosure requirements for revenue. Disclosure requirements are included in industry-specific and general recognition standards. The SEC also requires certain revenue disclosures for publicly traded companies.

Disclosure requirements include:

- General requirements (e.g., accounting policies, seasonal revenue, segments, related parties)
- Specific requirements (e.g., multiple-element arrangements, nonmonetary revenue transactions, bill-and-hold, fees for services)
- Industry requirements (e.g., construction contractors, franchisors).



Proposed model*

The objective of the disclosures is for users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows from contracts with customers. Certain tabular rollforwards of balances would be required to address this objective.⁵

Annual disclosures would be expanded to include the following areas:

- Contracts with customers⁶
- Significant judgments and changes in judgments in applying the proposed guidance
- Assets recognized from costs incurred to obtain or fulfill a contract.

Interim disclosures would be required for certain of the above noted areas.

[Exposure Draft paragraphs 109–130]

⁵ = Nonpublic entities are allowed to provide more qualitative than quantitative information for some disclosures and may elect not to provide other disclosures.

⁶ = Disclosures related to contracts with customers include a disaggregation of revenue, a reconciliation of contract balances and descriptions of performance obligations (including onerous performance obligations).

* See slide 42 for Codification guidance that would be affected by the revised Exposure Draft.



Repurchase agreements⁷

Current guidance

Guidance on accounting for repurchase agreements is limited to industry and transaction-specific guidance. Notably:

- (1) For sales of real estate, if the seller retains an obligation or option to repurchase the property or the buyer can compel the seller to repurchase, the transaction would not qualify for sale accounting. Instead, it would be treated as a financing, lease, or profit-sharing arrangement.
- (2) For product financing arrangements, sale accounting does not apply. Instead, they are accounted for as financing arrangements.



Proposed model*

The accounting for repurchase agreements depends on (a) which party holds the obligation or right, and (b) the relative repurchase price as compared to the original selling price:

Forward or a call option - account for as either a lease or a financing arrangement depending on whether the repurchase price is less than or equal to/greater than the original selling price, respectively.

Put option - account for as a lease, a sale with a right of return, or a financing agreement. Whether the customer has a significant economic incentive to exercise is a key accounting determinant for these types of repurchase arrangements.

[Exposure Draft paragraphs 37 and IG38–IG48]

⁷ = The repurchase agreements addressed by the revised Exposure Draft exclude repurchase agreements within the scope of Topic 860, Transfers and Servicing, which concern transfers of financial assets.

* See slide 43 for Codification guidance that would be affected by the revised Exposure Draft.



Time value of money

Current guidance

Interest should be imputed for receivables arising from transactions with customers in the normal course of business that are due in customary trade terms exceeding approximately one year.

There is no requirement for entities to recognize interest on advance payments received from transactions with customers.



Proposed model*

In determining the transaction price, the promised amount of consideration is adjusted to reflect the time value of money *if* the contract has a significant financing component. The proposed model includes some factors to consider when evaluating whether the financing component is significant.

The time value of provisions need not be applied when the period between payment and the transfer of goods or services is one year or less.

[Exposure Draft paragraphs 58–62 and IG66]

* See slide 44 for Codification guidance that would be affected by the revised Exposure Draft.



Options for additional goods or services

Current guidance

The general concepts for accounting for options to purchase additional goods or services are provided in Subtopic 605-25, Multiple-Element Arrangements.

For software arrangements, the software guidance provides that if a vendor offers a more-than-insignificant incremental discount on a customer's future purchase of a good or service, the discount would be allocated to each element in the arrangement.



Proposed model*

If a contract provides an option for the customer to purchase additional goods or services, an entity would assess whether that option provides the customer with a "material right." If it does, then the option would be accounted for as a separate performance obligation (that is, as a separate unit of accounting) and allocated a portion of the transaction price.

[Exposure Draft paragraphs IG20–IG24]

* See slide 45 for Codification guidance that would be affected by the revised Exposure Draft.



Determining standalone selling price

Current guidance

An entity is generally required to determine the standalone selling price of a good or service based on the following hierarchy of evidence:

- (1) Vendor-specific objective evidence (VSOE)
- (2) Third-party evidence
- (3) Best estimate.

Some industry-specific guidance, such as that for software and films, have specific guidance on allocating arrangement consideration to individual deliverables in multiple-element arrangements.

For example, for multiple-element software arrangements, only VSOE of fair value may be used to allocate the fee. If VSOE does not exist, revenue is generally deferred.



Proposed model*

Standalone selling price is the price at which an entity would sell a promised good or service separately to a customer. The best evidence of standalone selling price is the observable selling price of a good or service when the entity sells that good or service separately. Otherwise, an estimate of the standalone selling price must be made. Suitable estimation methods may include:

- Adjusted market assessment
- Expected cost plus a margin
- Residual (if the standalone selling price is highly variable or uncertain).

[Exposure Draft paragraphs 71–75]

* See slide 46 for Codification guidance that would be affected by the revised Exposure Draft.



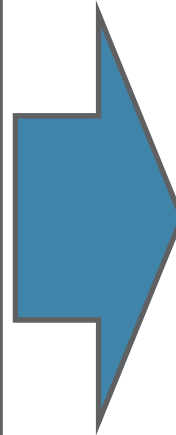
Allocating contingent consideration

22

Current guidance

In a multiple-element arrangement, an entity would generally allocate fixed or determinable consideration based on relative selling prices.

However, an entity that has research or development deliverables or other units of accounting that include milestones that are satisfied over a period of time for which a portion or all of the consideration is contingent upon uncertain future events or circumstances can elect to apply the milestone method. Under this method, an entity recognizes revenue upon the achievement of a substantive milestone in its entirety when the milestone is achieved.



Proposed model*

While a contract's transaction price, which includes any contingent consideration, is generally allocated to each separate performance obligation based on relative standalone selling price (see slide 21), the estimated contingent amount and subsequent changes would be allocated entirely to a distinct good or service if both:

- The contingent payment terms relate specifically to the entity's performance for that distinct good or service.
- The allocation to that distinct good or service is consistent with the allocation principle considering all performance obligations and contract payment terms.

[Exposure Draft paragraphs 71–76]

* See slide 47 for Codification guidance that would be affected by the revised Exposure Draft.



Transfers of nonfinancial assets

Current guidance

Guidance on accounting for the derecognition of nonfinancial assets is limited to transaction specific guidance, such as that for disposals of long-lived assets and sales of real estate (excluding consideration of business dispositions).

The guidance on sales of real estate applies to all entities, regardless of the nature of the seller's business. Specific criteria must be met for profit to be recognized in full on the date of sale, such as, but not limited to, the following conditions:

- Buyer's initial and continuing investment demonstrates a commitment to pay.
- No substantial continuing involvement by the seller.



Proposed model*

For the derecognition of nonfinancial assets, including intangibles (within the scope of Topics 350) and plant, property, and equipment (within the scope of Topic 360), that are not an output of an entity's ordinary activities, an entity would apply the (a) the proposed guidance on control to determine when to derecognize the asset and (b) the proposed measurement guidance to determine the amount of gain or loss to recognize upon derecognition of the asset.

Both financial institutions and nonfinancial entities would be subject to the proposed guidance on control transference and gain measurement if they sell nonfinancial assets, such as real estate**

[Exposure Draft paragraphs BC345–BC348]

* See slide 48 for Codification guidance that would be affected by the revised Exposure Draft.

** For example, financial institutions with other real-estate owned would be subject to the proposed guidance.



Costs of obtaining a contract

Current guidance

Guidance on accounting for the costs of obtaining a contract varies by transaction and industry. Generally, an accounting policy determines whether incremental direct costs incurred related to the acquisition or origination of a customer contract are capitalized or expensed. For SEC registrants, the policy for determining which costs to capitalize as contract acquisition and origination costs should be disclosed.



Proposed model*

An entity would recognize an asset for incremental costs of obtaining a contract with a customer if the costs are recoverable. Incremental costs are those costs that an entity incurs in its efforts to obtain a contract that it would not have incurred if the contract had not been obtained (for example, sales commissions). Capitalized costs would be amortized consistent with the pattern of transfer of the goods or services to which the asset relates.

If the amortization period would be one year or less, an entity may elect to expense the costs. Capitalized costs also would be subject to impairment testing.

[Exposure Draft paragraphs 94–103 and IG73]

* See slide 49 for Codification guidance that would be affected by the revised Exposure Draft.



Direct-response advertising costs

Current guidance

Direct-response advertising costs are capitalized if both of the following conditions are met:

- The primary purpose of the advertising is to elicit sales to customers who could be shown to have responded specifically to the advertising.
- The direct-response advertising results in probable future benefits.



Proposed model*

Costs relating to direct-response advertising would be expensed as incurred because such costs are not incremental costs of obtaining the contract.

[Exposure Draft paragraphs 94–97]

* See slide 50 for Codification guidance that would be affected by the revised Exposure Draft.

Costs of fulfilling a contract

Current guidance

Guidance on accounting for contract fulfillment costs is limited to industry-specific guidance for construction- and production-type contracts. Under this guidance, the following costs are accumulated in the same manner as inventory costs and are charged to operations as the related revenue from contracts is recognized:

- Precontract costs.
- Direct costs, such as material, labor, and subcontracting costs.
- Indirect costs allocable to contracts.

General and administrative and selling costs are expensed as incurred.



Proposed model*

If the costs incurred in fulfilling a contract are not in the scope of another Topic (for example, Topic 330, Inventory), an entity would recognize an asset if those costs meet all of the following criteria:

- (1) Relate directly to a contract or a specific anticipated contract (e.g. direct labor and direct allocations of costs)
- (2) Generate or enhance resources that will be used in satisfying performance obligations in the future
- (3) Are expected to be recovered.

Certain costs are expensed as incurred, such as most general and administrative costs. Capitalized costs would be amortized consistent with the pattern of transfer of the goods or services to which the asset relates, and subject to impairment testing.

[Exposure Draft paragraphs 91–93, 98–103, and IG72–IG73]

* See slide 51 for Codification guidance that would be affected by the revised Exposure Draft.

Other accounting topics that may be affected by the proposed model

Accounting topic

- *Allocating a discount entirely to one (or some) separate performance obligations [Exposure Draft paragraphs 74, 75, and IG68]*
- *Inconsequential or perfunctory obligations [Exposure Draft paragraphs 23–30, IG16, IG20, and IG62]*
- *Presentation of taxes collected from customers and remitted to governmental authorities [Exposure Draft paragraph 50]*
- *Loyalty programs [Exposure Draft paragraphs IG23 and IG79]*
- *Noncash (nonmonetary) consideration [Exposure Draft paragraphs 63 and 64]*
- *Right of return asset [Exposure Draft paragraphs IG2–IG9 and IG76]*
- *Amount of arrangement consideration allocated to warranty deliverables [Exposure Draft paragraphs IG10–IG15 and IG77]*
- *Uninstalled materials [Exposure Draft paragraph 46]*
- *Customer's unexercised rights (breakage) [Exposure Draft paragraphs IG25–IG28]*
- *Bill-and-hold arrangements [Exposure Draft paragraphs 37 and IG51–IG54]*
- *Combining contracts [Exposure Draft paragraphs 16 and 17]*
- *Funded software-development arrangements [if the counterparty is a customer, then the Exposure Draft applies]*





Appendix

Codification guidance affected by the revised Exposure Draft



Codification guidance affected by the revised Exposure Draft

What is the purpose of this Appendix?

- The purpose of this Appendix is to highlight the main Sections or Subtopics for the noted accounting topic (e.g., underlying revenue recognition concepts, persuasive evidence) that would be amended or nullified by the revised Exposure Draft. There may be other Sections or Subtopics for the noted accounting topic that also may be affected but not reflected in the list. This Appendix is not intended to indicate whether a Subtopic would be entirely deleted or if other Sections may be affected (see below).

Does this Appendix reflect all proposed Codification amendments?

- No. For a complete list of proposed Codification amendments, see Proposed Accounting Standards Update, *Revenue Recognition (Topic 605): Revenue from Contracts with Customers—Proposed Amendments to the FASB Accounting Standards Codification*[®], which was issued for public comment on January 4, 2012.



Codification guidance affected by the revised Exposure Draft

Underlying revenue recognition concepts (see slide 5)

- **Section 605-10-S99 (SAB Topic 13)**²
- **Real Estate Sales** – criteria for recognizing profit on sales of real estate under full accrual method; recognition of profit when the full accrual method is not appropriate [Section 360-20-40]
- **Construction** – recognition [Section 605-35-25]
- **Agriculture** – patron transactions with marketing cooperatives [Section 905-605-25]
- **Airlines** – passenger and air cargo; sales-life match and sampling methods [Section 908-605-25]
- **Contractors–Federal Government** – fees under cost-plus-fixed fee contracts; convenience terminations [Subtopic 912-605]
- **Development Stage Entities** – general recognition principles [Subtopic 915-605]
- **Broadcasters** – exchanges of unsold advertising time for products and services [Section 920-605-25]
- **Cable Television** – hookup revenue [Section 922-605-25]
- **Films** – film sales; licensing arrangements [Section 926-605-25]
- **Music** – other fees paid [Section 928-605-25]
- **Oil and gas** – take or pay contracts [Section 932-605-25]



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Underlying revenue recognition concepts (cont'd) (see slide 5)

- **Brokers and Dealers** – underwriting commitment fees; mutual fund distribution fees [Subtopic 940-605]
- **Depository and Lending** – insurance commissions [Subtopic 942-605]
- **Mortgage Banking** – fees for services rendered [Subtopic 948-605]
- **Franchisors** – initial franchise fee [Subtopic 952-605]
- **Health Care Entities** – revenue from health care services [Section 954-605-25]
- **Not-for-Profits** – general recognition principles for exchange transactions [Section 958-605-25]
- **Real Estate–General** – initial rental operations; investor profit recognition; real estate syndication [Section 970-605-25]
- **Real Estate–Common Interest Realty Associations** – special assessments [Section 972-605-25]
- **Retail Land** – methods of profit recognition [Section 976-605-25]
- **Time-Sharing Activities** – profit recognition issues-continuing seller involvement [Section 978-605-35]
- **Regulated Operations** – long-term power sales contracts [Subtopic 980-605]
- **Software** – recognition [Section 985-605-25]



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Persuasive evidence (see slide 7)

- **Section 605-10-S99 (SAB Topic 13)²**
- **Films** – film sales; licensing arrangements [Section 926-605-25]
- **Music** – licensor accounting [Section 928-605-25]
- **Software** – software not requiring significant production, modification, or customization; persuasive evidence of an arrangement exists [Section 985-605-25]



Codification guidance affected by the revised Exposure Draft

Delivery of product or performance of service (see slide 8)

- **Section 605-10-S99 (SAB Topic 13)²**
- **Agriculture** – patron transactions with marketing cooperatives [Section 905-605-25]
- **Films** – film sales; licensing arrangements; delivery of the product [Section 926-605-25]
- **Music** – licensor accounting [Section 928-605-25]
- **Franchisors** – individual franchise sales; area franchise sales [Section 952-605-25]
- **Software** – software not requiring significant production, modification, or customization; delivery has occurred [Section 985-605-25]



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Collectibility (see slide 9)

- **Section 605-10-S99 (SAB Topic 13)²**
- **SEC S-X Rule 5-02-4²**
- **Receivables** – losses from uncollectible receivables [Section 310-10-35]
- **Real Estate** – criteria for recognizing profit on sales of real estate under full accrual method [Section 360-20-40]
- **Revenue and Gains** – realized or realizable and earned [Paragraph 605-10-25-1]
- **Films** – film sales [Section 926-605-25]
- **Music** – licensor accounting [Section 928-605-25]
- **Franchisors** – collectibility of franchise fees [Section 952-605-25]
- **Health Care Entities** – revenue from health care services [Section 954-605-25]
- **Retail Land** – methods of profit recognition [Section 976-605-25]
- **Software** – software not requiring significant production, modification, or customization; factors that affect the determination of whether a fee is fixed or determinable and collectible [Section 985-605-25]



Codification guidance affected by the revised Exposure Draft

Fixed or determinable (see slide 10)

- **Section 605-10-S99 (SAB Topic 13)²**
- **Products** – sales of products when right of return exists [Section 605-15-25]
- **Multiple-Element Arrangements** – initial measurement [Section 605-25-30]
- **Construction** – claims; recognition (award fees and performance incentives) [Section 605-35-25]
- **Films** – film sales; licensing arrangement-flat fees [Section 926-605-25]
- **Music** – licensor accounting [Section 928-605-25]
- **Software** – software not requiring significant production, modification, or customization; the vendor's fee is fixed or determinable and collectibility is probable [Section 985-605-25]



Codification guidance affected by the revised Exposure Draft

Constraint on the amount of revenue that can be recognized (see slide 11)

- **Section 605-10-S99 (SAB Topic 13)²**
- **Multiple-Element Arrangements** – initial measurement [Section 605-25-30]
- **Real Estate** – derecognition; implementation guidance and illustrations [Sections 360-20-40 and 360-20-55]
- **Films** – film sales; licensing arrangements; product availability; licensing arrangements-variable fees; returns and price concessions [Section 926-605-25]
- **Music** – licensor accounting [Section 928-605-25]
- **Regulated Operations** – contracts containing scheduled price changes; contracts providing for revenue determination or limitation under formula-based pricing arrangements [Section 980-605-25]
- **Software** – factors that affect whether a fee is fixed or determinable and collectible [Section 985-605-25-30]



Codification guidance affected by the revised Exposure Draft

Loss recognition (onerous test) (see slide 12)

- **Services** – separately priced extended warranty and product maintenance contracts [Section 605-20-25]
- **Construction** – provisions for losses on contracts [Section 605-35-25]
- **Health Care Entities** – losses under prepaid health care services contracts; obligations to provide future services and use of facilities under continuing care retirement community contracts [Sections 954-440-25 and 954-450-30]
- **Regulated Operations** – long-term power sales contracts [Section 980-350-35]
- **Software** – multiple-element arrangements [Section 985-605-25]



Codification guidance affected by the revised Exposure Draft

Licenses and rights to use (see slide 13)

- **Section 605-10-S99 (SAB Topic 13)²**
- **Multiple-Element Arrangements** [Subtopic 605-25]
- **Broadcasters** – barter transactions [Section 920-845-30]
- **Films** – licensing arrangements; licensing film-related products [Section 926-605-25]
- **Music** – license agreements [Section 928-605-25]
- **Franchisors** [Section 952-605-25]
- **Software** – multiple copies of software products versus multiple licenses [Section 985-605-25]



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Deliverables (see slide 14)

- **Multiple-Element Arrangements** – units of accounting [Section 605-25-25]
- **Software** – multiple-element arrangements [Section 985-605-25]



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Recognizing revenue over a period of time (see slide 15)

- **Section 605-10-S99 (SAB Topic 13)²**
- **Services** – services for freight-in-transit at the end of a reporting period [Section 605-20-25]
- **Construction** – circumstances appropriate for using the percentage-of-completion method; input and output measures (uninstalled materials) [Section 605-35-25]
- **Retail Land** – methods of profit recognition [Section 976-605-25]
- **Time-Sharing Activities** – profit recognition issues-percentage-of-completion method [Section 978-605-35]
- **Software** – measuring progress-to-completion under the percentage-of-completion method [Section 985-605-25]



Codification guidance affected by the revised Exposure Draft

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Contract modifications (see slide 16)

- **Construction** – change orders; unpriced change orders [Section 605-35-25]
- **Contractors–Federal Government** – contracts subject to renegotiation [Sections 912-225-45 and 912-405-45]
- **Films** – significant changes; modification of agreements [Section 926-605-25]
- **Software** – software requiring significant production, modification, or customization [Section 985-605-25]



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Disclosures (see slide 17)

General disclosures

- **Section 605-10-S99 (SAB Topic 13)²**
- **Sections 235-10-S99 and 225-10-S99 (REG S-X: Rules 4-08 and 5-03)²**
- **Notes to Financial Statements** – disclosure [Section 230-10-50]
- **Interim Reporting** – disclosure of summarized interim financial data by publicly traded companies [Section 270-10-50]
- **Segment Reporting** – disclosure [Section 280-10-50]
- **Principal Agent Considerations** – disclosure [Section 605-45-50]

Specific disclosures

- **Nonmonetary Transactions** – disclosure [Section 845-10-50]
- **Advertising Barter Transactions** – disclosure [Section 605-20-50]
- **Multiple-Element Arrangements** – disclosure [Section 605-25-50]

Industry-specific disclosures

- **Construction** – disclosure [Section 605-35-50]
- **Contractors–Federal Government** – disclosure [Section 912-605-50]
- **Films** – disclosure [Section 926-605-50]
- **Oil and Gas** – disclosure [Section 932-605-50]
- **Franchisors** – disclosure [Section 952-605-50]



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Repurchase agreements (see slide 18)

- **Real Estate Sales** – seller option or obligation to repurchase [Section 360-20-40]
- **Debt–Product Financing Arrangements** – recognition [Section 470-40-25]



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Time value of money (see slide 19)

- **Imputation of Interest** – applies to all entities [Subtopic 835-30]



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Options for additional goods or services (see slide 20)

- **Construction** – contract options and additions [Section 605-35-25]
- **Franchisors** – continuing product sales [Section 952-605-25]
- **Software** – transactions; upgrades or enhancements [Subtopic 985-605]



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Determining standalone selling price (see slide 21)

- **Multiple-Element Arrangements** – initial measurement [Section 605-25-30]
- **Films** – licensing arrangements-flat fees; nonrefundable minimum guarantees [Section 926-605-25]
- **Software** – multiple-element arrangements [Section 985-605-25]



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Allocating contingent consideration (see slide 22)

- **Multiple-Element Arrangements** – initial measurement [Section 605-25-30]
- **Milestone Method** – applies to all entities with research and development deliverables or units of accounting that include milestones [Section 605-28-25]



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Transfers of nonfinancial assets (see slide 23)

- **Intangibles-Goodwill and Other-General Intangibles Other than Goodwill** – derecognition (added) [Section 350-30-40]
- **Property, Plant, and Equipment** – sale of real estate with property improvements or integral equipment [Section 360-10-40]
- **Real Estate Sales** – derecognition [Section 360-20-40]



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Costs of obtaining a contract (see slide 24)

- **Section 605-10-S99 (SAB Topic 13)²** - costs incurred related to the acquisition or origination of a customer contract
- **Capitalized Advertising Costs** – criteria to capitalize direct-response advertising costs; direct-response advertising that does not result in probable future benefits [Section 340-20-25]
- **Services** – separately priced extended warranty and product maintenance contracts [Section 605-20-25]
- **Construction** – precontract costs [Section 605-35-25]
- **Cable Television** – franchise application costs [Section 922-350-25]
- **Investment Companies** – investment adviser’s offering costs when both 12b-1 fees and contingent-deferred sales fees are not received [Section 946-605-25]
- **Health Care Entities** – continuing care retirement community-cost of acquiring initial continuing-care contracts [Section 954-340-25]
- **Real Estate–General** – costs incurred to sell real estate projects [Section 970-340-25]
- **Time-Sharing Activities** – costs to sell time-sharing intervals [Section 978-340-25]



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Direct-response advertising (see slide 25)

- **Other Assets and Deferred Costs** – criteria to capitalize direct-response advertising costs
[Section 340-20-25]

Note: The guidance on direct-response advertising costs in Subtopic 340-20 would continue to apply to insurance entities under Topic 944.



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Costs of fulfilling a contract (see slide 26)

- **Construction** – contract costs; precontract costs [Section 605-35-25]



Project website

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The screenshot shows a web browser window displaying the Financial Accounting Standards Board (FASB) website. The URL is http://www.fasb.org/cs/ContentServer?c=FASBContent_C&pagename=FASB%2FFASBCr. The page title is "Revenue Recognition-Joint ...". The navigation menu includes "Board Activities", "Projects", "Exposure Documents", "EITF", "Standards", "About FASB", "Advisory Groups", "News Center", "FASB XBRL", and "FASB Store". The "Projects" tab is selected, and the page content is titled "Project Updates". The main heading is "Revenue Recognition—Joint Project of the FASB and IASB". The text states: "Last updated on January 6, 2012. Please refer to the [Current Technical Plan](#) for information about the expected release dates of exposure documents and final standards." Below this, there are several links: "*Due Process Documents", "*Project Objective and Summary of the Proposed Model", "Decisions Reached at the Last Meeting", "Summary of Decisions Reached to Date", "Next Steps", "Board/Other Public Meeting Dates", "Related FASB Documents", "Background Information", and "*Contact Information". A section titled "*DUE PROCESS DOCUMENTS" contains the text: "On January 4, 2012, the Board published, for public comment, an Exposure Draft, Revenue from Contracts with Customers—Proposed Amendments to the FASB Accounting Standards Codification®. The Exposure Draft is open for public comment until March 13, 2012." and a link to "Download the [FASB Exposure Draft](#)." Another link states: "On November 14, 2011, the Boards published, for public comment, an Exposure Draft, ...". The Windows taskbar at the bottom shows the time as 1:54 PM on 1/17/2012.

www.fasb.org

- Projects tab
- Revenue Recognition project
- Revised Exposure Draft (Nov 2011)
- Podcast (Nov 2011)
- Webcast (Dec 2011)
- FASB in Focus (Dec 2011)
- Codification amendments (Jan 2012)

