The Amended RR ED – Part 4

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The Amended RR ED: Part 4

- My objective in this webcast series is to discuss specific financial reporting risks to clarify industry specific issues relevant to financial statement preparers, auditors, and investors as the FASB and the IASB work to complete.

- The Comment period for the Amended RR ED ended March 13, 2012. I strongly encourage everyone to review the comment letters the Boards have received to date.

The Amended RR ED: Part 4

Revenue Recognition Meetings:

- The FASB and the IASB will host public roundtables in April, and May 2012 on the amended revenue recognition proposals.
- Open to those who have submitted a comment letter, or intend to submit a comment letter.
- The roundtables will be held in London (UK), Norwalk(US), and Tokyo (Japan) with an additional roundtable for US private companies in May 2012.
- The IASB will host outreach meetings in March in Sao Paulo (Brazil) and Kuala Lumpur (Malaysia).
- See www.fasb.org and www.ifrs.org for details.

Proposed Revenue ASU
The Revenue Recognition Roadmap

Principles:

Step 1: Identify the contract(s) with the customer.

Step 2: Identify the separate performance obligations in the contract.

Step 3: Determine the Transaction Price.

Step 4: Allocate the Transaction Price.

Step 5: Recognize revenue when a performance obligation is satisfied.

The Amended RR ED: Part 4

Step 3: Determine the Transaction Price

- The transaction price is the ***amount*** of consideration to which an entity ***expects*** to be entitled in exchange for transferring goods or services to a customer, excluding amounts collected on behalf of third parties (for example, sales taxes).
- To determine the transaction price entities must consider the contract terms and entity-specific customary business practices. The entity must assume that the contract will not be cancelled, renewed, or modified.

Note: Impact on gross versus net revenue reporting requirements related to excise taxes, and other similar levies collected by entities for government entities and other third parties.

The Amended RR ED:
Part 4

Step 3: Determine the Transaction Price

Components of the transaction price:

- Variable consideration,
- The time value of money,
- Noncash consideration, and
- Consideration payable to the customer.

The Amended RR ED: Components of the Transaction Price

- Collectibility – customer credit risk – is not a component of the transaction price.

  - Paragraph 68: For an unconditional right to consideration, entities must apply the guidance in Topic 310 – *Receivables* or IFRS 9, *Financial Instruments,* except as specified in Paragraph 69.
  - Paragraph 69 – Upon initial recognition any difference between the receivable measured per Paragraph 68 and the corresponding amount of revenue recognized, must be presented as a separate line item adjacent to the revenue line item.
  - If the contract does not have a significant financing component (Paragraph 58), any impairment and changes in the measurement of an impairment must be presented as a separate line item adjacent to the revenue line item.
  - Similar accounting applies to contract assets.

The Amended RR ED: Components of the Transaction Price

- Collectibility – Continued.

Paragraph 106: If an entity performs by transferring goods or services to a customer before receiving consideration, the contract must be presented either as a contract asset or as a receivable depending on the nature of the entity's right to consideration.

- Contract asset: An entity's right to consideration in exchange for goods or services transferred to a customer, when that right is conditioned on something other than the passage of time (for example, the entity's future performance).

- Receivable: An entity's right to consideration in exchange for goods or services that is unconditional.

Note: An entity may use a term other than contract asset but it must clearly distinguish between conditional and unconditional rights to consideration.

Step 3: Determine the Transaction Price
Variable Consideration

If the promised amount of consideration in a contract is variable, an entity must estimate the transaction price *at each reporting date* by using either the expected value (the sum of probability-weighted amounts based on a large number of contracts with similar characteristics) or the most likely amount (when the contract has only two possible outcomes, e.g., it includes a performance bonus or a penalty), depending on which method the entity expects to better predict the amount of consideration to which it will be entitled.

Sources of variability (not an exhaustive list):

- Discounts, rebates, refunds, credits,
- Incentives, performance bonuses,
- Penalties, price concessions.

Step 3: Determine the Transaction Price
Variable Consideration

Constraint on Cumulative Amount of Revenue Recognized:

If the amount of consideration to which an entity is entitled is variable, the cumulative amount of revenue the entity recognizes to date would not exceed the amount to which it is reasonably assured to be entitled.

Step 3: Determine the Transaction Price
Variable Consideration

An entity is reasonably assured to be entitled to the amount of consideration allocated to satisfied performance obligations ***only if both*** of the following criteria are met:

1. The entity has experience with similar types of performance obligations (or has other evidence such as access to the experience of other entities).
2. The entity's experience (or other evidence) is predictive of the amount of consideration to which the entity will be entitled to in exchange for satisfying those performance obligations.

An entity would be required to consider various factors when determining whether the entity's experience (or other evidence) is predictive of the amount of consideration to which the entity is entitled.

The Amended RR ED:
Step 3: Determine the Transaction Price

The Time Value of Money

An entity would adjust the promised amount of consideration to reflect the time value of money if the contract has a financing component that is significant to the contract.

1. The entity would consider various factors to determine whether a financing component is significant to a contract.
2. Practical Expedient: No consideration of the time value of money is required if at the inception of the contract, the entity expects that the period between payment by the customer and the transfer of the promised goods or services will be one year or less.

The Amended RR ED:
Step 3: Determine the Transaction Price

Noncash Consideration

- If a customer promises consideration in a form other than cash, an entity would measure the noncash consideration (or promise of noncash consideration) at fair value.

- If the entity cannot reasonably estimate the fair value of the promised noncash consideration, it would measure the consideration indirectly by reference to the standalone selling price of the goods or services promised to the customer in exchange for the consideration.

The Amended RR ED:
Step 3: Determine the Transaction Price

Noncash Consideration

Questions:

1. When it does not have the standalone selling price, would the entity use its best estimate of selling price?

2. What constrains the ability on the selling entity to use ESP?

The Amended RR ED:
Step 3: Determine the Transaction Price

Consideration Payable to the Customer

If an entity pays, or expects to pay, consideration to a customer (or other parties that purchase the entity's goods or services from the customer) in the form of cash, credit, or other items that the customer can apply against amounts owed to the entity, the entity would account for the consideration payable to the customer as a reduction of the transaction price unless the payment is in exchange for a distinct good or service.

New! Cloud Computing Webcast
Accounting for Set-up Fees and Implementation

Accounting for Set-up Fees and Implementation Activities

By Invitation Only!

I will conduct a unique 2-hour interactive webcast on issues raised by the financial reporting for set-up fees and implementation activities. My objective is to discuss and moderate a debate on the financial reporting issues, risks, and SEC comment letters on this topic.

- Fees: $ 200.00 per person
- When: Mid-May 2012 (Specific date to be announced)
- Email me (tony@acsondhi.com) or call me at 727-385-3597 to determine eligibility.

Tony Sondhi's Winter - Spring 2012 Seminar Schedule

Topic	Dates	Location
Revenue Recognition	***May 24 & 25***	***Boston, MA***
Advanced Topics in Revenue Recognition	***June 4 & 5*** ***June 18 & 19***	***Boston, MA*** ***San Jose, CA***
Software Revenue Recognition	May 10 & 11	Boston, MA
Advanced Topics in Software Revenue Recognition	June 11 & 12 June 25 & 26	Boston, MA San Jose, CA
Revenue Recognition – Amended ED	June 7 & 8	San Jose, CA, and Boston, MA,
NEW! Contracts	May 4	San Jose, CA
Contracts	***July-August***	***Raleigh, NC***

Please visit www.acsondhi.com or call 727-797-1515 for agenda and registration information.

Tony Sondhi's Winter – Spring 2012 Seminar Schedule

Topic	Dates	Location
Revenue Recognition	***July-August*** ***July-August***	***San Jose, CA*** ***Boston, MA***
Software Revenue Recognition	***July-August*** ***July-August***	***San Jose, CA*** ***Boston, MA***
Revenue Recognition	**June 14 & 15**	**San Jose, CA**
RR in Health Care and Bio-Tech Industries	**June 1**	**San Diego, CA**
Acquisition Accounting	**April 26**	**TBD**
Advanced Topics in Acquisition Accounting	**April 27**	**TBD**

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