

FASB IASB: Revenue Recognition FAQs

FASB IASB Preliminary Views Document on Revenue Recognition

Questions and Answers | Developed by the American Institute of Certified Public Accountants

1. What is happening at the FASB and IASB on the topic of revenue recognition?

In December 2008, in conjunction with their joint project on revenue recognition, the Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) both issued discussion papers titled “Preliminary Views on Revenue Recognition in Contracts with Customers” (preliminary views document).

Comments on the documents were due in June 2009 and the Boards are currently discussing the comments received.

In September 2009, the FASB also ratified Emerging Issues Task Force (EITF) Issue No. 08-1 (ASU 2009-13), Revenue Arrangements with Multiple Deliverables (amends EITF 00-21 – ASC Subtopic 605-25) and EITF Issue No. 09-3 (ASU 2009-14), Certain Revenue Arrangements That Contain Software Elements (amends SOP 97-2 – ASC Subtopic 985-605), Software Revenue Recognition). EITF 08-1 and 09-3 should both be applied prospectively to new or materially modified arrangements in fiscal years beginning on or after June 15, 2010.

Under EITF 08-1 (ASU 2009-13), if there is no vendor specific objective evidence (VSOE) or third-party evidence (TPE) of selling price for all units of accounting in an arrangement, the consideration received for the arrangement should be allocated to the separate units of accounting based upon their relative selling price. Generally, EITF 00-21 (ASC Subtopic 605-25) prohibited separating multiple elements into individual units of accounting without VSOE or TPE for all undelivered items, resulting in delivered and undelivered items being treated as one unit of accounting. This change is expected to result in revenue being recognized earlier for many transactions involving multiple deliverables.

EITF 09-3 (ASU 2009-14) modifies the scope of SOP 97-2 (ASC Subtopic 985-605) to exclude sales of tangible products, which will allow certain software elements sold with tangible products to use the separation guidance in EITF 08-1 (ASU 2009-13) for revenue recognition.

2. Why is this project being undertaken now?

In the U.S., generally accepted accounting principles (GAAP) revenue recognition guidance includes many different revenue rules. Some of them are industry specific and can produce conflicting results for economically similar transactions. In International Financial Reporting Standards (IFRS), revenue recognition has two main standards - IFRS 18, Revenue; and IAS 11, Construction Contracts. Many users have noted that they are difficult to apply beyond simple transactions because they provide limited guidance for transactions involving multiple components or multiple deliverables.

The goal of the joint FASB and IASB revenue recognition project is to clarify the principles for recognizing revenue and to create a joint revenue recognition standard for US GAAP and IFRS that companies can apply consistently across various industries and transactions.

3. Is the FASB doing this just so they can converge US GAAP to IFRS?

No. The Boards are developing a joint model to improve financial reporting by providing clearer guidance on when to recognize revenue. This should result in revenue being recognized more consistently for similar contracts, regardless of industry.

4. How will this project impact me?

A revenue recognition standard would impact all entities (public, private, and not-for-profit) that have contracts with customers.

The Boards have not excluded any particular contracts with customers from the proposed revenue recognition model, but are considering whether the following contracts should be included:

- Financial instruments and some nonfinancial instrument contracts that otherwise would be in the scope of existing financial instrument guidance.
- Insurance contracts within the scope of FASB Statement No. 60, *Accounting and Reporting by Insurance Enterprises* (ASC Subtopic 944) (and other related U.S. GAAP), and IFRS 4, *Insurance Contracts*.
- Leasing contracts that are in the scope of FASB Statement No. 13, *Accounting for Leases* (ASC Subtopic 840) (and other related U.S. GAAP), and IAS 17, *Leases*.

5. What is the overriding principle of the Preliminary Views Document?

The Preliminary Views Document proposes a contract centered revenue recognition model. It defines a contract as “an agreement between two or more parties that creates enforceable obligations.” It proposes that revenue should be recognized on the basis of increases in an entity’s net position in a contract with a customer – by satisfying an obligation in the contract.

The Preliminary Views Document focuses on the identification and measurement of performance obligations – resulting in an entity recognizing revenue when it satisfies a performance obligation by transferring a promised asset (such as a good or a service) to the customer.

6. What are some of the major differences/approaches in the Preliminary Views Document versus current rules?

If adopted in its current form, revenue would be recognized based on satisfying a contract obligation based on changes in the balance sheet. In contrast, today’s approach to earning revenue is based on the income statement. The proposed revenue recognition model in the Preliminary Views Document could have a significant accounting impact for several industries:

- Construction and Long-term Contracts. If not considered a continuous transfer of assets, revenue is not recognized until assets are transferred to the customer, as compared to recognizing revenue throughout the contract on a cost of completion method.
- Not-For-Profit. Revenue is recognized upon satisfaction of performance obligations, which could result in a change in revenue measurement for certain not-for-profit contracts. The extent of the change, however, depends on the specifics of the contract.
- Sales Incentives. Sales incentives are treated as performance obligations. Revenue is deferred until the obligations are satisfied, as compared to recognizing them as marketing expenses or other operating costs at the contract’s inception.

- **Contract Origination Costs.** Costs are expensed unless capitalizable in accordance with other standards (e.g., inventory and software development costs).
- **Post-Delivery Services.** Revenue related to services provided after delivery, such as warranties and incidental maintenance, is treated as performance obligations and the revenue is deferred until the obligations are satisfied. This is applicable for all post-delivery services, not just those separately priced.
- **Agriculture.** Revenue would only be recognized when there is a contract with a customer and when an entity has satisfied its obligations under the contract, as compared to recognizing revenue from an increase in the value of inventory even if there is no contract.

Transactions involving multiple deliverables and certain software elements with tangible products will be accounted for under EITF 08-1 (ASU 2009-13) which is moving closer to the revenue recognition guidance proposed in the Preliminary Views Document, in that it allows for increased separation of multiple deliverables within an arrangement.

7. What is the timetable for the Boards to issue a final standard?

The FASB and IASB currently plan to issue an exposure draft in the first half of 2010, and a final standard sometime in 2011. Since it is early in the project, this timeline is subject to change.

8. When should I start paying attention to developments in this area?

The Revenue Recognition project has the potential to impact every company's day-to-day accounting, and possibly the way they do business through contracts with customers.

The Boards will be discussing the project at their upcoming joint meetings, and are planning to issue an exposure draft in the first half of 2010. Members should stay current on the project and look for updates on the FASB Web site at http://www.fasb.org/revenue_recognition.shtml.

9. How significant of a task will it be for me to implement the new standard?

The proposed revenue recognition principle would require greater separation of deliverables for most industries. Initially, this process could be a significant undertaking, since it would require the identification and accounting for multiple performance obligations within a single contract.

10. What is the AICPA doing in regard to this project?

The AICPA has been closely monitoring the progress of the joint revenue recognition project, as well as advocating our positions and providing feedback to the Boards.

The Accounting Standards Executive Committee (AcSEC) has issued a [comment letter](#) on the Preliminary Views Document. We also conducted informal focus groups with AICPA Expert Panels (Health Care, Insurance, and Not-for-Profit Entities) and formed two additional groups to address the construction and software industries. The AICPA provided [industry-specific feedback](#) through a separate comment letter on the Preliminary Views Document.

We plan to continue reaching out to our members as the project progresses to allow a venue for individuals to provide additional insight to the Boards. The AICPA is also preparing to update all of our accounting products (including Guides, CPE materials, and Conferences) to include any new revenue recognition guidance when a standard is finalized.

11. Is the Private Company Financial Reporting Committee (PCFRC) reviewing the Preliminary Views Document for private company accounting?

Yes. The PCFRC has commented on the Preliminary Views Document, focusing on comments related to long-term contracts and the concerns of private company financial statement users. Members should refer to the [PCFRC Web site](#) for further information.