

# WELCOME TO AC'SENSE: APPLYING THE NEW REVENUE RECOGNITION RULES

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# APPLYING THE NEW REVENUE RECOGNITION RULES

March 2010



## REMINDERS

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- Technical questions may be submitted via the **Q&A Feature** on your screen. Time permitting, presenters will respond to these at the end of the session.
- Please submit as much information as possible (e.g., slide number reference, presenter, etc.).
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## SESSION OVERVIEW

- WHERE IS IT? - CODIFICATION AND CITES (REVENUE)
- ASU'S 2009-13 AND 14 (EITFS 08-1 AND 09-3)
- SOFTWARE AS A SERVICE (SaaS) REVENUE RECOGNITION UNDER EITF 08-1
- EITF 08-9 - MILESTONE METHOD OF REVENUE RECOGNITION
- UPDATE ON THE JOINT IASB/FASB CONVERGENCE PROJECT

## WHERE IS IT? CODIFICATION AND CITES (REVENUE)

### Accounting Standards Updates (ASUs)

- EITF 08-1 and EITF 09-3 ➤ ASU 2009-13 and 2009-14

### Accounting Standards Codification (ASC)

- ASC 605-25 = EITF 00-21 / EITF 08-1
- ASC 985-605 = SOP 97-2 / EITF 09-3
- ASC 985-605-55 = Technical practice aids
- ASC 605-35 = SOP 81-1
- ASC 605-10-S99 = SAB 104
- ASC 845-10 = APB 29

## POLL

Is your company considering early adopting the revised revenue rules?

- A. Yes
- B. No
- C. Unsure

## ASU 2009-13

### “REVENUE ARRANGEMENTS WITH MULTIPLE DELIVERABLES”

- ASU 2009-13 issued in October 2009
- Replaces ASC 605-25 (EITF 00-21)
- Eliminates requirement to establish VSOE/ORE of FV
  - **!!! Major change !!!**
  - Still requires use of VSOE or third party evidence, if available
  - Otherwise, use management’s estimated selling price (ESP)
  - Eliminates the residual method
    - Allocate based on estimated selling prices of all deliverables
  - No change to the “standalone value” criteria
  - Does not change SOP 97-2 (ASC 985-605) or apply to software transactions (but see slides on ASU 2009-14)
- Can be adopted immediately!!!

## ASU 2009-13

### MANNER OF ADOPTION

- Flexible approach allows:
  - Prospective adoption - Required for fiscal years beginning on or after June 15, 2010
  - Retrospective adoption - For all periods presented
    - Will probably not be used very often in practice?
    - Could be attractive to pre-IPO companies
- ➔ Early adoption - Either prospectively or retrospectively
  - Can be prospectively adopted early in any quarter, as long as adoption is reflected back to first fiscal quarter of the year

## ASU 2009-13

### PROSPECTIVE ADOPTION

- Only apply to *new* revenue arrangements or materially modified arrangements in periods subsequent to adoption
  - Legacy transactions still follow legacy accounting rules
  - Will often result in revenues being recognized under both the legacy and new rules in the initial period(s) of adoption
- Pre-existing master agreements
  - Transactions under an existing master agreement could be viewed as legacy transactions or new transactions depending on facts and circumstances
    - If terms and deliverables are already substantially agreed to, then it would be more likely to be viewed as a legacy agreement
    - Ongoing purchases under existing supply or distributor agreements would likely be viewed as new agreements

## ASU 2009-13

### SEPARATING DELIVERABLES

- Requires separation when the following criteria have been met:
  - Delivered items have standalone value to the customer
    - Sold separately by any vendor
    - Customer could resell on standalone basis
    - ~~Objective and reliable evidence of fair value (eliminated)~~
  - If there is a general right of return, delivery of undelivered item is probable and substantially in control of vendor
- If deliverables do not qualify for separation, then revenue should be determined for the combined deliverables as a single unit of account

### REVIEW QUESTION

True or false: Revenue arrangements with multiple deliverables should be divided into separate units of accounting if the deliverables have value to the customer on a standalone basis or if the arrangement includes a general right of return relative to the delivered items, delivery or performance of the undelivered items is considered probable and substantially in the control of the vendor?

- A. True
- B. False

## ASU 2009-13

### ALLOCATING CONSIDERATION

- Arrangement consideration should be allocated at the inception of an arrangement using relative selling prices
  - Subsequent changes in selling prices do not change initial allocation
- Exceptions and qualifications
  - Only allocate revenue that is fixed and determinable
  - Amount allocated to delivered items is limited to amount that is not contingent on delivery of any undelivered item or meeting specified performance criteria
  - Measurement of revenue per period must assume customer will not cancel arrangement
  - Revenue recognized cannot exceed non-cancelable amounts
  - Other GAAP requires deliverable to be recorded at FV

## ASU 2009-13

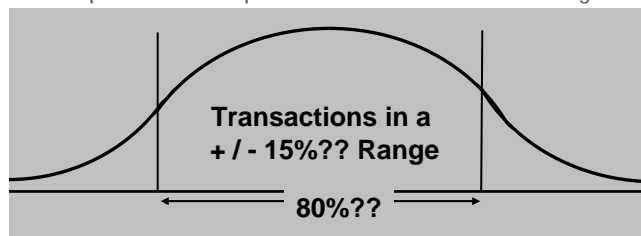
### VSOE AND ESTIMATED SELLING PRICES (ESP)

- Three-tiered hierarchy
  - VSOE (Vendor Specific Objective Evidence of fair value selling price)
  - Third party evidence
  - Estimated selling prices
- Now required for delivered and undelivered elements
  - Allocate arrangement consideration on pro rata basis
  - Residual method no longer allowed

## ASU 2009-13

### VSOE

- VSOE = Price charged when same element is sold separately
- Minimal authoritative implementation guidance
  - Results in a diversity of practice
- Bell-curve approach - Generally used in practice
  - Example - 80% of separate sales within +/- 15% range



## ASU 2009-13

### VSOE

#### VSOE studies

- Capturing separate sales data
- Annual, quarterly, or rolling four quarters basis?
- Foreign currency sales

#### Segmentation or blended rate?

- By skill set and level
- By geography or by . . . .

#### Periodic changes in methods used to assess VSOE

- Underlying changes in sales practices
- Refined change in estimate

## ASU 2009-13

### ESTIMATING SELLING PRICES

- ESP is not the same as fair value
- Level of support for estimated selling prices
  - Consider available evidence
  - Develop a methodology and consistently apply
  - Monitor for changes - Changes could occur mid-period or even daily!
  - No requirement for ability to reasonably estimate
- Use of studies - Similar to those performed to support VSOE
- Estimated selling prices can vary by customer class or geography
- Ok to consider cost plus a standard profit margin as support

## ASU 2009-13

### ESTIMATING SELLING PRICES

- Some estimates likely to be quite subjective in nature
  - Products that are never sold separately
  - Products with a wide range of selling prices
  - Future products
  - Software and other intellectual property

## ASU 2009-13

### ESTIMATING SELLING PRICES

Use of a range to define VSOE or estimated selling prices:

- No specific authoritative guidance on approach
- Range should be reasonably narrow, for example
  - Within +/- 15% of a median price
  - From list price to list minus 30%
- As long as stated prices are within the range, the item is deemed to be priced at the VSOE or ESP rate and no allocation of discounts is necessary
- If any items are priced outside of the range, then allocate prices on a specific VSOE or ESP point estimate
  - Generally use the midpoint of the range



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## ASU 2009-13

### ESTIMATING SELLING PRICES EXAMPLE

Company sells a product and also provides annual support services for the product. The product is delivered upfront and has standalone value.

Product: List = \$40K  
VSOE = \$32K-\$40K

Support services: List = \$8K per year  
ESP = \$5.5K-\$7.5K per year

Customer A purchases one product for \$32K and agrees to annual support for \$3K.



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## REVIEW QUESTION

Given the fact pattern on the previous slide, which of the following best describes how Company A should allocate the sales price between the product and the support services under ASU 2009-13?

- A. The product is deemed to be priced at the VSOE or ESP rate and no allocation of discounts are necessary
- B. One or more items are priced outside of the range, thus prices must be allocated based on a specific VSOE or ESP point estimate

## ASU 2009-13

### ALLOCATING BASED ON VSOE OR ESP

- Can result in negative margins on some deliverables
- For example
  - Product A - ESP = \$10K with a 5% profit margin
    - Cost of Product A = \$9.5K
  - Service B - ESP = 10K with a 100% profit margin
    - Cost of service B = \$5K
  - Sale of A + B for 18K results in the following allocation:

Revenue	\$9,000	\$9,000
Cost	<u>9,500</u>	<u>5,000</u>
Margin	<u>\$ (500)</u>	<u>\$4,000</u>

## EITF 08-1

### ESTIMATING SELLING PRICES

ESP can be expressed as a percentage or rate per hour

For example:

- Sale of equipment and one year standard maintenance and support
- Total consideration = \$90,000
- Equipment list = \$110,000
- Equipment ESP = \$100,000
- Support ESP = 10% of list

Revenue allocated to equipment = \$81,081  
 $\$90,000 \times (\$100,000 / \$111,000)$

Revenue allocated to support = \$8,919  
 $\$90,000 \times (\$11,000 / \$111,000)$



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## ASU 2009-13

### ESTIMATING SELLING PRICES - ROYALTY ARRANGEMENTS

ESP can be expressed as a royalty rate

- For example \$2 per unit sold
  - Can create complexity when allocating consideration
- For example:
  - Biotech agrees to deliver Patent A today and future Technology B when developed in approximately six months
  - Fees are \$100K for Patent A and \$8/unit sold for Technology B
  - Estimated selling price is \$100K for product A and \$8/unit for product B
  - Estimated volume on product B is 20,000 units
  - Total estimated selling price = \$260K = \$100K + (\$8 x 20,000 units)
  - Fixed and determinable consideration = \$100,000
  - Allocate consideration to A = \$100K x (\$100K / \$260K) = \$38,461
    - Initial allocation excludes contingent consideration in allocation!
    - This approach could be controversial



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## ASU 2009-13

### ESTIMATING SELLING PRICES - ROYALTY ARRANGEMENTS

#### Journal entries:

Delivery of Patent A

- |                        |           |          |
|------------------------|-----------|----------|
| • Dr. Receivable       | \$100,000 |          |
| - Cr. Revenue          |           | \$38,461 |
| - Cr. Deferred revenue |           | \$61,539 |

Delivery of Technology B

- |                        |          |          |
|------------------------|----------|----------|
| • Dr. Deferred revenue | \$61,539 |          |
| - Cr. Revenue          |          | \$61,539 |

Royalties from sale of 5,000 units

- |                  |          |          |
|------------------|----------|----------|
| • Dr. Receivable | \$40,000 |          |
| - Cr. Revenue    |          | \$40,000 |



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## REVIEW QUESTION

Which of the following is a TRUE statement with respect to estimated selling price (ESP) and multiple deliverable revenue recognition?

- A. Initial ESP should be adjusted for any subsequent changes in selling prices
- B. ESP should equal fair value
- C. ESP would not fluctuate across reporting periods
- D. Consideration should be allocated to deliverables at the inception of an arrangement based upon their relative estimated selling price



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## ASU 2009-13

### INCONSEQUENTIAL AND PERFUNCTORY DELIVERABLES

- SAB 104 indicates that if remaining undelivered obligations are *inconsequential and perfunctory*, then revenue for the unit of account can be recognized
  - Accrue costs of remaining inconsequential and perfunctory obligations
- Not clear how SAB 104 would still be applicable?
  - Guidance was primarily applied in situations where VSOE did not exist for the remaining inconsequential and perfunctory performance obligations
  - Elimination of VSOE requirement eliminates need for this SAB 104 guidance
  - If considering use of the SAB 104 guidance prospectively - Suggest proceeding with caution and consulting with SEC

## ASU 2009-13

### STANDALONE VALUE TO THE CUSTOMER

- EITF decided not to revisit or change guidance:
  - Sold separately by any vendor, or
  - Customer could resell the delivered item(s) on a standalone basis
- Elimination of VSOE/ORE requirement could place added scrutiny on standalone value criteria
- Pragmatic or literal application?
  - Upfront “transferrable” membership fee to join a golf club
  - License to use patented technology where license precludes resale
  - Implementation services where company also authorizes third party contractors to “separately” perform installation
  - Implementation services where other non-authorized third parties “separately” perform the installation
  - Shipping related to a product

## ASU 2009-13

### ASSESSING RELATED CONTRACTS

- ASC 605-25 - Separate contracts with the same entity shall be presumed to be negotiated as a package and shall be evaluated together
  - Presumption can be overcome with sufficient evidence
- ASC 985-605 - Contains similar guidance
- Can also apply to subsequent modifications to prior contracts where:
  - Performance is not substantially complete under original agreement
  - Terms of the original arrangement are modified or replaced
- Each situation should be carefully evaluated based on the individual facts and circumstances

## ASU 2009-13

### ASSESSING RELATED CONTRACTS - EXAMPLE

Scenario:

- Company A had a prior agreement with systems integrator (SI) under which revenue was being recognized ratably over three years. End-user was unhappy with SI. Company agreed to an early termination of SI agreement, and agreed to a new and expanded direct support agreement with customer.

*May the "old" and "new" agreements be considered related?*

## ASU 2009-13

### ASSESSING RELATED CONTRACTS - EXAMPLE

- Under this scenario, the new and old agreements *may* be considered related as the new contract represented a subsequent modification to the prior contract where performance was not substantially complete under original agreement and the terms of the original arrangement were modified.
- However, you would need to carefully consider all facts and circumstances.

## ASU 2009-13

### ASSESSING RELATED CONTRACTS - EXAMPLE

Scenario:

- Company A sold a limited reseller license with sales subject to royalties. The reseller license was modified to early terminate in six months. At the same time, a new unlimited license with no royalties was sold to the reseller. The new agreement also contained a specified upgrade and additional license fees.

May the “old” and “new” agreements be considered related?

## ASU 2009-13

### ASSESSING RELATED CONTRACTS - EXAMPLE

- Under this scenario, the new unlimited license and the old modified reseller license *may* be considered related as the contracts were with the same entity and assumed to be negotiated together and the subsequent modification of the reseller agreement would fall within ASC 605-25, assuming performance was not substantially complete under the original contract.
- Again, however, you would need to carefully consider all facts and circumstances.

## ASU 2009-13 AND ASU 2009-14

### ONGOING DISCLOSURE REQUIREMENTS

- Requires the following disclosures by similar type of arrangement:
  - The nature of multiple deliverable arrangements
  - The significant deliverables within the arrangements
  - General timing of delivery or performance of service
  - Performance, cancellation, termination, and refund type provisions
  - Significant factors, inputs, assumptions, and methods used to determine selling price
  - Whether deliverables in the arrangements qualify as separate units of accounting and the reasons that they do not qualify as separate units of accounting, if applicable
  - General timing of revenue recognition for significant units of accounting
  - Separately, the effect of changes in selling price, or method or assumptions used to determine selling price when significant

## ASU 2009-13 AND ASU 2009-14 TRANSITIONAL DISCLOSURE REQUIREMENTS

- Only applies where prospective adoption method is used
  - If following retrospective method, follow FAS 154 disclosure requirements
- Required qualitative disclosures by similar types of arrangements:
  - Description of any change in the units of accounting
  - Description of changes in how arrangement consideration is allocated
  - Description of the changes in the pattern and timing of revenue recognition
  - Whether adoption is expected to have a material effect on future financial statements
- Additional quantitative disclosures required, if material

## ASU 2009-13 AND ASU 2009-14 TRANSITIONAL DISCLOSURE REQUIREMENTS

- Required quantitative information if the effect of adoption is material
- Flexible approach - Any of the following methods may be used to meet this requirement:
  - The amount of revenue that would have been recognized in the year of adoption based on the prior rules
  - The amount of revenue that would have been recognized in the year prior to adoption based on the new rules
  - Revenue and deferred revenue in the reporting period broken out between legacy contracts still subject to prior rules and new contracts subject to the new rules

## ASU 2009-14

### CERTAIN REVENUE ARRANGEMENTS THAT INCLUDE SOFTWARE ELEMENTS

- Modifies scope of ASC 985-605 (SOP 97-2 and EITF 03-5) to exclude hardware products from the scope of SOP 97-2 using the following definition:

Tangible products containing software elements and non-software elements that function together to deliver the tangible product's essential functionality.

- Includes undelivered elements that relate to software that is essential to the tangible product's functionality
- Use ASC 605-25 to allocate between software and non-software elements
- EITF 03-5 - Still applies when software is essential to non-software services

## ASU 2009-14

### CERTAIN REVENUE ARRANGEMENTS THAT INCLUDE SOFTWARE ELEMENTS

Five considerations for assessing whether products function together to interdependently deliver the product's essential functionality:

1. Presumed if sales of product without software is infrequent.
2. Similar products that include/exclude the software should be evaluated together.
3. Separate sale of the software is not a presumption the software is not essential to the functionality of the product.
4. Software does not need to be embedded to be considered essential.
5. The non-software elements must substantively contribute to the combined product's essential functionality.

## REVIEW QUESTION

True or false: ASU 2009-14 removes all tangible products containing software that is essential to a product's functionality and nonsoftware components of tangible products from the scope of prior software revenue guidance?

- A. True
- B. False

## ASU 2009-13 AND ASU 2009-14 EXTENDED PAYMENT TERMS

- ASC 985-605 includes specific criteria that must be met in order to recognize revenue in advance in extended payment term arrangements
- Companies that use extended payment term arrangements that now fall outside of the scope of ASC 985-605 should still consider whether that guidance should continue to be applied
- The SEC staff has previously indicated that they believe some non-software technology arrangements that are subject to a risk of concession should consider and apply the guidance in ASC 985-605
- Could become a more prevalent issue under the revised scope requirements of ASU 2009-14

## EITF 08-1 AND EITF 09-3 STRATEGIC CONSIDERATIONS

- Expect changes in pricing policies as a result of not having to establish and maintain VSOE, including increased use of value-based pricing
- Expect more frequent future product, specified upgrade rights, and other hard to value future deliverables in agreements
- Uneven playing field in some situations, particularly where SW and HW companies directly compete
- Professional services organizations could be particularly affected
  - Captive PS organizations - Increased flexibility to price services?
  - Standalone PS organizations - Loss of competitive pricing advantage?
  - HW/SW Company PS organizations - Unclear whether to apply EITF 00-21 or SOP 97-2
- EITF could also still decide to revisit SOP 97-2 / ASC 985-605
  - EITFs 08-1 and 09-3 could result in considerable pressure to revisit SOP 97-2

## EITF 08-1 SaaS MODEL

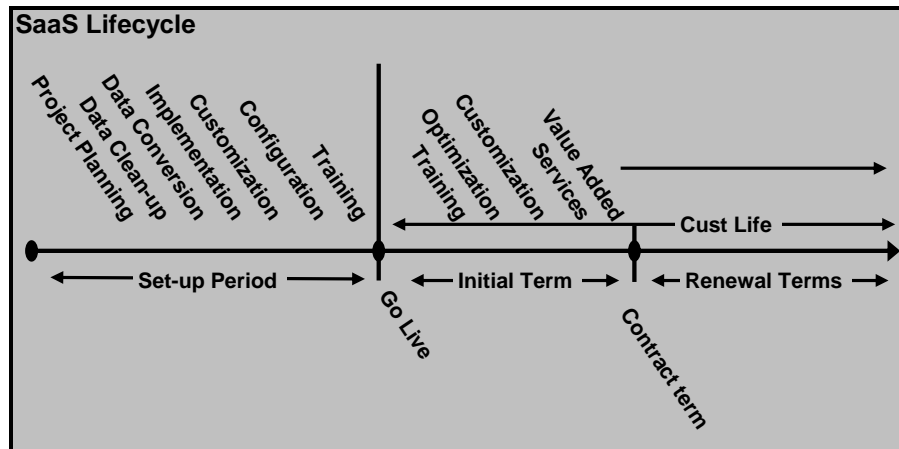
- SaaS = Software as a Service
  - Analogous to ASP (application service provider) model
  - ASP term no longer widely used in industry
- Can also be referred to as “cloud” computing model
- Becoming much more prevalent:
  - Users are less concerned with security issues
  - Economies of scale drive significant cost reduction
  - Allows for rapid access to advanced technology
- SaaS arrangements fall under ASC 605-10-S99 and ASC 605-25
- Also consider EITF 00-3, *Application of SOP 97-2 to Arrangements that Include a Right to Use Software Stored on Another Entity’s Hardware*
  - ASC 985-605-55-121 through 125

## REVIEW QUESTION

Which of the following would NOT be used to describe the concept of software as a service or "SaaS"?

- A. Means of delivering software over the Internet to simplify deployment and reduce customer acquisition costs
- B. Permits developers to support many customers with a single procedure version
- C. Opposite of the current application service provide ("ASP") model
- D. Often associated with a "pay as you go" subscription licensing model

## EITF 08-1 SaaS MODEL



## ASU 2009-13

### APPLICATION TO SaaS COMPANIES

- Undelivered element is typically the hosted service
  - Now use estimated selling price of hosting to unbundle
- Delivered element is typically upfront services
  - Do upfront services have standalone value?
    - "Sold separately by any vendor or the customer could resell the delivered item(s) on a standalone basis"
  - Set-up fees - SAB 104 fn 39
    - Recognize over expected life (# of years?)
    - Consider subsequent service agreements - does TPS 39 apply?
  - Accounting for costs
- Promises for specified upgrades
  - Carve out based on allocation using ESP

## POLL

Do you believe the revised revenue rules will favorably impact your company's revenue recognition?

- A. Yes
- B. No
- C. Still unsure

## EITF 08-9

### “MILESTONE METHOD OF REVENUE RECOGNITION”

**Scope** - Will apply to single unit of account where:

- Performance occurs over a period of time, and
- Some or all consideration is contingent upon future events  
EITF still assessing whether to apply outside of biotech industry

**Elective** - Does not preclude other methods of revenue recognition

**EITF has not reached a consensus on this issue yet**

- But could reach a consensus at the March 17-18 meeting??

**Transition Guidance**

- Effective for fiscal years beginning on or after June 15, 2010??
- Retrospective or prospective adoption??

## EITF 08-9

### “MILESTONE METHOD OF REVENUE RECOGNITION”

**Milestone Definition**

- Event for which there is substantive uncertainty of achieving
  - Changed in September 2009 from “substantial uncertainty”
  - An expectation of achieving a milestone does not necessarily mean that there is not substantive uncertainty associated with achieving the milestone
- Can only be achieved based on the vendor’s performance
- Payment contingent upon achieving the event

## EITF 08-9

### “MILESTONE METHOD OF REVENUE RECOGNITION”

- Payments contingent upon substantive milestones recognized in entirety when milestones are achieved
- Determining if a milestone is substantive is a matter of judgment based on the following principle:
  - Milestone consideration is commensurate with vendor’s performance or enhancement of value based on performance
  - Milestone consideration relates solely to past performance and is reasonable relative to all of the deliverables and payment terms
- Upfront payments and non-substantive milestone
  - Do not meet EITF 08-9 criteria for recognition
  - Recognize over term of arrangement?

## REVIEW QUESTION

True or false: EITF 08-9 considers a milestone event one in which there is substantial uncertainty about the achievement of such an event?

- A. True
- B. False

## EITF 08-9

### “MILESTONE METHOD OF REVENUE RECOGNITION”

#### Transition Guidance

- EITF to consider in March 17-18 meeting
- Effective for fiscal years beginning on or after June 15, 2010??
- Retrospective or prospective adoption?

## BILL AND HOLD REVENUE RECOGNITION

### RECENT SEC GUIDANCE

- SEC Staff Accounting Bulletin (SAB) 104 provides primary guidance
  - Guidance has not changed for 10+ years
- SEC Staff speech in late 2009 addressed considerations with respect to the guidance
- Staff reminder:
  - Equipment or product must be complete and ready for shipment
- Strictly interpreted
  - Can't allocate product to finished and unfinished components under ASU 2009-13 for purposes of partial revenue recognition
  - Can't treat additional work to complete as inconsequential and perfunctory
- Examples that would not qualify for recognition
  - Waiting to perform final calibration of equipment prior to shipping
  - Waiting to install latest version of software prior to shipping

## REVIEW QUESTION

True or false: The SEC Staff feels that in order for revenue recognition to be permissible when delivery of product has not occurred, generally the customer has to have taken title and assumed the risks and rewards of ownership of the products specified in the customer's purchase order or sales agreement?

- A. True
- B. False

## FASB/IASB JOINT PROJECT REVENUE RECOGNITION

Goal - To develop a single revenue recognition principle

- Would replace existing revenue standards
- Recognition that US GAAP and IFRS are deficient

History - Commenced in 2002, very slow progress, however urgency has increased

Current IASB/FASB timetable:

- December 2008: Discussion paper issued; six-month comment period
  - [http://www.fasb.org/draft/DP\\_Revenue\\_Recognition.pdf](http://www.fasb.org/draft/DP_Revenue_Recognition.pdf)
- 2010: Exposure draft to be issued with 6-month comment period
- 2010: Roundtable discussions (if necessary)
- 2011: Publication of final standard (?)

## FASB/IASB JOINT PROJECT REVENUE RECOGNITION

- Contract-based revenue model with an allocated customer consideration approach to measure performance obligations
- Focus on assets and liabilities arising from customer contracts
  - Contract = Enforceable Arrangement
- At contract inception, measure contract rights as the amount of promised customer consideration
- Consideration is allocated to performance obligations pro rata using observed or estimated selling prices
  - Net value of rights and obligations at inception would usually equal zero
  - No revenue until a performance obligation is satisfied
  - Separately record trade receivable apart from net contract value when customer has an unconditional obligation to pay

## FASB/IASB JOINT PROJECT REVENUE RECOGNITION

- Performance obligation
    - Any good or service promised in accordance with the contract
    - Goods and services are accounted for as separate performance obligations only if they transfer to the customer at different times
  - As an entity satisfies each performance obligation by transferring goods and services to the customer, the entity recognizes revenue for the corresponding increase in the contract asset or decrease in the contract liability (or combination of both)
  - *Transfer based on when the customer obtains control*
    - Transfer not based on transfer of risks and rewards
    - When does customer obtain control for goods that have been shipped FOB shipping?
- ➔ Under many software development contracts, control would likely not transfer until completion of the development

## REVIEW QUESTION

True or false: The FASB and IASB's joint project on revenue recognition convergence aims to eliminate inconsistencies in existing authoritative literature and accepted practice while filling voids that have emerged in revenue recognition guidance in recent years?

- A. True
- B. False

## FASB/IASB JOINT PROJECT REVENUE RECOGNITION

- The amount of revenue recognized is the amount of the transaction price that was allocated to the satisfied performance obligation at contract inception
- The measurement of a performance obligation at contract inception is subsequently updated only if it is deemed onerous, at which point it is re-measured.
  - The IASB has indicated that there may be other circumstances in which performance obligations might be re-measured
- Example - Contract to paint house and supply paint
  - *Current GAAP* - Delivered paint has standalone value, however, P14 of EITF 00-21 precludes recognition on delivery of paint if payment is contingent on completion of the contract
  - *Proposed model* - No performance until painting starts?

## FASB/IASB JOINT PROJECT REVENUE RECOGNITION - RECENT DECISIONS

- Combination, segmentation and modification
  - Is each contract, segment or modification priced separately?
  - Could lead to more segmentation than existing practice
- Time value of money - Measurement of net contract position should reflect time value of money when material
- Contingent consideration - Should be included in allocated consideration if amounts can be reliably estimated
  - Could lead to significant acceleration of revenues in some cases (royalty based arrangements?)
- Contract options
  - Treat as a performance obligation if the option represents a material right to the customer that the customer would not receive without entering into that contract
- Licenses
  - Exclusive - Treat similar to a lease and recognize over term
  - Non-exclusive - Recognize upfront if other criteria are met
- Contract costs - Expense as incurred

## REVENUE RECOGNITION RESOURCES

- BDO Newsletter on ASUs 2009-13 and 14  
<http://www.bdo.com/download/1275>
- IASB Work Plan for Revenue Recognition  
<http://www.iasb.org/Current+Projects/IASB+Projects/Revenue+Recognition/Revenue+Recognition.htm>
- FASB Project Update site  
<http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1218220137074>

## PRESENTER CONTACT INFORMATION

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## AC'SENSE PROGRAM

Currently scheduled\*:

- Quarterly Financial Reporting Update - April 16, 2010
- IFRS: Taxation - May 6, 2010
- Mergers & Acquisitions Matters - May 20, 2010

Ac'sense<sup>SM</sup> Programs and Website:

<http://www.bdo.com/acsense/>

- NOTE: Link to a self-study course of today's program will be available shortly at:

<http://www.bdo.com/acsense/events/newrevenue.aspx>



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## CPE CERTIFICATES

Certificates will be processed and will be accessible by participant for printing as follows:

1. Individuals - by logging onto the <http://university.learnlivetech.com/BDOonline> after the session is completed and clicking **on My Learning - Completed Items**. Under the Certificate column, click the **Print** button beside the completed webcast.
2. Group participants - After receipt and processing of submitted group sign-in sheets to [cpdregistrar@bdo.com](mailto:cpdregistrar@bdo.com), group participants will be proctored into LearnLive and will be notified via e-mail when they can retrieve their certificates, following the steps above.
3. Sign-in sheets may be downloaded from the following: <https://university.learnlive.com/content/public/1029/accessinstructions/CPE%20Attendance%20Sheet.doc>

## EVALUATION

- We continually try and improve upon our programming and appreciate constructive feedback
- Following the program, we will be sending out a thank you e-mail that contains a link to a brief evaluation
- Thank you in advance for your consideration!

That concludes today's program.



Thank you for attending!

Acsense

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