



The Amended RR ED – Part 3

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March 20, 2012





The Amended RR ED: Part 3

- 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 3

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.



The Amended RR ED: Part 3

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: Step 1: Identify the Contract(s) with the customer

Combination of contracts

- Paragraph 6: As a practical expedient, an entity may apply this proposed guidance to a portfolio of contracts (or performance obligations) with similar characteristics if the entity reasonably expects that the results would not differ materially had the guidance been applied to individual contracts.



The Amended RR ED: Step 1: Identify the Contract(s) with the customer

Combination of contracts:

Two or more contracts should be combined if they were entered into at or near the same time with the same customer (or related parties) and should be accounted for as a single contract if one or more of the following criteria are met:

- a) The contracts are negotiated as a single package with a single commercial objective.
- b) The amount of the consideration to be paid in one contract depends on the price or performance of the other contract.
- c) Some or all of the goods or services promised in the contracts are a single performance obligation.



The Amended RR ED: Part 3

Step 2: Identify the separate performance obligations in the contract(s) with the customer.

- A performance obligation is a promise in a contract to transfer a good or service to a customer.
- Activities undertaken to fulfill a contract do not constitute performance obligations unless the entity transfers a good or service to a customer as those activities occur. Setup activities are not a performance obligation.

Note: Many software, database, and cloud computing offerings require setup activities.



The Amended RR ED: Part 3

Step 2: Identify the separate performance obligations in the contract(s) with the customer.

In addition to manufactured and retail goods, and services of arranging for another entity to provide goods or services to the customer, other examples of performance obligations include:

- Standing ready to provide goods or services, e.g., when-and-if-available software products.
- Granting licenses or rights to use intangible assets.
- Granting options to purchase additional goods or services (when these options provide the customer with a material right, See IG20-IG22).



The Amended RR ED: Part 3

Step 2: Identify the separate performance obligations in the contract(s) with the customer.

Goods or services promised in a contract must be evaluated to identify which good or service (or, which **bundles** of goods or services) are **distinct**.

A bundle may be a combination of goods or service, or goods and services.



The Amended RR ED:

Step 2: Identification of separate performance obligations

Paragraph 28: *A good or service (or a bundle of goods or services) is **distinct** if **either** of the following criteria is met:*

1. The entity regularly sells the good or service separately.
2. The customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer.

If a promised good or service is **not distinct**, an entity would combine that good or service with other promised goods or services until a distinct bundle of goods or services can be identified.



The Amended RR ED: Step 2: Identification of separate performance obligations

Issues with “Distinct” Good or Service Concept

Questions:

- What if the entity does not sell the good or service separately but competitors do?
- How will the second criterion affect installation and “essential to functionality” concepts as used under current GAAP/IFRS?



The Amended RR ED: Step 2: Identification of separate performance obligations

Exception to “distinct” treatment for bundles of goods or services:

*Notwithstanding the criteria specified in Paragraph 28, a good or service in a bundle of promised goods or services is **not distinct** and, therefore, an entity would account for the bundle as a single performance obligation if **both** of the following criteria are met:*

1. The goods or services in the bundle are highly interrelated and transferring them to the customer requires that the entity also provide a significant service of integrating the goods or services into the combined item(s) for which the customer has contracted.
2. The bundle of goods or services is significantly modified or customized to fulfill the contract.



The Amended RR ED: Step 2: Identification of separate performance obligations

Practical Expedient:

Two or more distinct goods or services may be accounted for as a single performance obligation if those goods or services have the same pattern of transfer to the customer.

Paragraph 30 example: If an entity promises two or more distinct services to a customer over the same period of time, the entity could account for those promises as one performance obligation if applying one method of measuring progress would faithfully depict the pattern of transfer of those services to the customer.

Question: Would this apply to goods as well?



The Amended RR ED: Step 2: Identification of separate performance obligations

The proposed revenue recognition guidance includes implementation guidance to appropriately identify the performance obligations in specified situations.

Example: When other parties are involved in providing goods to an entity's customer and the entity must determine whether its performance obligation is to provide the goods, by acting as a principal, or to provide the service of arranging for another party to provide the goods by acting as an agent (IG16-IG19).



Tony Sondhi's Winter - Spring 2012 Seminar Schedule

Topic	Dates	Location
<i>Revenue Recognition</i>	<i>April 12 & 13</i> <i>May 24 & 25</i>	<i>San Jose, CA</i> <i>Boston, MA</i>
<i>Advanced Topics in Revenue Recognition</i>	<i>June 4 & 5</i> <i>June 18 & 19</i>	<i>Boston, MA</i> <i>San Jose, CA</i>
Software Revenue Recognition	April 19 & 20 May 10 & 11	San Jose, CA & 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

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
Cloud Computing (SaaS)	April 5 April 12	San Jose, CA Boston, MA
NEW! - <i>Advanced Topics in Cloud Computing (SaaS)</i>	April 6 April 13	San Jose, CA Boston, MA
NEW! - Lessees – FASB/IASB ED	June 14	San Jose, CA,&
NEW! - Lessors – FASB/IASB ED	June 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

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



The Amended RR ED: Comment Letter Summary.

Deadline March 13, 2012 – This was the second round of comments.

- Over 200 substantive comment letters received in last 4 days for a total of almost 300 responses.

- ***The comment request was restricted to 6 questions.***
 - 1 - Control***
 - 2 - Accounting for credit risk***
 - 3 - Restriction on recognition of variable revenue***
 - 4 - Onerous Obligations***
 - 5 – Interim Disclosures***
 - 6 - Criteria for recognition of sale of assets***



The Amended RR ED:
Comment Letter Summary.

4 - Onerous Obligations

Contract vs Obligation Level – Not in question

1 Year Rule exception – Many disagree conceptually

Disclosure (in question 5) – Not surprising that interim disclosure at obligation level was shot down, however at the contract level companies should be tracking to record.



The Amended RR ED: Comment Letter Summary.

The responses included numerous issues beyond the six questions. No telling how many issues would have been raise if more questions had been asked.

- Overall message from the most in depth responses.

Lots of detailed questions - NEED MORE GUIDANCE.



The Amended RR ED: Comment Letter Summary.

NEED MORE GUIDANCE – SUPERCEDED GUIDANCE

The following Topic and Subtopics would be superseded:

- 430 Deferred Revenue
- 340-20 Other Assets and Deferred Costs—Capitalized Advertising Costs
- 360-20 Property, Plant, and Equipment—Real Estate Sales
- 908-605 Airlines—Revenue Recognition
- 910-605 Contractors—Construction—Revenue Recognition
- 912-210 Contractors—Federal Government—Balance Sheet
- 912-235 Contractors—Federal Government—Notes to Financial
- 912-605 Contractors—Federal Government—Revenue Recognition
- 915-605 Development Stage Entities—Revenue Recognition



The Amended RR ED: Comment Letter Summary.

NEED MORE GUIDANCE – SUPERCEDED GUIDANCE

- 605-15 Revenue Recognition—Products
- 605-20 Revenue Recognition—Services
- 605-25 Revenue Recognition—Multiple-Element Arrangements
- 605-28 Revenue Recognition—Milestone Method
- 605-30 Revenue Recognition—Rights to Use
- 605-35 Revenue Recognition—Construction-Type and Production-Type
- 605-45 Revenue Recognition—Principal Agent Considerations
- 605-50 Revenue Recognition—Customer Payments and Incentives
- 908-605 Airlines—Revenue Recognition
- 985-605 Software—Revenue Recognition

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The Amended RR ED: Comment Letter Summary.

NEED MORE GUIDANCE – SUPERCEDED GUIDANCE

- 920-310 Entertainment—Broadcasters—Receivables
- 920-605 Entertainment—Broadcasters—Revenue Recognition
- 920-845 Entertainment—Broadcasters—Nonmonetary Transactions
- 922-430 Entertainment—Cable Television—Deferred Revenue
- 926-430 Entertainment—Films—Deferred Revenue
- 926-605 Entertainment—Films—Revenue Recognition
- 926-845 Entertainment—Films—Nonmonetary Transactions
- 928-430 Entertainment—Music—Deferred Revenue
- 928-605 Entertainment—Music—Revenue Recognition
- 932-605 Extractive Activities—Oil and Gas—Revenue Recognition



The Amended RR ED: Comment Letter Summary.

NEED MORE GUIDANCE – SUPERCEDED GUIDANCE

The following Topic would be superseded:

- 940-605 Financial Services—Broker and Dealers—Revenue Recognition
- 942-605 Financial Services—Depository and Lending—Revenue Recognition
- 948-605 Financial Services—Mortgage Banking—Revenue Recognition
- 952-340 Franchisors—Other Assets and Deferred Costs
- 952-720 Franchisors—Other Expenses



The Amended RR ED: Comment Letter Summary.

NEED MORE GUIDANCE – SUPERCEDED GUIDANCE

The following Topic would be superseded:

- 954-430 Health Care Entities—Deferred Revenue
- 970-605 Real Estate—General—Revenue Recognition
- 972-430 Real Estate—Common Interest Realty Associations—Deferred Revenue
- 976-605 Real Estate—Retail Land—Revenue Recognition
- 978-250 Real Estate—Time-Sharing Activities—Accounting Changes and Error Corrections
- 978-605 Real Estate—Time-Sharing Activities—Revenue Recognition



The Amended RR ED:
Comment Letter Summary
OVER 100 GLOSSARY TERMS SUPERCEDED

- Assumption
- Authorization Code
- Bargain Purchase
- Barter
- Buydowns
- Consideration & Cash Consideration
- Continuing Investments
- Contractor
- Cooperative Advertising
- Core Software
- Cost-Plus-Award-Fee Contract
- Cost-Sharing Contract
- Cost-Type Contracts
- Cost-Without-Fee Contract
- Cross-Collateralized
- Delivery
- Deposit Method (1st & 2nd definitions)
- Direct Selling Costs
- Enhancement
- Extended Warranty
- Fare
- Firm Fixed-Price Contract
- Fixed Fee
- Fixed-Price Contracts (7 variations)



The Amended RR ED:
Comment Letter Summary
OVER 100 GLOSSARY TERMS SUPERCEDED

- Fixed-Price Level-of-Effort Term Contract
- Flip Transactions
- Front-End Sales Fee / Load
- Full Accrual Method
- Handling Costs
- Hosting Arrangement
- Incentive
- Independent Third Party
- Inducement
- Initial Franchise Fee
- Initial Services
- Installment Method
- Investor Notes
- Licensing
- Lump-Sum Contract
- Milestone (both definitions)
- Nonutility Generators
- Off-the-Shelf Software
- Other than Retail Land Sales
- Ownership Interests
- Partnership Notes
- PCS
- Percentage-of-Completion Method
- Permanent Investor



The Amended RR ED:
Comment Letter Summary
OVER 100 GLOSSARY TERMS SUPERCEDED

- Planned Amenities
- Platform / Platform-Transfer Right
- Postcontract Customer Support
- Prepaid Health Care Plan
- Product Maintenance Contracts
- Profit Center
- Reduced-Profit Method
- Reload
- Rescission
- Retrospective Insurance Arrangements
- Revenue Passenger Mile
- Right-to-Use
- Round-Turn
- Sales Value
- Separately Priced Contracts
- Shipping Costs
- Site License
- Slotting Fees
- Street Date
- Syndication Fees
- Time-and-Material Contracts
- Upgrade Right / Upgrade Transaction
- User
- Vacation Club
- Win
- Unit / Unit-Price Contracts



The Amended RR ED: Comment Letter Summary

Less than 10 GLOSSARY Terms Introduced / revised

Contract

An agreement between two or more parties that creates enforceable rights and obligations.

Contract Asset

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

Contract Liability

An entity's obligation to transfer goods or services to a customer for which the entity has received consideration from the customer.



The Amended RR ED: Comment Letter Summary

Less than 10 GLOSSARY Terms Introduced / revised

Performance Obligation

A promise in a contract with a customer to transfer a good or service to the customer.

Standalone Selling Price

The price at which an entity would sell a promised good or service separately to a customer.

Transaction Price

The amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (for example, sales taxes).



The Amended RR ED: Comment Letter Summary

Less than 10 GLOSSARY Terms Introduced / revised

Amenities

Features that enhance the attractiveness or perceived value of a time-sharing interval. Examples of amenities include golf courses, utility plants, clubhouses, swimming pools, tennis courts, indoor recreational facilities, and parking facilities. See **Promised Amenities**.

Customer

A party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities.

Revenue

Inflows or other enhancements of assets of an entity or settlements of its liabilities (or a combination of both) from delivering or producing goods, rendering services, or other activities that constitute the entity's ongoing major or central operations.