



The Amended RR ED – Part 5

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The Amended RR ED: Part 5

- 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 5

Revenue Recognition Meetings:

- The FASB and the IASB will host public roundtables in 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 hosted 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 5

Step 4: Allocate the Transaction Price

- For a contract that has more than one separate performance obligation, an entity must allocate the transaction price to each separate performance obligation in an **amount** that depicts the amount of consideration to which an entity **expects** to be entitled in exchange for satisfying that specific separate performance obligation.



The Amended RR ED: Step 4: Allocate the Transaction Price

Allocation of the appropriate amount of consideration to each separate performance obligation:

1. Determine the separate standalone selling price at contract inception of the good or service underlying each separate performance obligation, and
2. **Allocate** the transaction price on a **relative standalone selling price** basis.
 - An entity would **estimate** the selling price if a standalone selling price is not observable.



The Amended RR ED: Step 4: Allocate the Transaction Price

Standalone selling price:

- Best evidence: The ***observable*** selling price of a good or service when ***the entity sells*** that good or service separately in ***similar circumstances and to similar customers***.
 - Observable,
 - Entity-specific,
 - Similar circumstances, and
 - Similar customers.

- *A contractually stated price or a list price for a good or service may be (but shall not be presumed to be) the standalone price for that good or service.*



The Amended RR ED: Step 4: Allocate the Transaction Price

Estimating the selling price

Incorporate the following information to the extent it is reasonably available to the entity:

- Market Conditions,
- Entity-specific factors,
- Information about the customer or class of customers,
- Maximize the use of observable inputs, and
- Consistently apply estimation methods in similar circumstances.



The Amended RR ED: Step 4: Allocate the Transaction Price

Selling Price Estimation Methods

- Adjusted market assessment – incorporate competitors' prices adjusted to reflect the entity's costs and margins,
- Expected costs plus margins,
- Residual – for goods or services with highly variable or uncertain standalone prices, the selling price may be estimated as the difference between the total transaction price and the sum of the observable standalone prices of other goods or services promised in the contract.



The Amended RR ED: Step 4: Allocate the Transaction Price

The Residual Method

- Highly variable selling price: A good or service sold at or near the same time to different customers for a broad range of amounts.
- Uncertain standalone prices: the selling price has not yet been established and the good or service has not previously been sold.



The Amended RR ED: Step 4: Allocate the Transaction Price

Accounting for Discounts

- Discount: The difference between the sum of standalone selling prices of the promised goods or services and the transaction price.
- General Principle: Allocate the discount using the relative selling price basis.



The Amended RR ED: Step 4: Allocate the Transaction Price

Accounting for Discounts - Exceptions

A discount would be allocated entirely to one (or some) of the performance obligation(s) in the contract if **both** of the following criteria are met:

1. The entity regularly sells each good or service (or each bundle of goods or services) in the contract on a standalone basis.
2. The observable selling prices from these standalone sales provide evidence of the performance obligation(s) to which the entire discount in the contract belongs.



The Amended RR ED: Step 4: Allocate the Transaction Price

Accounting for Discounts - Exceptions

Contingent (on future events or circumstances) consideration and subsequent changes to the amount must be allocated to a distinct good or service in the contract if **both** of the following criteria are met:

1. The contingent payment terms for the distinct good or service relate specifically to the entity's efforts to transfer that good or service (or to a specific outcome from transferring that good or service).
2. Allocating the contingent amount of consideration entirely to the distinct good or service is consistent with the basic allocation principle when considering all of the performance obligations and payment terms in the contract.



The Amended RR ED: Step 4: Allocate the Transaction Price

Reporting subsequent changes in the transaction price:

- Use the same basis as at contract inception.
- Amounts allocated to a satisfied performance obligation would be recognized as revenue, or as a reduction of revenue, in the period in which the transaction price changes.
- No reallocation permitted to reflect changes in standalone selling prices after the inception of the contract.



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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: June 12, 2012
- 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
<i>Advanced Topics in Revenue Recognition</i>	<i>June 18 & 19</i>	<i>San Jose, CA</i>
Advanced Topics in Software Revenue Recognition	June 25 & 26	San Jose, CA
<i>Contracts</i>	<i>July-August</i>	<i>Raleigh, NC</i>

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
<u>Revenue Recognition</u>	<u>July-August</u> <u>July-August</u>	<u>San Jose, CA</u> <u>Boston, MA</u>
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

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