



The Amended RR ED – Part 1

Ashwinpaul (Tony) C. Sondhi
President

A. C. Sondhi & Associates, LLC

www.acsondhi.com

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The Amended RR ED: Part 1

- My focus in this webcast series will be 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.
- Comment period ends March 13, 2012. I strongly encourage everyone to consider commenting on this amended ED.



The Amended RR ED: Part 1

- Although the Boards have not yet decided on the effective date, they have agreed that any resulting standards will *not* be effective sooner than for annual reporting periods beginning on or after January 1, 2015.

- The effective date for nonpublic entities will be a minimum of one year after the effective date for public entities.

- Early application is not permitted.



The Amended RR ED: Part 1

Alternative Views:

- a. Mr. Thomas Linsmeier of the FASB disagreed with the issuance of the proposed update.
- b. I strongly recommend you review his comments; see paragraphs BC 371-377.
- c. Mr. Jan Engstrom of the IASB voted against publication of the amended ED because he disagrees with the proposal to amend IAS 34, Interim Financial Reporting. See paragraphs BC 378-380.



The Amended RR ED: Changes to the Proposals

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

- a. Combining contracts: Changed proposed *indicators* to *criteria*.
- b. Added a criterion for goods and services across contracts that are a single performance obligation.
- c. As expected, the proposal on contract segmentation has been eliminated; the underlying principle lives on in Step 4 on allocation of the transaction price.
- d. Fewer contract modifications will require a cumulative catch-up.



The Amended RR ED: Changes to the Proposals

Step 2: Identify the separate performance obligations in the contract

- a. The term *enforceable* may be removed from the definition of a performance obligation.
- b. Two clarifications:
 - 1. Guidance on a significant contract management service moved into the proposed standard from the implementation guidance, and
 - 2. Deleted the reference to the profit margin.



The Amended RR ED: Changes to the Proposals

Step 3: Determine the Transaction Price

- a. Definition of Transaction Price: Amount the entity expects to be **entitled** to rather than the expected amount to be **received**.

- b. Other modifications:
 - 1. Transaction price no longer includes credit risk; only change will be in presentation: adjacent to revenue,
 - 2. Time value of money – one-year practical expedient and clarification of when a financing component is significant, and
 - 3. Use of expected value or most-likely amount rather than a probability-weighted estimate.



The Amended RR ED: Changes to the Proposals

Step 4: Allocate the Transaction Price

- a. A selling price may be estimated using a residual approach if the price of a good or service is highly variable or uncertain.
- b. Added guidance on when it is appropriate to restrict allocations of discounts, contingent payments, and changes in the transaction price to only some promised goods and services.



The Amended RR ED: Changes to the Proposals

Step 5: Recognize revenue when a performance obligation is satisfied

1. Added:
 - a. Risks and rewards as an indicator of when control is transferred at a point in time.
 - b. Criteria to determine when a performance obligation is satisfied over time.
2. Objective of measuring progress towards completion survives and
 - Clarified the use of input and output methods,
 - Added guidance on uninstalled materials, and
 - Clarified the meaning of abnormal costs.
3. Changed the proposed constraint from an entity's *reasonable estimate* to the entity being *reasonably assured to be entitled to* the amount of revenue recognized to date.



The Amended RR ED: Changes to the Proposals

- Some warranties will continue to be accounted for as cost accruals.
- Eliminated the distinction between exclusive and nonexclusive licenses – subject to separation criteria and the proposal to constrain cumulative revenue recognized to the amount the entity is reasonably assured to be entitled.
- Breakage – added guidance consistent with the example on customer loyalty points.



The Amended RR ED: Changes to the Proposals

Onerous Test

- Modified the test as applied to performance obligations satisfied over a period longer than one year.

- Added guidance on which costs should be included in the test.



The Amended RR ED: Changes to the Proposals

Other issues:

- Acquisition costs
- Fulfillment costs.
- Sale and repurchase agreements.



Tony Sondhi's Winter - Spring 2012 Seminar Schedule

| Topic | Dates | Location |
|---|--|--|
| <i>Revenue Recognition</i> | <i>March 22 & 23</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 | March 8 & 9 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 FASB/IASB ED | June 7 & 8 | San Jose, CA, Boston, MA, |
| NEW! Contracts | May 4 | San Jose, CA |

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Tony Sondhi's Winter – Spring 2012 Seminar Schedule

| Topic | Dates | Location |
|--|---------------------------------------|--------------------------------------|
| Cloud Computing (SaaS) | February 23 April 12 | San Jose, CA Boston, MA |
| NEW! - <i>Advanced Topics in Cloud Computing (SaaS)</i> | February 24 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 | San Jose, CA |
| Advanced Topics in Acquisition Accounting | April 27 | San Jose, CA |

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