



The Amended RR ED – Part 2

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The Amended RR ED: Part 2

- o 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.
- o Comment period ends March 13, 2012. I strongly encourage everyone to consider commenting on this amended ED.



The Amended RR ED: Part 2

Revenue Recognition Meetings:

- The FASB and the IASB will host a series of public roundtables in March, 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 2

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 2

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

A contract is an agreement between two or more parties that creates **enforceable** rights and obligations.

Contracts can be **written, oral, or implied** by an entity's customary business practices.

An entity would apply the proposed revenue guidance to each contract with a customer unless specified criteria are met for the **combination** of contracts



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

*A contract is an agreement between two or more parties that creates **enforceable** rights and obligations.*

- Paragraph 13: Enforceability is a matter of law.
- **Question:** Do contracts apply only to legal rights and obligations or do they also apply to substantive/economic rights and obligations as well as legal rights and obligations?



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

*Contracts can be **written, oral, or implied** by an entity's customary business practices.*

- 1.Paragraph 13 notes that the practices and processes used to establish contracts with customers may vary across legal jurisdictions, industries, and entities.
- 2.It further notes that they may vary within the entity depending, say, on the nature of the customer or the products and services.

Question: Since contracts may be **implied** by customary business practices and they may vary or depend on several different factors, can the resulting rights and obligations be limited to legal rights and obligations or should they encompass substantive and economic rights and obligations?



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

The proposed revenue recognition guidance applies to a contract *only if all* of the following criteria are satisfied:

- a) The contract has commercial substance, that is, the risk, timing, or amount of the entity's future cash flows is expected to change as a result of the contract. *Implications for barter transactions?*

- b) The parties to the contract have approved the contract (in writing, orally, or according to customary business practices) and are committed to perform their respective business obligations. *Note the similarity to current standard – persuasive evidence of an arrangement.*



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

The proposed revenue recognition guidance applies to a contract *only if all* of the following criteria are satisfied (Continued):

- c) The entity can identify each parties *rights* regarding the goods or services to be transferred. *Should it not include obligations as well?*
- d) The entity can identify payment terms for the goods or services to be transferred. *Does this incorporate the concept of extended payment terms? Should it specify collectability?*



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

A contract does not exist if each party has the unilateral enforceable right to terminate a wholly unperformed contract without compensating the other parties.

A contract is wholly unperformed if both of the following criteria are met:

1. The entity has not yet transferred any promised goods or services to the customer.
 2. The entity has not yet received, and is not yet entitled to receive, any consideration in exchange for promised goods or services.
- n Question: What if a deposit has been received?



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

Combination of contracts

- o 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:

A recent Bloomberg article asks why Apple trades at a lower multiple of revenues than the S&P 500. The author notes that following the adoption of the amended guidance on multiple-element arrangements (MEA) by Apple, it has been able to recognize substantially all of the revenue for the iPhone and needs defer only the estimated sales price of when-and-if- available software upgrades.

The author asks whether the lower multiple afforded to Apple's shares suggests that the market does not agree that all reported revenue has been earned by Apple.

Comment: The proposed revenue recognition guidance will apply the amended MEA guidance to nearly all industries.



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

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 12	Boston, MA
NEW! – <i>Advanced Topics in Cloud Computing (SaaS)</i>	April 13	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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