



FINANCIAL ACCOUNTING STANDARDS BOARD



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Project Updates

Revenue Recognition—Joint Project of the FASB and IASB

Last Updated: April 5, 2010 (Updated sections are indicated with an asterisk *)

This project update summarizes the project activities and decisions of the FASB and IASB (the Boards). It was prepared by the staff and is for the information and convenience of the Boards' constituents. All decisions of the Boards are tentative, may change at future Board meetings, and do not change current accounting and reporting requirements. Decisions of the Boards become final only after extensive due process.

[*Project Objective and Summary of the Proposed Model](#)

[Due Process Documents](#)

[Decisions Reached at the Last Meeting](#)

[Summary of Decisions Reached to Date](#)

[Next Steps](#)

[Board/Other Public Meeting Dates](#)

[Related FASB Documents](#)

[Background Information](#)

[*Contact Information](#)

***PROJECT OBJECTIVE AND SUMMARY OF THE PROPOSED MODEL**

There are no significant differences between the decisions reached by the FASB and the IASB on this project.

Project objective

Revenue is a crucial number to users of financial statements in assessing a company's performance and prospects. However, revenue recognition requirements in U.S. GAAP differ from those in IFRSs and both are considered in need of improvement. U.S. GAAP comprises broad revenue recognition concepts and numerous industry or transaction-specific requirements that can result in different accounting for economically similar transactions. Although IFRSs contain less guidance on revenue recognition, its two main standards IAS 18 *Revenue* and IAS 11 *Construction Contracts* can be difficult to understand and apply beyond simple transactions. In addition, they lack guidance on important topics such as revenue recognition for multiple-element arrangements.

Accordingly, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) initiated a joint project with an objective to clarify the principles for recognizing revenue and develop a common revenue standard for U.S. GAAP and IFRSs that would:

- (a) remove inconsistencies and weaknesses in existing revenue recognition standards and practices,
- (b) provide a more robust framework for addressing revenue recognition issues,
- (c) improve comparability of revenue across industries, companies and geographical boundaries, and
- (d) simplify the preparation of financial statements by reducing the number of standards to which entities must refer.

To meet that objective, the Boards are jointly developing a draft standard on revenue from contracts with customers. The Boards plan to issue an Exposure Draft in the second quarter of 2010.

Summary of the proposed model

The proposed model specifies the principles that an entity would apply to report useful information about the timing and amount of revenue and cash flows arising from its contracts to provide goods and services to customers. In summary, the core principle would require an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration expected to be received in exchange for those goods or services.

To meet that principle, the proposed model would require an entity to:

- (a) identify the contract with a customer,
- (b) identify the separate performance obligations in the contract,

- (c) determine the transaction price,
- (d) allocate the transaction price to the separate performance obligations,
- (e) recognize revenue when a performance obligation is satisfied.

The proposed model also specifies the accounting for some costs associated with contracts with customers.

Identify the contract with a customer

In most cases an entity would apply the proposed requirements to a single contract. However, the requirements specify when an entity would combine two or more contracts and account for them as a single contract, or segment a single contract and account for it as two or more contracts.

Identify the separate performance obligations in the contract

Performance obligations in a contract are the enforceable promises to transfer goods or services to a customer. The promises include implicit promises created by an entity's customary business practice.

An entity would account for a performance obligation separately if the promised good or service is distinct from other goods or services promised in the contract. Typically, a good or service is distinct from other goods or services in the contract if:

- (a) it is identified separately in the contract,
- (b) it has a distinct profit margin,
- (c) it has a distinct function, and
- (d) it is transferred to the customer at a different time.

Determine the transaction price

The transaction price is the amount of consideration that a customer pays in exchange for goods or services. If that amount is variable, for instance because of possible rebates or contingencies, the transaction price is the probability-weighted estimate of the amount of consideration from the customer.

An entity would reflect variable consideration in its determination of the transaction price only if it can identify the possible outcomes of a contract (that is, consideration amounts) and reasonably estimate the probabilities of those outcomes.

Allocate the transaction price to the separate performance obligations

An entity would allocate the transaction price to the separate performance obligations relative to the standalone selling prices of the goods or services underlying those performance obligations. If a standalone selling price is not directly observable, an entity would estimate it.

The transaction price would be updated over the life of the contract with changes allocated to the separate performance obligations.

Recognize revenue when a performance obligation is satisfied

An entity would recognize revenue when it satisfies a performance obligation by transferring a promised good or service to the customer. A promised good or service is transferred when the customer obtains control of that good or service, that is, when the customer has the present ability to direct the use of and receive the benefit from that good or service.

The proposed model provides indicators to assist an entity in determining whether a customer has obtained control of a good or service.

The amount of revenue recognized when a performance obligation is satisfied would be the amount of the transaction price allocated to the satisfied performance obligation. If the transaction price changes after contract inception, the amount of the change allocated to satisfied performance obligations would be recognized as revenue in the period in which the transaction price changes.

When goods or services are transferred to a customer continuously (that is, a performance obligation is satisfied continuously) an entity would select the revenue recognition method that best depicts the transfer of goods or services to the customer. Acceptable methods include (a) output methods (for example, revenue recognized on basis of units produced or delivered, contract milestones or surveys of goods or services transferred to date), (b) input methods (for example, revenue recognized on basis of costs incurred as a percentage of total costs expected to be incurred), and (c) methods based on the passage of time.

Contract costs

The proposed model would require an entity to recognize:

- (a) the costs of obtaining a contract as an expense as incurred,
- (b) the direct costs of fulfilling a contract as an asset if those costs (i) generate or enhance resources to be used in satisfying performance obligations in a contract, and (ii) are probable of recovery under a contract (or anticipated contract).

Disclosure

The proposed model specifies information that an entity would disclose to help users of

its financial statements evaluate the timing and amount of revenue.

DUE PROCESS DOCUMENTS

On December 19, 2008, the Boards published, for public comment, a Discussion Paper, *Preliminary Views on Revenue Recognition in Contracts with Customers*.

- [Download](#) the FASB Discussion Paper. [Download](#) the IASB Discussion Paper which is the same except for minor differences in spelling, style, and format.
- Read the [press release](#) introducing the Discussion Paper.
- Read a [snapshot](#) of the Boards' preliminary views in the Discussion Paper.
- Listen to the FASB's [webcast](#) on the Discussion Paper presented on March 27, 2009.

The Discussion Paper was open for public comment until June 19, 2009.

In July 2009, the Boards considered a summary of comment letters received. The comment letters will be considered further as the Boards further develop the proposed revenue recognition model.

- [Comment Letters](#)
- [Comment Letter Summary](#)

The Boards expect to publish the Exposure Draft in 2010.

DECISIONS REACHED AT THE LAST MEETING (March 22, 2010)

The boards considered how an entity should account for a contract that includes some components that are within the scope of the revenue standard and other components that are within the scope of other standards.

The boards tentatively decided that if other standards specify how to separate or measure components of a contract, an entity should apply those requirements. Otherwise, the entity should apply the principles of the revenue standard.

Next steps

The boards plan to publish the exposure draft in the second quarter. They do not plan to discuss any further issues, except any issues arising from (a) consideration of consequential amendments and (b) review of the draft exposure draft.