Standard Setting: The Evolution of ASC 606

Analysis of Trends and Events Over Time by Rebecca Orsak

Key:
- Discussion Paper
- Exposure Draft
- Accounting Standards Update
- FASB Meeting Minute (re: rev rec)
- ## Number of Relevant Comment Letters Received


International Convergence Prioritized

TRG Active
2002 - The Conversation Begins

FASB discusses the potential for a major project regarding revenue and liability recognition on financial statements.

- First official time FASB discusses amending Concept Statements regarding revenue and liability recognition on financial statements*
- May 15: FASB adds revenue recognition project to its technical agenda.
- Sarbanes-Oxley Act: SEC studies feasibility of principles-based accounting
- FASB’s project officially becomes a joint project with the IASB.*
- FASB issues proposal for principles-based approach to standard setting

**FASB meeting minutes taken from: http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176157086089
September 2002: The Norwalk Agreement

"At that meeting, the FASB and the IASB pledged to use their best efforts (a) to make their existing financial reporting standards fully compatible as soon as is practicable and (b) to coordinate their future work programmes to ensure that once achieved, compatibility is maintained.’"

"...They ‘each acknowledged their commitment to the development of high quality, compatible accounting standards that could be used for both domestic and cross-border financial reporting." 

In their discussions with the IASB, FASB addresses the working definition at the time and proposes options for definitions to be debated in the future.

In response to SOX, the SEC recommends moving towards principles-based standard setting.

FASB attempts to redefine revenue—four options are considered.

Debate over Extinguish Based Model (EBM) and Performance Based Model (PPM)

Revenue definition established.

Tentatively decided contracts that are not enforceable do not meet the definition of assets and liabilities.

Consideration of how existing guidance would affect transition to new standard.

*FASB meeting minutes taken from: [http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176157086089](http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176157086089)*
January 23, 2003: FASB Meeting Minutes
(Revenue Recognition)

"...the current “working definition” of revenue for this project broadly encompasses both revenues and gains. He also noted that the staff recommended at the December 18, 2002 FASB Board meeting incorporating the notions of performance and revenue-generating activities in the working definition of revenues. Including those notions would be a means of addressing the revenue recognition issues raised in cases in which a third party performs the obligations that a reporting entity has incurred to its customers, among other issues.

... Discussions of performance and revenue generating activities by the FASB and IASB during their December meetings revealed differing perceptions on what revenue is.

... Four possible views of what revenue is:
   • (View A) a 'gross inflow view,'
   • (View B) a 'liability extinguishment view,'
   • (View C) a 'value added view,' and
   • (View D) a 'broad performance view.' "
February 28, 2003: FASB Meeting Minutes (Revenue Recognition)

"The Board compared two views, one in which revenues arise from the extinguishment of those obligations, and another in which revenues arise from the entity's performance of those obligations.

The Board indicated a preference for the view that revenues arise from the extinguishment of performance obligations unless those obligations are legally assumed by a third party."

This meeting indicates that FASB has begun to narrow down its options for defining revenue.
May 13, 2003: FASB Meeting Minutes (Revenue Recognition)

At the beginning of this meeting, the FASB defined revenue as such:

"Revenues are increases in the reporting entity's assets (including inflows of assets or enhancements of assets) or decreases in its liabilities resulting from activities that are integral to the provision of products (goods and services) by the entity itself that are ultimately destined for customers."

By the end of this meeting, the Board agreed on the following definition of revenue:

"Revenues are decreases in the reporting entity's liabilities to customers resulting from the extinguishment of its performance obligations for which it is primarily liable. Those obligations are extinguished by providing goods and services to customers, either directly by the reporting entity itself or indirectly by having third parties provide them on its behalf."
August 1, 2003: FASB Meeting Minutes  
(Revenue Recognition)

"The Board was asked to consider the following aspects of that approach.

1. **Scope of the standard.** Several Board members suggested that the staff consider removing financial instruments from the scope of the revenue recognition standard. Other Board members suggested that the removal of issues from the project's scope is premature; they asked the staff to continue to develop broad-scoped guidance.

2. **Balancing principles-based guidance and rules-based guidance.** Board members generally agreed that the staff should develop a standard that balances broad principles with clear, concise implementation guidance. Some Board members noted that some industries or transactions may require more detailed guidance than others.

3. **Transition from existing guidance.** Board members noted that they will need to consider existing literature individually for retention, modification, or elimination."
SEC Recommendations:
Sarabanes-Oxley Act of 2002

In 2003, the SEC responded the act's request for exploration into principles-based standard setting. In its official release, the SEC said:

"The staff study recommends that accounting standards should be developed using a principles-based approach and that such standards should have the following characteristics:
  • Be based on an improved and consistently applied conceptual framework;
  • Clearly state the accounting objective of the standard;
  • Provide sufficient detail and structure so that the standard can be operationalized and applied on a consistent basis;
  • Minimize the use of exceptions from the standard;

....The staff expects that the FASB will continue to move towards objectives-oriented standard setting on a transitional or evolutionary basis."

2004- Commitment to principles-based accounting

FASB's official commitment to shift away from rules-based accounting foreshadows the changes to be made in revenue recognition guidance. This year, the Board discusses examples of contracts with customers for revenue recognition in the context of the Fair Value Measurement Exposure Draft.

Feb. 18: FASB/IASB discuss how the new revenue recognition project would work in relation to other accounting guidance.

Discuss comprehensive income and gains vs. revenues (within the context of this project).

FASB responds to SEC's recommendation to move to principles-based accounting (SOX 2002).

Discussed the logistics of performance obligations given the guidance to be released about FVM.

*FASB meeting minutes taken from: http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176157086089
February 18: Joint Meeting Minutes

The Boards reached the following tentative conclusions:
- "The general standard for revenue recognition is expected to supercede certain existing guidance that is general in nature.
- Principles may be viewed as a “bridge” between the FASB’s Concepts Statements and the more specific application guidance that reporting entities need to prepare their financial statements.
- The Revenue Recognition Project should continue to use the terms conditional and unconditional rights and obligations within the context of contractual arrangements.
- The decisions reached in the Fair Value Measurement Project do not conflict with decisions on measuring performance obligations in this project.
- The application standards will be developed for broad categories of arrangements (for example, rights of use, services, and products) and would include both guidance specific to the broad category and any additional guidance necessary for the individual types of arrangements that are classified within each category."
FASB Response to SEC Study on
the Adoption of a Principles-Based Accounting System
July 2004

Introduction

In July 2003, the staff of the Securities and Exchange Commission (SEC) submitted to Congress its Study Pursuant to Section 108(d) of the Sarbanes-Oxley Act of 2002 on the Adoption by the United States Financial Reporting System of a Principles-Based Accounting System (the Study). The Study includes the following recommendations to the Financial Accounting Standards Board (FASB or Board):

1. The FASB should issue objectives-oriented standards.
2. The FASB should address deficiencies in the conceptual framework.
3. The FASB should be the only organization setting authoritative accounting guidance in the United States.
4. The FASB should continue its convergence efforts.
5. The FASB should work to redefine the GAAP hierarchy.
6. The FASB should increase access to authoritative literature.
7. The FASB should perform a comprehensive review of its literature to identify standards that are more rules-based and adopt a transition plan to change those standards.

The Board welcomes the SEC’s Study and agrees with the recommendations. Indeed, a number of those recommendations relate to initiatives the Board had under way at the time the Study was issued. The Board is committed to continuously improving its standard-setting process. The Board’s specific responses to the recommendations in the Study are described in the following sections of this paper.

Compared to guidance for revenue recognition at the time...

- Guidance created ad hoc
- Over 200 pronouncements for revenue recognition
- Specific rules apply to their respective industries, transactions, etc.
  - Rules-based
- FASB is authoritative source of guidance, but firms and accountants often look elsewhere for supplementary guidance
2005- Commitment to international convergence

The Norwalk Agreement is reaffirmed; as the FASB dives deeper into developing revenue recognition, commitment to convergence with the IASB remains steady.

Affirms goals and scope of revenue recognition project.

FASB and IASB reaffirm their goal to converge GAAP and IFRS from the Norwalk Agreement.*

Discusses the segregation of performance obligations into units of account using the Customer Consideration model.


**FASB meeting minutes taken from: http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176157086089
May 11: FASB Meeting Minutes

**Goals of revenue recognition project:** "To develop a comprehensive standard on revenue recognition that would apply broadly to all revenue arrangements."

- Because of this goal, FASB decided in this meeting to, "...pursue an approach under which performance obligations would be measured by allocating the customer consideration rather than at the fair value of the obligation (that is, the amount the reporting entity would be required to pay to transfer the performance obligation to a willing third party of comparable credit standing)."

**How did FASB plan on recognizing revenue:** "Develop a standard for revenue recognition based on recognized changes in assets and liabilities (consistent with the definition of revenues in FASB Concepts Statement No. 6, Elements of Financial Statements)"

- "The "realized or realizable" and "earned" criteria in Concepts Statement 5 will be eliminated"
May 11: FASB Meeting Minutes

Role of IASB: Although this was not a joint meeting, it is worth noting that FASB board members occasionally framed their discussions around what would work within IFRS

• When discussing revenue recognition alternatives, the following was documented:
  • “Mr. Batavick expressed certain concerns about whether Alternative 2 would be acceptable to the IASB. Mr. Leisenring responded that the majority of IASB Board members have indicated support for Alternative 1. He stated that the IASB Board has not discussed Alternative 2; however, IASB Board members may support that alternative at the standards level.”

Uncertainty of the continuation of the project: One board member felt necessary to convey her support of pursuing this project to her peers

• “Ms. Seidman stated that she strongly supports continuing to work on the revenue recognition project. She noted that existing guidance is not manageable and that international convergence on the topic of revenue recognition is critical.”
Revenue Recognition Options Considered by FASB

On May 11th, the Board officially considered the following alternative courses of action for the revenue recognition project:

- **Alternative 1—Revenue Recognition Standard (asset-and-liability fair value approach)**
  - This is the revenue recognition model that the Board has considered since the project’s inception. It would be based on the elements and measurement criteria developed to date, including the requirement that assets and liabilities are measured at fair value.

- **Alternative 2—Revenue Recognition Standard (asset-and-liability performance value approach)**
  - This standard would be based on the elements and measurement criteria developed to date under Alternative 1, except the requirement that assets and liabilities are measured at fair value. Rather, assets and liabilities would be measured at their performance value: the price at which an asset or liability could be exchanged with a customer in a current transaction between knowledgeable, unrelated willing parties.

- **Alternative 3—Revenue Recognition Standard (realized-and-earned approach)**
  - This standard would be based on the realized and earned criteria in FASB Concepts Statement No. 5, Recognition and Measurement in Financial Statements of Business Enterprises. It would use existing guidance (such as SEC Staff Accounting Bulletin No. 104, Revenue Recognition in Financial Statements; EITF Issue No. 00-21, “Revenue Arrangements with Multiple Deliverables;” and FASB Statement No. 48, Revenue Recognition When Right of Return Exists) to build a realized-and-earned revenue recognition framework. That framework would be strengthened by filling voids and resolving some conflicts that currently exist in U.S. GAAP.

- **Alternative 4—Filling Voids and Broad-Scope Codification**
  - This alternative is a two-pronged approach that aims to fill voids and resolve some conflicts in existing U.S. GAAP. The broad-scope codification would resolve conflicts between guidance for similar economic transactions or phenomena. This alternative would not result in a comprehensive standard on revenue recognition.

*FASB meeting minutes taken from: [http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176157086089](http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176157086089)*
Revenue Recognition Options Considered by FASB (cont.)

- **Alternative 5—Narrow-Scope Codification**
  A narrow-scope codification project would codify existing revenue recognition guidance and would only resolve conflicts when that guidance provides two or more methods of accounting for the same economic transaction. This alternative would not result in a comprehensive standard on revenue recognition.

- **Alternative 6—Revenue Disclosures** This alternative’s objective would be the improvement of revenue disclosures. This alternative would include an evaluation of revenue disclosures currently required and an analysis of how those disclosures could be improved to provide:
  - additional information on revenue recognition policies and revenue amounts
  - recognized in the financial statements.

- **Alternative 7—Research Report**
  The Research Report is a staff-authored “white paper” that fully articulates the asset-and-liability fair value approach and applies it to representative revenue transactions. This report also could compare and contrast that approach with the current realized-and-earned model.

- **Alternative 8—IASB-Led Project**
  Under this alternative, the IASB Board would continue deliberating the asset-and-liability fair value approach. The FASB Board would discontinue deliberations of revenue recognition issues until the IASB Board issues a Discussion Paper or Preliminary Views.

- **Alternative 9—Deactivate**
  The Board deactivates the Revenue Recognition Project but does not remove it from its agenda pending the performance of work in the Conceptual Framework and Liability Extinguishment projects.

- **Alternative 10—Remove from Agenda**
  The Board removes the Revenue Recognition Project from its agenda.

*FASB meeting minutes taken from: [http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176157086089](http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176157086089)*
2006- Revenue Recognition in the Context of Other Standards

FASB and IASB issue Memorandum of Understanding outlining their goals for convergence and ongoing/future joint projects.*

FASB explores the application of revenue based on its recently formed definition of *performance*. Specifically, FASB explores revenue recognition for contracts with customers.

The Boards plan the release of the first due process document for this project: includes both Fair Value and Customer Consideration models for feedback.

*FASB meeting minutes taken from: http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176157086089
July 26, 2006: Revenue Recognition - Application of the Board’s Decision on the Meaning of Performance to Certain Revenue Contracts

Before this meeting
"The Board decided to explore revenue recognition based on the following criterion: **Revenue should be recognized if the customer must accept performance to date.** That is, the contract’s legal remedy for breach is, or is like, specific performance, or in the event of customer cancellation, the customer is obligated to pay damages reflecting performance to date."

At this meeting
"The Board tentatively decided that revenue should be recognized as the reporting entity performs under the contract and creates (produces) an asset for its customer if, in the event of customer breach, the legal remedy is:

1. Specific performance, which requires both parties to the contract to fully perform as promised;
2. Partial physical settlement, which requires the customer to pay an amount that reimburses the reporting entity for its costs incurred for production to date plus a profit margin and, in exchange for paying those damages, the customer obtains the work in process; or
3. Net cash settlement, which requires the customer to pay damages in an amount sufficient to place the reporting entity in as good a position as it would have been if the contract had been performed.

The Board also tentatively decided that if the contract contains explicit customer acceptance provisions that obligate the customer to compensate the reporting entity for performance to date at certain points during the contract term (and there are no other legal remedies available in the event of customer breach), revenue would be recognized only at those specified acceptance points."
October 24, 2006: FASB-IASB Joint Board Meeting Minutes

This document will...
- Be released by the end of 2007 (this goal is not accomplished - document is released December of 2008)
- Outline two models of revenue recognition
  - **Customer Consideration Model**
    - assets and liabilities would be measured by reference to the customer consideration
    - *later called the Measurement Model in 2007*
  - **Fair Value Model**
    - assets and liabilities would be measured at fair value
    - *later called the Allocation Model in 2007*
- "...should include an example of a simple retail transaction to clarify that although those types of transactions are not expected to change dramatically under either model, they are included within the scope of this project. He added that the Boards should aim to develop the revenue recognition models under a conceptual approach, rather than an approach that is based upon legal remedies."

The Boards agreed that both models of revenue recognition needed to be developed further and then be presented again to the Board members.
2007 - Finalization of First Due-Process Document

The FASB works to finish the Discussion Paper to be released to constituents in 2008 introducing the new view of revenue recognition.

Dec 2006 - June 2007: Advisory groups meet to further develop two models of revenue recognition (Fair Value and Customer Consideration)

(AAA/FASB Financial Reporting Issues Conference) Joint FASB & IASB Meeting: Boards present 2 models of revenue recognition (Measurement & Allocation)

*FASB meeting minutes taken from: http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176157086989
November 9, 2007: Joint IASB Revenue Recognition Meeting Minutes

The Boards opened the meeting by summarizing their accomplishments on the revenue recognition project from 2002-2006.

Objective of project: "...to develop a single coherent asset and liability model for revenue recognition. In such a model, revenue is a function of changes in assets and liabilities and is not based on the notions of realization and the completion of an earnings process."

Models previously explored: "...one in which the assets and liabilities would be measured at fair value (a fair value model) and a model in which the assets and liabilities would be measured by reference to the customer consideration (an allocated customer consideration model)."

"In October 2006, the Boards decided that instead of trying to forge a single, compromise model at this stage in the project, they should aim to get a better and more complete understanding about what both models would look like and what each would entail."
2008- Preliminary Revenue Recognition Ideas Released to Public

FASB discusses the potential for a major project regarding revenue and liability recognition on financial statements.

- **Jan. 15:** Releases the Accounting Standards Codification TM online.*
- **Jan. 30:** Considers the customer consideration model and defines performance obligation.
- **FASB/IASB Joint Meeting:** "The Boards agreed that the goal of joint projects is to produce common, principles-based standards, subject to the required due process."
- **April 9:** Edits the discussion paper. Looks at the definition of an asset in relation to the proposed standard.
- **May 14:** Edits the discussion paper. Assessed measurement of the contract, leaning towards the customer consideration model.
- **July 16:** Set goal of releasing the finalized standard by June 2011.
- **Dec 19:** FASB releases Discussion Paper titled "Preliminary View on Revenue Recognition in Contracts with Customers"

*Fisher and McEwen (2009)
***FASB meeting minutes taken from: http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176157086089
FASB Meeting Minutes: January 30

"First, the Board agreed that there are measurement issues in both the measurement and the customer consideration models, but most Board members seemed more comfortable with those issues in the customer consideration model.

Second, the Board agreed that the preliminary definition of performance obligations is promising, but it asked the staff to continue testing the definition on other examples.
  • performance obligation is defined as a promise in a contract between the entity and a customer to transfer an economic resource to that customer

Finally, Board members agreed that a simplifying assumption might help determine when an enforceable right to a good transfers to a customer. Specifically, Board members agreed that any time an entity is delivering both a good and services that will incorporate that good, it might be helpful to assume that the good transfers when it is used unless the language in the contract or the operation of law indicates that the customer has the enforceable right or access to the good once it is delivered."
FASB Meeting Minutes: April 9

The Board discussed and approved the drafts for chapters 2, 3, & 4.

Points of debate:
- Arrangements with customers as opposed to contracts with customers (phrasing)
  - Board members expressed concern that it would not be clear that retail transactions would be included in the contract model
- Whether or not revenue can arise at contract inception
  - The Board decided that it cannot
  - Would this be a measurement issue or a conceptual issue? Board says conceptual
  - How would not-for-profits recognize revenue? Determined that this is not within the scope of this standard
  - How deferred debits and credits relate to the definitions of assets and liabilities
- Third party contracts:
  - "Certain contracts, such as the one in Mr. Linsmeier’s example, are saleable to a third party. Therefore, there is clearly something of value at contract inception. He questioned whether Board members really believe such contracts are worth nothing, and, thus, there is no revenue at inception. Mr. Batavick stated that he views this as an intangible asset that cannot be recorded under current GAAP."
April 21: Joint FASB/IASB Revenue Recognition Meeting

"EFRAG and DRSC representatives will present an overview of the discussion paper Revenue Recognition — A European Contribution (DP)."
Discussion Paper: Preliminary Views on Revenue Recognition in Contracts with Customers

What does the new standard look like at this point?

- **Contracts with customers based method**
  - "A contract is an agreement between two or more parties that creates enforceable obligations. Such an agreement does not need to be in writing to be considered a contract. A customer is a party that has contracted with an entity to obtain an asset (such as a good or a service) that represents an output of the entity’s ordinary activities."
  - "The Boards propose that **revenue should be recognized on the basis of increases in an entity’s net position in a contract with a customer.**"
  - "In the proposed model, revenue is recognized **when a contract asset increases or a contract liability decreases** (or some combination of the two). That occurs when an entity performs by satisfying an obligation in the contract."

- **Identification of performance obligations**
  - Separation of performance obligations is introduced
  - "An entity **satisfies a performance obligation when the customer obtains control** of the good so that the good is the customer’s asset."

- **Use of estimates**
  - "Entities would estimate the standalone selling prices of the undelivered goods and services and recognize revenue when goods and services are delivered to the customer."

- **Capitalization of Costs**
  - "At present, entities sometimes capitalize the costs of obtaining contracts. In the proposed model, costs are capitalized only if they qualify for capitalization in accordance with other standards."

*FASB (2008)*
Discussion Paper: Preliminary Views on Revenue Recognition in Contracts with Customers

What does the new standard look like at this point?

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<th>Net contract position</th>
<th>Contract asset</th>
<th>Contract liability</th>
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<td><strong>Customer pays</strong></td>
<td>Decreases</td>
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<td>Increases</td>
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<td>(reduces remaining rights)</td>
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<td><strong>Entity provides goods</strong></td>
<td>Increases</td>
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<td>and services (reduces</td>
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<td>remaining obligations)</td>
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*FASB (2008)*
Discussion Paper: Preliminary Views on Revenue Recognition in Contracts with Customers

Important excerpts about the intention of this standard:

• “...to clarify the principles for recognizing revenue”
  • Transition from rules-based to principles-based concepts
• “The Boards are developing that model to improve financial reporting by providing clearer guidance on when an entity should recognize revenue, and by reducing the number of standards to which entities have to refer”
• “the Boards expect that entities will recognize revenue more consistently for similar contracts regardless of the industry in which an entity operates. That consistency should improve the comparability and understandability of revenue for users of financial statements. “
• “the Boards will consider the need for users of financial statements to receive useful information, which can be provided by preparers at a reasonable cost, as a basis for making economic decisions. “
  • Proves cognisant awareness that FASB aims to create a model that beenfits its consituents without creating unnecesary costs.

*FASB (2008)*
Discussion Paper: Preliminary Views on Revenue Recognition in Contracts with Customers

What type of transactions would potentially be affected by this proposal?

- **Regarding the use of a contract-based revenue recognition principle...**
  - Firms using cash-based revenue recognition
  - Accounting for inventory
    - "At present, some entities recognize revenue throughout construction-type contracts even though “ownership rights” are not continuously transferred to the customer—that is, even though the customer does not control the asset being constructed. In those cases, the Boards’ proposed model would preclude the recognition of revenue until the inventory transfers to the customer."

- **Regarding the identification of performance obligations...**
  - Postdelivery services
  - Sales incentives
  - Segmentation of a construction contract.

- **Regarding the use of estimates...**
  - Software transactions
  - Residual method (would not be acceptable to use for revenue recognition under this model)

- **Regarding the capitalization of costs...**
  - Expenses associated with obtaining a contract with a customer (i.e. sales commissions and marketing expenses)

*FASB (2008)*
2009 - Assessment of Constituent Feedback

FASB addresses issues raised by constituents in the 2008 Discussion Paper, working closely with the IASB on many issues.

First meeting after 2002 that incorporates feedback from users into the dialogue.

Discuss the relationship between proposed model and receivables accounting. First time control is mentioned in meetings.

Discussed the concept of the net contract, how contract assets and liabilities would be recorded; short term vs long term contracts.

Nov 18: Reassessed licensing contracts, subsequent measurement of performance obligations, & contract costs.

Oct 26: Considered additional guidance to help an entity determine how much revenue to recognize.

Dec 16: Reassessed what gives rise to a performance obligation (Warranties and product liability, Rights of return, Estimates of uncertain consideration.)

FASB and IASB reaffirm goals from 2006 Memorandum of Understanding.

*FASB meeting minutes taken from: http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176157086089
November 18th Meeting Minutes

In this meeting, the FASB and IASB come to different conclusions regarding guidance for contract costs.

"The IASB decided tentatively not to develop guidance for accounting for contract costs. An entity would account for those costs in accordance with other standards as applicable, for example, IAS 2 (revised 2003), Inventories.

The FASB directed the staff to analyse further the effects of withdrawing guidance relating to costs from FASB Accounting Standards Codification™ Topic 605, Revenue Recognition."
2010- Exposure Draft For a Proposed Revenue Recognition Standard Released

After taking into consideration the feedback on the 2008 Discussion Paper from constituents, FASB released an exposure draft for revenue recognition.

The Boards meets frequently prior to the release of its first Exposure Draft to finalize various components of the new standard.

June 24: FASB releases Exposure Draft of an Accounting Standards Updated for Topic 605: Revenue Recognition

The Boards host roundtable meetings with constituents from various industries to get direct feedback on the Exposure Draft.

*FASB meeting minutes taken from: http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176157086089
Topics of discussion:

January 18th:
  - Disclosure requirements
  - First time this topic is discussed at length in a FASB meeting

February 2nd:
  - Capitalization of costs of obtaining a contract

February 16th:
  - Scope of the standard (proposed standard will apply to an entity's contracts with customers - except for
    - Leases under Topic 840)
  - Insurance contracts under Topic 944
  - Financial instrument under Topic 825
  - Guarantees (other than product warranties) under Topic 460

March 16th
  - Disclosures and capitalization of costs

March 22nd:
  - Scope (when some parts of the contract fall within the scope of this standard and other don't)

May 5th:
  - Sale of goods/services outside an entity's ordinary course of business
  - Repurchase agreements

May 17th:
  - Sale of goods/services outside an entity's ordinary course of business
  - Repurchase agreements
Exposure Draft: Proposed ASU (Revenue from Contracts with Customers)

What does the new standard look like at this point?

- Five components to recognize revenue
  - (a) identify the contract(s) 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; and
  - (e) recognize revenue when the entity satisfies each performance obligation.

- Order of operations is not stressed

- Guidance to recognizing capitalization of costs associated with obtaining a contract
  - "An entity would recognize an asset only if those costs:
    - (a) relate directly to a contract (or a specific contract under negotiation);
    - (b) generate or enhance resources of the entity that will be used in satisfying performance obligations in the future; and
    - (c) are expected to be recovered."

* FASB (2010)
Exposure Draft: Proposed ASU (Revenue from Contracts with Customers)

What are notable developments from the 2008 Discussion Paper?

- **Acknowledgment of some differences in application between GAAP and IFRS**
  - "However, differences might exist between U.S. GAAP and IFRSs in the profit margin reported in those contracts because of differences in other standards relating to accounting for the costs of fulfilling a contract (for example, Topic 330 or IAS 2)."

- **Decision to increase disclosure requirements**
  - "An entity would be **required to disclose more information about its contracts with customers than is currently required**, including more disaggregated information about recognized revenue and more information about its performance obligations remaining at the end of the reporting period."
  - In 2008 Discussion Paper, the Boards were debating whether disclosures would act as a substitute for adequate reporting

- **Gives more detailed guidance to determine transaction price**
  - Firms should assess
    - (a) collectibility;
    - (b) the time value of money;
    - (c) non-cash consideration; and
    - (d) consideration payable to the customer.

*FASB (2010)*
Exposure Draft: Proposed ASU (Revenue from Contracts with Customers)

What are notable developments from the 2008 Discussion Paper?

- **FASB stills defines revenue in terms of assets and liabilities**
  - "When either party to a contract has performed, the entity shall present the contract in the statement of financial position as either a contract asset or a contract liability depending on the relationship between the entity's performance and the customer's performance."

- **Provides tangible examples for the following topics:**
  - segmentation of a contract; contract modifications; identifying performance obligations; determining whether a good or service is distinct; satisfaction of performance obligations; determining the transaction price; allocating the transaction price to separate performance obligations; contract costs; presentation; and disclosure

*FASB (2010)*
Exposure Draft: Proposed ASU (Revenue from Contracts with Customers)

What are the stated objectives of this accounting standard update?

- “...a joint project to clarify the principles for recognizing revenue and to 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 recognition practices across entities, industries, jurisdictions, and capital markets; and
  - (d) simplify the preparation of financial statements by reducing the number of requirements to which entities must refer.”

*FASB (2010)*
November 2010 - Roundtable Meetings

Stakeholders present:
• 42 entities represented over 3 days
• Big Four firms present
• Securities and Exchange Commission
• Canadian Accounting Standards Board
• Private sector
  • Technological, constructions, financial services, biotechnological, e-commerce, healthcare, pharmaceutical, consulting, telecommunications, etc.

Significant Topics Covered
• Transfer model of goods/services to the customer
• Timing of control transfer
• Identifying distinct performance obligations
• Determining the transaction price
  • Probability-weighted estimate vs. judgement of management
• Allocation of the transaction price
• Collectibility and time value of money
• Recognition of onerous liabilities at contract inception

Takeaways
• Stakeholders are concerned with
  • Operationality
  • Implementation guidance
  • Transition

*FASB (2010)*
2011- Redeliberations of the 2010 ED

After several roundtable meetings in 2010 and the collection of feedback from stakeholders, the Boards redeliberate parts of the standard, decided to either keep, clarify, or amend them.

Boards begin redeliberations of the 2010 Exposure Draft based on feedback from stakeholders.

FASB & IASB Redeliberations

Last mention of release of "final standard" in 2011; after this date, it is referred to as a "revised ED."

Boards decide to solicit input from software developers and investors regarding transition to the new standard; FASB begins to diverge from IASB regarding implementation decisions.

Nov 14: FASB releases a revised version of the Exposure Draft (ASU for Topic 605: Revenue Recognition) from 2010

*FASB meeting minutes taken from: http://www.fasb.org/psp/FASB/Page/SectionPage&cid=1176157086089
Redeliberations

According to meeting minutes from December of 2010, the Boards found that they would need to redeliberate two fundamental topics:
  • separating a contract
  • determining when goods or services are transferred to a customer
At this point in time (prior to the commencement of redeliberations), the Boards plan on releasing a final standard by the end of 2011.
Topics of redeliberation:

- Identification of separate performance obligations
- Revenue recognition for services
- Combining contracts
- Contract modifications
- Definition of a performance obligation
- Breakage and prepayments for future goods or services
- Onerous performance obligations.
- Onerous contracts
- Determining the transaction price (including variable consideration, collectibility, and the time value of money)
- Allocating the transaction price
- Contract fulfillment costs
- Determining the transaction price
- Uncertain consideration
- Allocation of the transaction price
- Costs
- Licenses and rights to use
- Disclosures
- Scope
- Fulfillment costs
- Sale and repurchase agreements.
- Fulfillment costs: amortization and impairment.
- Transition and effective date
- Application of the revenue model to some industries (for example, the telecommunications industry)
- Alternative revenue programs for rate-regulated entities
- Disclosure requirements for nonpublic entities.
Redeliberations (excerpts taken from respective meeting minutes)

January 19th:
- Segmenting a Contract
  - **Eliminated the proposed requirement in the Exposure Draft** to account for one contract as two or more contracts if the price of some goods or services in the contract is independent of the price of other goods or services in the contract.
  - Replacement: An Entity would separate a contract only if the entity identifies separate performance obligations in the contract.
- Identifying Separate Performance Obligations
  - **Clarify** that the objective for identifying separate performance obligations is to depict the transfer of goods or services and the profit margin that is attributable to those goods or services.
  - Retained the principle of “distinct goods or services” as the basis for identifying separate performance obligations.
- Determining the Transfer of Goods and Services
  - **Affirmed** the core principle in the Exposure Draft that an entity should recognize revenue to depict the transfer of goods and services to a customer.

*FASB meeting minutes taken from: [http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176157086089](http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176157086089)
Redeliberations (excerpts taken from respective meeting minutes)

January 20th:
- Decided that it would not be necessary for the revenue standard to include additional requirements on accounting for perfunctory, incidental, or other similar obligations.

February 1st:
- Decided that an entity should account for some [product] warranties as a warranty obligation (that is, as a cost accrual) in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets, or FASB Accounting Standards Codification® Topic 450, Contingencies. Other product warranties would be accounted for as a cost accrual.

February 2nd:
- Decided tentatively that:
  - An entity should recognize an asset for the incremental costs of obtaining a contract that the entity expects to recover.
  - An asset recognized for the costs of obtaining a contract should be presented separately on the statement of financial position and subsequently measured on a systematic basis consistent with the pattern of transfer of the goods or services to which the asset relates.

*FASB meeting minutes taken from: http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176157086089
Divergence between Boards in 2011

In the previous years of this joint project, joint meetings minutes typically refer to decisions as being made by "the Boards." However, this year, the Boards are often referred to separately throughout the minutes, highlighting difference the boards are making in regard to redeliberation and transition/implementation of the new standard. Listed below are the major points of divergence:

- **Inclusions of guidance for non-public entities**
  - FASB aims to provide guidance and seek input from non-public entities

- **Early adoption**
  - IASB is willing to permit this; FASB is against early adoption
  - IASB plans on discussing the possibility of retroactive implementation

*FASB meeting minutes taken from: http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176157086089*
Exposure Draft REVISED: Proposed ASU (Revenue from Contracts with Customers)

What does the new standard look like at this point?

- Five aspects of revenue recognition now portrayed as a **five step orderly process**
  - components are labels as steps 1, 2, 3,4, & 5
  - order of operations matters
- **Step 1: Identify the contract(s) with the customer**
  - Changed the proposed indicators on combining contracts to criteria. The criteria are limited to contracts that are entered into at or near the same time with the same customer (or related parties). Added a criterion for goods or services across contracts that are a single performance obligation.
  - Eliminated the proposal on contract segmentation (but moved the principle to Step 4 on allocating the transaction price).
  - Revised the proposal on contract modifications to reduce the instances in which an entity would account for a modification on a cumulative catch-up basis.

*FASB meeting minutes taken from: http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176157086089
Exposure Draft REVISED: Proposed ASU (Revenue from Contracts with Customers)

What does the new standard look like at this point?

- **Step 2: Identify separate performance obligations**
  - "Retained the definition of a performance obligation subject to the deletion of the term enforceable (to clarify the June 2010 proposals).
  - Clarified the proposals for identifying separate performance obligations (distinct goods or services) mainly by moving the guidance on a significant contract management service from the implementation guidance/basis into the proposed standard and by deleting reference to distinct profit margin in the proposed standard."

- **Step 3: Determine Transaction price**
  - Modified the definition of transaction price to refer to the amount to which the entity expects to be entitled rather than the expected amount to be received.
  - Modified the proposals on determining the transaction price as follows:
    - Collectibility: credit risk no longer included in the transaction price. Accounted for similarly to current practice (except for the presentation adjacent to revenue).
    - Time value of money: added a one-year practical expedient and clarified when a financing component is significant.
    - Variable consideration: either an expected value or a most likely amount is required (to simplify the proposals, which would have required a probability-weighted estimate in all cases).

*FASB meeting minutes taken from: [http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176157086089](http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176157086089)*
2012- Continuation of Redeliberations

FASB and IASB begin to disagree on certain issues regarding the standard and its implementation. The Boards aim to release the final standard in early 2013.

After the end of the comment period in May of 2012, the Boards begin a second round of redeliberations.

*FASB meeting minutes taken from: http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176157086089
Topics of redeliberation:

- Identification of separate performance obligations (Step 2)
- Performance obligations satisfied over time (Step 5)
- Licenses
- Losses arising from onerous obligations in contracts with customers
- Constraining the cumulative amount of revenue recognized
- Collectibility, including accounting for contracts with customers that contain non-recourse, seller-based financing
- Time value of money
- Contract modifications
- Measuring progress toward complete satisfaction of a performance obligation
- Implementation guidance: Licenses

- Allocating the transaction price
- Contract costs
- Effect of the revenue recognition model on some bundled arrangements
- Constraining the cumulative amount of revenue recognized—licenses
Divergence between Boards in 2012

Continuing the trend from 2011, the Board have begun to identify differences in their preferences for redeliberation and implementation. The key points of divergence are listed below:

- **Collectibility recognition threshold**
  - "IASB members expressed support for not including a collectibility recognition threshold. The FASB will decide on that issue together with the issues relating to the presentation of revenue and impairment losses arising from contracts with customers." (September 24, 2012)
- **Retroactive Adoption**
- **Continuation of redeliberations**

*FASB meeting minutes taken from: [http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176157086089](http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176157086089)*
2013- Final Stages Before ASU 2014-09

The Boards continue to push back their deadlines for the release of the Accounting Standards Update. The FASB and the IASB no longer host all redeliberation meetings together.

FASB & IASB Redeliberations

- Boards push back target date for final standard from Q1 2013 to Q2 2013
- FASB has redeliberation meetings without the IASB present.
- FASB evaluates its due process and the cost/benefit analysis of issuing a new standard.

*FASB meeting minutes taken from: [http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176157086089](http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176157086089)
2014- ASU 2014-09 Released

FASB released the new revenue recognition standard to replace ASC 605. This standard focuses on the contract with the customer, and differs from existing guidance in its principles-based nature.

May 28: FASB and IASB jointly issue the converged standard regarding revenue recognition on contracts with customers.

June 3: FASB and IASB form joint Transition Resources Group for the new standard.

Technical Inquiries received this year*: 2

FASB does not host any meetings on the topic of revenue recognition this year.

**FASB meeting minutes taken from: http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176157086089
2015- Deferral of Implementation

Given the influx of comments and concerns, FASB defers implementation date for the final standard.

August: Update 2015-14- FASB defers the implementation date on new standard
(Dec 15 2017 -> Dec 15 2018)

This document does not include the phrases "IASB" "joint" or "convergence." It does, however, state that IFRS implementation date for rev rec is one year sooner than GAAP

**FASB meeting minutes taken from: http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176157086089
2016- Clarification and Steps Towards Implementation

FASB releases four ASUs clarifying ASC 606 or amending certain aspects. However, FASB emphasizes the core principles stand.

March 17: Update 2016-08 - Principal versus Agent Considerations (Reporting Revenue Gross versus Net) Core principle not changed

May 9: Scope Update - Core principle not changed Update 2016-12

April: Update 2016-10 - Identifying Performance Obligations and Licensing - Core principle not changed

Sept. 15: FASB & IASB host joint webcast to ease implementation of ASC 606 and IFRS 15*

Last TRG submission for revenue recognition received. Last TRG Meeting.

Dec 21: Technical Update - Core principle not changed - Update 2016-20

*http://www.fasb.org/spj/FASB/Page/LandingPage&cid=1176164065747
***FASB meeting minutes taken from: http://www.fasb.org/spj/FASB/Page/SectionPage&cid=1176157086089
2017- Final Stages of Implementation

The FASB does not meet this year regarding revenue recognition. At this point in time, the new standard is finalized, and the FASB is no longer receiving substantive comments but rather technical inquiries. Firms are looking to sources other than the FASB for guidance regarding implementation. The IASB and the FASB no longer publically mention convergence. The FASB states the following regarding international comparability:

"The first priority of the Financial Accounting Standards Board (FASB) is to improve financial reporting for the benefit of investors and other users of financial information in U.S. capital markets."

http://www.fasb.org/sp/FASB/Page/BridgePage&cid=1176166128698
2018- Current State of Revenue Recognition

Information regarding FASB's standard on revenue recognition presented by the FASB as of February 16th, 2018

**Objective of new standard:** "To establish principles to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue from contracts with customers."

**Core principle:** "Recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services."

**This standard should:** "Remove inconsistencies and weaknesses in existing revenue requirements; provide a more robust framework for addressing revenue issues; improves comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets; provides more useful information to users of financial statements through improved disclosure requirements and; simplifies the preparation of financial statements by reducing the number of requirements to which an organization must refer."

**Convergence:** Not stressed as a priority for this standard as it was at the project's inception. When prompted on the subject of international convergence, the FASB stated the following:

- "As the FASB staff continues to work through technical inquiries, it periodically reaches out to the IASB staff to get its views on the issues. The FASB staff tries to understand if the questions are being raised internationally, whether the IASB has provided any views on these issues previously, and if there is any additional background on the development of the guidance. Additionally, the FASB staff has been following the efforts of the International Financial Reporting Interpretations Committee (IFRIC)."

*http://www.fasb.org/jsp/FASB/Page/ImageBridgePage&cid=1176169257359#section_5
Standard Setting: The Evolution of ASC 606

Analysis of Trends and Events Over Time by Rebecca Orsak

Key
- Discussion Paper
- Exposure Draft
- Accounting Standards Update
- FASB Meeting Minute (re: rev rec)

## Number of Relevant Comment Letters Received

### Original Implementation deadline (public)

#### Current Implementation deadline (public)


**Task** IASB IASB IASB IASB IASB IASB IASB IASB IASB IASB IASB IASB IASB IASB IASB IASB IASB

**International Convergence Prioritized**

**TRG Active**