Financial Accounting
Standards Board

Nonpublic Entity Revenue Recognition Roundtable Meeting
May 8, 2012
9:30 a.m.–12:30 p.m.

Marriot Salt Lake City Center
220 South State Street
Salt Lake City, Utah 84111

AGENDA

Welcome and introductions

We have arranged this roundtable meeting to listen to your views from a nonpublic entity perspective and to develop further our understanding of the issues you raise or alternatives you propose in your comment letters.

We expect to allocate between 20–25 minutes to cover each of the following topic areas:

- Topic 1: Performance obligations satisfied over time
- Topic 2: Separate performance obligations
- Topic 3: Measuring progress toward complete satisfaction of a performance obligation
- Topic 4: Collectibility and presentation of the effects of customer credit risk
- Topic 5: Onerous performance obligations
- Topic 6: Disclosure
- Topic 7: Scope
- Topic 8: Effective date and transition.

We will then allow some time for all participants to raise any additional issues they would like to discuss at the end of the session.

Financial Accounting
Standards Board

Topic 1: Performance obligations satisfied over time

ED proposals

35. An entity transfers control of a good or service over time and, hence, satisfies a performance obligation and recognizes revenue over time if at least one of the following two criteria is met:

(a) The entity's performance creates or enhances an asset (for example, work in process) that the customer controls as the asset is created or enhanced. An entity shall apply the proposed guidance on control in paragraphs 31–33 and paragraph 37 to determine whether the customer controls an asset as it is created or enhanced.

(b) The entity's performance does not create an asset with an alternative use to the entity (see paragraph 36) and at least one of the following criteria is met:

(i) The customer simultaneously receives and consumes the benefits of the entity's performance as the entity performs.

(ii) Another entity would not need to substantially reperform the work the entity has completed to date if that other entity were to fulfill the remaining obligation to the customer. In evaluating this criterion, the entity shall presume that another entity fulfilling the remainder of the contract would not have the benefit of any asset (for example, work in process) presently controlled by the entity. In addition, an entity shall disregard potential limitations (contractual or practical) that would prevent it from transferring a remaining performance obligation to another entity.

(iii) The entity has a right to payment for performance completed to date, and it expects to fulfill the contract as promised. The right to payment for performance completed to date does not need to be for a fixed amount. However, the entity must be entitled to an amount that is intended to at least compensate the entity for performance completed to date even if the customer can terminate the contract for reasons other than the entity's failure to perform as promised. Compensation for performance completed to date includes payment that approximates the selling price of the goods or services transferred to date (for example, recovery of the entity's costs plus a reasonable profit margin) rather than compensation for only the entity's potential loss of profit if the contract is terminated.

36. When evaluating whether an asset has an alternative use to the entity, an entity shall consider at contract inception the effects of contractual and practical limitations on the entity's ability to readily direct the promised asset to another customer. A promised asset would not have an alternative use to an entity if the entity is unable, either contractually or practically, to readily direct the asset to another customer. For example, an asset would have an alternative use to an entity if the asset is largely interchangeable with other assets that the entity could transfer to the customer without breaching the contract and without incurring significant costs that otherwise would not have been incurred in relation to that contract. Conversely, the asset would not have an alternative use if the contract has substantive terms that preclude the entity from directing the asset to another customer or if the entity would incur significant costs (for example, costs to rework the asset) to direct the asset to another customer.

Main discussion points:

- The concept of control and paragraph 35(b)
- Assets that do not have an alternative use because of contractual restrictions
- Identifying whether an entity has a right to payment for performance to date
- Application of paragraph 35(b) to construction contracts and manufacturing or production contracts.

Topic 2: Separate performance obligations

ED Proposals

28. Except as specified in paragraph 29, a good or service is distinct if either of the following criteria is met:

(a) The entity regularly sells the good or service separately.

(b) The customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer. Readily available resources are goods or services that are sold separately (by the entity or by another entity) or resources that the customer already has obtained (from the entity or from other transactions or events).

29. Notwithstanding the requirements in paragraph 28, a good or service in a bundle of promised goods or services is not distinct and, therefore, the entity shall account for the bundle as a single performance obligation if both of the following criteria are met:

(a) The goods or services in the bundle are highly interrelated and transferring them to the customer requires that the entity also provide a significant service of integrating the goods or services into the combined item(s) for which the customer has contracted.

(b) The bundle of goods or services is significantly modified or customized to fulfill the contract.

30. As a practical expedient, an entity may account for two or more distinct goods or services promised in a contract as a single performance obligation if those goods or services have the same pattern of transfer to the customer. For example, if an entity promises to transfer two or more distinct services to a customer over the same period of time, the entity could account for those promises as one performance obligation if applying one method of measuring progress (as discussed in paragraphs 38–48) would faithfully depict the pattern of transfer of those services to the customer.

Main discussion points:

- Accounting for separate performance obligations: the interaction between paragraphs 28, 29, and 30
- The meaning of a *significant integration service* and the addition of paragraph 29(b).

Topic 3: Measuring progress towards complete satisfaction of a performance obligation

ED Proposals

38. For each separate performance obligation that an entity satisfies over time in accordance with paragraphs 35 and 36, an entity shall recognize revenue over time by measuring the progress towards complete satisfaction of that performance obligation. The objective when measuring progress is to depict the transfer of control of goods or services to the customer—that is, to depict an entity's performance. […]

39. In accordance with the objective of measuring progress, an entity shall exclude from a measure of progress any goods or services for which the entity does not transfer control to the customer. Conversely, an entity shall include in the measure of progress any goods or services for which the entity does transfer control to the customer.

40. For each separate performance obligation satisfied over time, an entity shall apply a method of measuring progress that is consistent with the objective in paragraph 38 and shall apply that method consistently to similar performance obligations and in similar circumstances. Appropriate methods of measuring progress include output methods and input methods.

…

44. Input methods recognize revenue on the basis of the entity's efforts or inputs to the satisfaction of a performance obligation (for example, resources consumed, labor hours expended, costs incurred, time lapsed, or machine hours used) relative to the total expected inputs to the satisfaction of that performance obligation. […]

45. A shortcoming of input methods is that there may not be a direct relationship between the entity's inputs and the transfer of control of goods or services to the customer because of inefficiencies in the entity's performance or other factors. Hence, when using an input method, an entity shall exclude the effects of any inputs that do not depict the transfer of control of goods or services to the customer (for example, the costs of wasted materials, labor or other resources to fulfill the contract that were not reflected in the price of the contract).

46. When applying an input method to a separate performance obligation that includes goods that the customer obtains control of significantly before receiving services related to those goods, the best depiction of the entity's performance may be for the entity to recognize revenue for the transferred goods in an amount equal to the costs of those goods if both of the following conditions are present at contract inception:

(a) The cost of the transferred goods is significant relative to the total expected costs to completely satisfy the performance obligation.

(b) The entity procures the goods from another entity and is not significantly involved in designing and manufacturing the goods (but the entity is acting as a principal in accordance with paragraphs IG16–IG19).

Main discussion points:

- Determining which measure of progress to use
- Accounting for uninstalled materials
- Accounting for wasted materials and labor.

Topic 4: Collectibility and presentation of the effects of customer credit risk

ED Proposals

68. Collectibility refers to a customer's credit risk—that is, the risk that an entity will be unable to collect from the customer the amount of consideration to which the entity is entitled in accordance with the contract. For an unconditional right to consideration (that is, a receivable), an entity shall account for the receivable in accordance with Topic 310 except as specified in paragraph 69. An entity similarly shall account for the effects of a customer's credit risk on a **contract asset** (see paragraph 106).

69. Upon initial recognition of the receivable, any difference between the measurement of the receivable in accordance with Topic 310 and the corresponding amount of revenue recognized shall be presented in profit or loss as a separate line item adjacent to the revenue line item. If the contract does not have a significant financing component in accordance with paragraph 58, an entity shall present any impairment of the receivable (or change in the measurement of impairment) in profit or loss as a separate line item adjacent to the revenue line item.

Main discussion points:

- Recognizing revenue at the amount to which the entity expects to be entitled (i.e., without adjustment for customer credit risk)
- Presentation of impairment losses relating to contracts with customers (e.g., adjacent to revenue, with other operating expenses or in the notes)
- Interaction with existing financial instruments standards and with the Boards' impairment project.

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Topic 5: Onerous performance obligations

ED Proposals

86. For a performance obligation that an entity satisfies over time (see paragraphs 35 and 36) and that the entity expects at contract inception to satisfy over a period of time greater than one year, an entity shall recognize a liability and a corresponding expense if the performance obligation is onerous.

87. A performance obligation is onerous if the lowest cost of settling the performance obligation exceeds the amount of the transaction price allocated to that performance obligation. The lowest cost of settling a performance obligation is the lower of the following amounts:

(a) The costs that relate directly to satisfying the performance obligation by transferring the promised goods or services (those costs are described in paragraph 92)

(b) The amount that the entity would pay to exit the performance obligation if the entity is permitted to do so other than by transferring the promised goods or services

90. A not-for-profit entity shall not recognize a liability for an onerous performance obligation if the purpose of the contract is to provide a social or charitable benefit.

Main discussion points:

- Justification for a revenue standard specifying an onerous test
- Scope of the onerous test
- Unit of account for the onerous test (e.g., the performance obligation, the contract or a higher unit of account)
- Ability to distinguish between not-for-profit contracts to provide a social or charitable benefit and other not-for-profit contracts with customers
- Disclosure requirements.

Topic 6: Disclosure

ED Proposals (summarized)

The proposed requirements specify various disclosure requirements that would enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. To achieve that objective, an entity would disclose qualitative and quantitative information about all of the following:

(a) Its contracts with customers

(b) The significant judgements, and changes in judgements, made in applying the proposed requirements to those contracts;

(c) Any assets recognized from the costs to obtain or fulfill a contract with a customer.

ED proposals for nonpublic entities

A nonpublic entity need not apply the proposals in paragraphs 114 and115. Rather, a nonpublic entity shall disclose qualitative information about how economic factors (such as type of customer, geographical location of customers, and type of contract) affect the nature, amount, timing, and uncertainty of revenue and cash flows. A nonpublic entity shall disaggregate revenue in accordance with the timing of transfer of goods or services (for example, revenue from goods or service transferred to customers at a point in time and revenue from goods or services transferred over time).

A nonpublic entity may elect not to provide any of the following disclosures:

(a) A reconciliation of contract balances (paragraph 117)

(b) The amount of the transaction price allocated to remaining performance obligations and an explanation of when the entity expects to recognize that amount as revenue (paragraph 119)

(c) A reconciliation of liability balances recognized from onerous performance obligations (paragraph 123)

(d) A reconciliation of asset balances recognized from the costs to obtain or fulfill a contract with a customer (paragraph 128)

(e) An explanation of the judgments, and changes in judgments, used in determining the timing of satisfaction of performance obligations (paragraphs 125 and 126) and in determining the transaction price and allocating it to performance obligations (paragraph 127).

Main discussion points:

- Nonpublic entity disclosure requirements
- Availability of information needed to comply with the proposals
- Characteristics of contracts or industries for which the proposed disclosures would not provide relevant information.

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Topic 7: Scope

ED Proposals

10. A customer is a party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities. An entity shall apply this proposed guidance to a contract (other than a contract listed in paragraph 9) only if the counterparty to the contract is a customer. For some contracts, the counterparty to the contract might not be a customer but rather a collaborator or a partner that shares with the entity the risks and benefits of developing a product to be marketed. Such contracts are not in the scope of this proposed guidance.

ED basis for conclusions' definition of a customer

BC37. When considering the definition of a customer, the Boards observed that revenue could be recognized from transactions with partners or participants in a collaborative arrangement. Those arrangements would be within the scope of the proposed guidance only if the other party to the arrangement meets the definition of a customer. Some industry respondents asked the Boards to clarify whether common types of arrangements in their industries would meet the definition of a contract with a customer. However, the Boards decided that it would not be feasible to develop implementation guidance that would apply uniformly to various industries because the terms and conditions of a specific arrangement may affect whether the parties to the arrangement have a supplier-customer relationship or some other relationship (for example, as collaborators or as partners). Therefore, an entity would need to consider all relevant facts and circumstances in assessing whether the counterparty meets the definition of a customer. Examples of arrangements in which an entity would need to make such an assessment are as follows:

(a) Collaborative research and development efforts between biotechnology and pharmaceutical entities or similar arrangements in the aerospace and defense, technology or healthcare industries or in higher education

(b) Arrangements in the oil and gas industry in which partners in an offshore oil and gas field may make payments to each other to settle any differences between their proportionate entitlements to production volumes from the field during a reporting period.

Main discussion points:

- Scope: Research contracts
- Definition of a customer, and the ability to distinguish from a collaborator.

Topic 8: Effective date and Transition

ED Proposals Effective Date and Transition

131. An entity shall apply this proposed guidance for annual reporting periods beginning on or after XXX, XX, 201X. [The Boards have not yet decided on the effective date of this proposed guidance. However, the Boards have decided that the standard would 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.] Earlier application is not permitted.

132. An entity shall apply this proposed guidance retrospectively by applying the requirements on accounting changes in paragraphs 250-10-45-5 through 45-10, subject to the expedients specified in paragraph 133. In the period of adoption, an entity shall provide the disclosures required in paragraphs 250-10-50-1 through 50-3.

133. An entity may use one or more of the following practical expedients when applying this proposed guidance. For the purposes of the expedients, the date of initial application is the start of the reporting period in which an entity first applies the proposed guidance.

(a) For contracts completed before the date of initial application, an entity need not restate contracts that begin and end within the same annual reporting period.

(b) For contracts completed before the date of initial application and that have variable consideration, an entity may use the transaction price at the date the contract was completed rather than estimating variable consideration amounts in the comparative reporting periods.

(c) An entity need not evaluate whether a performance obligation is onerous before the date of initial application unless an onerous contract liability was recognized previously for that contract in accordance with the requirements that were effective before the date of initial application. If an entity recognizes an onerous contract liability at the date of initial application, the entity shall recognize a corresponding adjustment to the opening balance of retained earnings for that period.

(d) For all periods presented before the date of initial application, an entity need not disclose the amount of the transaction price allocated to remaining performance obligations and an explanation of when the entity expects to recognize that amount as revenue (as specified in paragraph 119).

Main discussion points:

- Nonpublic entity deferred effective date
- Costs and benefits of retrospective application
- Practical expedients facilitating transition.

Other topics

Closing comments

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Revenue Recognition Roundtable
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Nonpublic Entity Participants

Mark Anderson	Hansen, Barnett, and Maxwell
John Armour	Associated General Contractors of America / CBIZ / Mayer Hoffman McCann
Robert Bowen	Hansen, Barnett, and Maxwell
Karen Craig	National Association of College and University Business Officers
Perry Daneshgari	MCA, Inc.
Alexander Hume	Zions Bancorporation
Waylon Jones	Construction Financial Management Association / Liberty Mutual
MaryAnn Lawrence	Private Company Financial Reporting Committee / KeyCorp
Doug Reynolds	Grant Thornton
Alison Spivey	Ernst and Young
Larry Worrell	Big-D Construction
Denis Smith	Healthcare Financial Management Association / Intermountain Healthcare
Aleks Zabreyko	Connor Group LLC

FASB Participants

Daryl Buck	Board Member
Russ Golden	Board Member
Marc Siegel	Board Member
Sue Cosper	Technical Director and Chairman of Emerging Issues Task Force
Jeff Mechanick	Assistant Director and Chairman of Not-for-Profit Advisory Committee
Liz Gagnon	Assistant Project Manager
Kristin Bauer	Practice Fellow (Project Lead)
Buck Bagwell	Postgraduate Technical Assistant