**MINUTES**

Financial Accounting Standards Board

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| **To:** | Board Members |
| **From:** | Hegg (x233) |
| **Subject:** | Minutes of the October 18, 2012 Joint Board Meeting: Revenue Recognition |
| **Date:** | October 19, 2012 |
| **cc:** | Sutay |

*The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Boards' deliberations. All of the conclusions reported are tentative and may be changed at future Board meetings. Decisions become final only after a formal written ballot to issue an Accounting Standards Update or a Statement of Financial Accounting Concepts.*

<u>Topics</u>: Revenue Recognition: Contract modifications and measuring progress towards complete satisfaction of a performance obligation

<u>Basis for Discussion</u>: FASB Memorandums 163A/7A and 163B/7B

<u>Length of Discussion</u>: 7:30 a.m. to 9:32 a.m. EDT

<u>Attendance</u>:

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| Board members present: | <u>FASB:</u> Seidman, Buck, Golden, Linsmeier, Schroeder, Siegel, and Smith |
| | <u>IASB:</u> Hoogervorst, Mackintosh, Cooper, Danjou, Edelmann, Engström, Finnegan, Gomes, Kalavacherla, McConnell, Ochi, Pacter, Scott, Suh, and Zhang |
| Board members absent: | None |
| Staff in charge of topic: | <u>FASB:</u> Bauer, Hegg, and North |
| | <u>IASB:</u> Brady and Dara |
| Other staff at Board table: | <u>FASB:</u> Harris, Schilb, Gagnon, Skoglund, Proestakes, and Cosper |
| | <u>IASB:</u> Rees, Berchowitz, McManus, Lloyd, and Eastman |
| Outside participants: | None |

**Type of Document and Timing Based on the Technical Plan:**

The Board met to discuss issues relating to the development of a final standard. The Boards' technical plan calls for that document to be issued early 2013.

**Summary of Decisions Reached:**

The FASB and the IASB discussed the following topics as they continued their redeliberations on the revised Exposure Draft, *Revenue from Contracts with Customers* (the 2011 ED):

1. Contract modifications
2. Measuring progress toward complete satisfaction of a performance obligation.

*Contract Modifications*

The Boards discussed the application of the proposed contract modifications requirements in the 2011 ED. Specifically, the Boards discussed how those proposals would apply to modifications that current guidance on contracts in U.S. GAAP (Topic 605-35, Revenue Recognition—Construction-Type and Production-Type Contracts) and IFRSs (IAS 11, *Construction Contracts*) describes as contract claims in which changes in scope and price are unapproved or in dispute. The Boards tentatively decided that an entity should account for those contract claims in accordance with the proposed contract modifications requirements. The Boards also tentatively decided to clarify that a contract modification, including a contract claim, would be approved when the modification creates or changes the enforceable rights and obligations of the parties to the contract. The Boards noted that, consistent with the proposals on identifying the contract, a contract modification could be approved in writing or orally or the approval could be implied by customary business practice.

The Boards also tentatively decided:

1. To require an entity to account for contract modifications that result only in a change to the transaction price in accordance with paragraph 22 of the 2011 ED, which is consistent with the accounting for contract modifications that result in a change in scope. Consequently, the revenue standard would not include the proposal in paragraph 20 of the 2011 ED, which would have required a modification that results only in a change to

the transaction price to be treated consistently with changes in transaction price (paragraphs 77–80 of the 2011 ED).

2. To clarify that, for modifications within the scope of paragraph 22(a) of the 2011 ED, the transaction price available for allocation to the remaining separate performance obligations should be the amount of consideration received from the customer but not yet recognized as revenue plus the amount of any remaining consideration that the customer has promised to pay that has not been recognized as revenue.
3. To clarify that, for modifications within the scope of paragraph 22(a) of the 2011 ED and for which there is a subsequent change in the estimate of the transaction price, an entity should account for the modification prospectively unless the change in the transaction price relates to satisfied performance obligations, in which case the entity should account for that change in accordance with the proposed requirements in paragraphs 77–80 of the 2011 ED. A similar approach would apply to accounting for revenue that had previously been constrained.

*Measuring Progress toward Complete Satisfaction of a Performance Obligation*

The Boards discussed the following topics related to measuring progress toward complete satisfaction of a performance obligation that is satisfied over time:

1. The use of methods such as units produced or units delivered; and
2. .Adjustments that should be made to input methods, such as costs incurred, in order to meet the objective for measuring progress that is proposed in paragraph 38 of the 2011 ED.

The Boards discussed the use of “units produced” or “units delivered” as appropriate methods for an entity to use to measure its progress toward complete satisfaction of a performance obligation that is satisfied over time (in accordance with paragraph 35 of the 2011 ED). The Boards tentatively decided that methods such as units produced or units delivered could provide a reasonable proxy for the entity’s performance in satisfying a performance obligation in the following circumstances:

1. A units produced method could provide a reasonable proxy for the entity’s performance if the value of any work in progress at the end of the reporting period is immaterial.
2. A units delivered method could provide a reasonable proxy for the entity’s performance if:

a. The value of any work in progress at the end of the reporting period is immaterial; and

b. The value of any units produced but not yet delivered to the customer at the end of the reporting period is immaterial.

The Boards tentatively decided to clarify in the standard that the adjustment to the input method (for uninstalled materials) that is proposed in paragraph 46 of the 2011 ED is to ensure that the input method meets the objective of measuring progress that is specified in paragraph 38 of the 2011 ED—that is, to depict the entity's performance. The Boards also tentatively decided to refine the fact pattern in Illustrative Example 8 to help clarify the scope of the proposal. In addition, the Boards tentatively decided that the revenue standard should clarify that if an entity selects an input method such as costs incurred to measure its progress, the entity should make adjustments to that measure of progress if including some of those costs incurred (for example, wasted materials) would distort the entity's performance in the contract.

*Next Steps*

The Boards expect to continue redeliberations in November 2012.

**General Announcements:** None