MINUTES

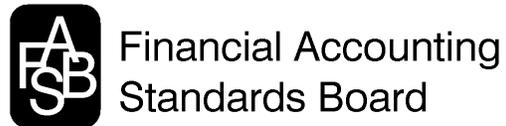**Financial Accounting Standards Board**

To: Board Members

From: Revenue Recognition (Theilken x471)

Subject: Minutes of the October 26, 2009 Joint   **Date:** November 5, 2009
Board Meeting on *Revenue Recognition*

cc: FASB: Bielstein, Golden, Stoklosa, Proestakes, Posta, Lott, Bement, Gagnon, Cadambi, Zeyher, C. Smith, Glotzer, Mechanick, Gabriele, Chookaszian, Klimek, McGarity, Sutay, Theilken, Van Eperen, FASB Intranet; IASB: Leisenring, Rees, Clark, Pitman, Brady, Kapsis, Knubley; AASB: Paul; GASB: Reese

The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Board's 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.

Topic: Contract segmentation; Allocation of the transaction price; Recognizing revenue in a contract segment

Basis for Discussion: FASB Memorandums 122, 122A, 122B, 122C, and 122D, dated October 26, 2009

Length of Discussion: 9:30 to 11:00 a.m.

Attendance:

    Board members present: FASB: Herz, Linsmeier, Seidman, Siegel, and Smith

    Board members present: IASB: Tweedie, Cooper, Danjou, Engström, Finnegan, Garnett, Gelard, Gomes, Kalavacherla, Leisenring, McConnell, McGregor, Smith, Yamada, and Wei-Guo

    Staff in charge of topic: FASB: Bement; IASB: Rees

    Other staff at Board table: FASB: Golden, Proestakes, Cadambi, Gagnon, and Van Eperen

    Outside participants: IASB by phone: Brady, Pitman, and Kapsis

<u>Summary of Decisions Reached:</u>

Background

At their respective meetings in September 2009, the Boards considered additional guidance in the proposed model to help an entity determine *when* to recognize revenue. At this joint meeting, the Boards considered additional guidance to help an entity determine *how much* revenue to recognize.

In their Discussion Paper, *Preliminary Views on Revenue Recognition in Contracts with Customers,* the Boards proposed that an entity should allocate the transaction price, on a relative standalone selling price basis, to each performance obligation in the contract. When an entity satisfies a performance obligation, it should recognize revenue in the amount that was allocated to the performance obligation.

Allocating the Transaction Price

The Boards decided tentatively that:

1. To implement the concepts in the Discussion Paper, an entity should allocate the transaction price to segments of a contract rather than to individual performance obligations. A segment includes one or more performance obligations for which the entity has evidence of a market—that is, evidence that a segment of the contract could be sold separately.

2. When segmenting a contract, an entity should consider when the promised goods and services are transferred to the customer, the margins for those goods and services, and materiality.

3. An entity should estimate standalone selling prices if they are not observable, and an entity should maximize the use of observable inputs.

4. The Exposure Draft should not prescribe or preclude any particular method of estimating a standalone selling price.

When goods and services in a contract segment are transferred at different times (or continuously), an entity must determine how much revenue to recognize as each performance obligation is satisfied. The Boards decided tentatively that:

1. An entity should select a method of measuring performance that best depicts the transfer of goods and services to the customer. Acceptable methods include methods based on units of output, units of input, or the passage of time.

2. An entity should select one method per segment and apply that method consistently throughout the contract and across segments with similar characteristics in other contracts.

<u>Follow-up Items</u>:

Next Steps

In November, the Boards plan to consider issues related to the subsequent measurement of performance obligations and how an entity would apply the proposed model to licensing arrangements.

<u>General Announcements</u>:

None.