Financial Accounting
Standards Board

Revenue Recognition Roundtable Meeting
10 November, 2010
12.00–2.30
30 Cannon Street, EC4M 6XH

AGENDA

Welcome and introductions

Topic 1: Control

Key principle

The ED proposes that an entity should recognise revenue when it satisfies a performance obligation by transferring a promised good or service to a customer. A good or service is transferred when the customer obtains control of that good or service.

The ED explains that a customer obtains control of a good or service when the customer has the ability to direct the use of, and receive the benefit from, the good or service. The ED proposes four indicators that the customer has obtained control of a good or service:

(a) the customer has an unconditional obligation to pay

(b) the customer has legal title

(c) the customer has physical possession

(d) the design or function of the good or service is customer specific.

Main discussion points:

- Use of 'control' to determine when transfer has occurred
- Applying the proposed control principle and supporting indicators
- Application to service contracts
- Characteristics of contracts in which control transfers continuously

Topic 2: Identifying separate performance obligations

Key principle

The ED proposes that an entity should identify the performance obligations to be accounted for separately on the basis of whether a promised good or service is distinct.

A good or service is distinct if either:

(a) the entity, or another entity, sells an identical or similar good or service separately; or

(b) the entity could sell the good or service separately because

(i) it has a distinct function—a good or service has a distinct function if it has utility either on its own or together with other goods or services that the customer has acquired from the entity or are sold separately by the entity or by another entity; and

(ii) it has a distinct profit margin—a good or service has a distinct profit margin if it is subject to distinct risks and the entity can separately identify the resources needed to provide the good or service.

Main discussion points:

- Interaction with contract segmentation proposals
- Level of guidance required to apply ‘distinct’
- Reflecting interdependencies within contracts
- Product warranties
- Licenses

Topic 3 Transaction price

Key principle

The transaction price reflects the probability-weighted amount of consideration that an entity expects to receive from the customer in exchange for transferring goods or services.

In many contracts, the transaction price is readily determinable because the customer promises to pay a fixed amount of consideration and that payment is made at or near the time of the transfer of the promised goods or services. In other contracts, the amount of consideration is variable, and the transaction price must be estimated at each reporting period to represent faithfully the circumstances present at the reporting date and the changes in circumstances during the reporting period.

In determining the transaction price, an entity shall reduce the amount of promised consideration to reflect the customer’s credit risk. Hence, when an entity satisfies a performance obligation, the entity shall recognise revenue at the probability-weighted amount of consideration that the entity expects to receive.

In determining the transaction price, an entity shall adjust the amount of promised consideration to reflect the time value of money if the contract includes a material financing component (whether explicitly or implicitly)

Main discussion points:

- Use of probability-weighted transaction price
- Reflecting the effects of the customer's credit risk in the measurement of revenue
- Reflecting the effects of the time value of money in the measurement of revenue

Topic 4: Allocation

Key principle

The ED proposes that an entity should allocate the transaction price to all separate performance obligations in proportion to the stand-alone selling price of the good or service underlying each of those performance obligations at contract inception (ie on a relative stand-alone selling price basis).

Main discussion points:

- Ability to estimate stand-alone prices
- Link with contract segmentation proposals; allocation of discount
- Alternatives to relative standalone selling price allocation, eg margin

Topic 5: Onerous performance obligations

Key principle

The ED proposes that an entity should recognise a liability and a corresponding expense if a performance obligation is onerous.

Main discussion points:

- Level at which a contract should be tested to asses whether it is onerous

Topic 6: Contract modifications

Key principle

The ED proposes that an entity should account for a contract modification together with the existing contract if the prices of the modification and the existing contract are interdependent.

Main discussion points:

- Effect of recognition of changes in transaction price

Other topics
Closing comments