Financial Accounting
Standards Board

Revenue Recognition Roundtable Meeting
10 November, 2010
8.30–11.00
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:

- Level of guidance required to apply 'distinct'
- Level to which a contract should be segmented
- The nature of performance obligations for licenses

Topic 3: 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 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:

- Link with contract segmentation proposals; allocation of discount
- Alternatives to relative standalone selling price allocation, eg margin

Topic 5: Credit risk

Key principle

The ED proposes that in determining the transaction price, an entity should reduce the amount of promised consideration to reflect the customer's credit risk. Hence, when an entity satisfies a performance obligation, the entity recognises revenue at the probability-weighted amount of consideration that the entity expects to receive.

Main discussion points:

- Reflecting the effects of the customer's credit risk in the measurement of revenue

Topic 6: Disclosure

Key principle

The objective of the proposed disclosures is to help users understand the amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

Main discussion points:

- Usefulness of aspects of the proposed disclosure requirements
- Cost benefits of proposed disclosure requirements

Other topics

Closing comments