



Staff Paper

Project	Revenue Recognition
Topic	Accounting for cost of obtaining a contract—addendum

Purpose

- At the January 28, 2011 Education Session, the FASB asked the staff to prepare this addendum to Agenda Paper 1B / FASB Memo 136B, *Accounting for costs of obtaining a contract*. This addendum includes a table summarizing the accounting guidance for acquisition costs in the Boards’ Exposure Drafts and existing accounting guidance. It also includes a table that compares the recommendations for accounting for acquisition costs in the revenue recognition project (Agenda Paper 1B / Memo 136B) and the insurance contracts project (Agenda Paper 3B).

This paper has been prepared by the technical staff of the IFRS Foundation and the FASB for discussion at a public meeting of the FASB or the IASB.

The views expressed in this paper are those of the staff preparing the paper. They do not purport to represent the views of any individual members of the FASB or the IASB.

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FASB-IASB Staff paper

Comparison of recommendations in agenda papers 1A and 3B / memos 136A and 136B

	Revenue recognition	Insurance contracts
<i>Basic model</i>	Recognize separate asset for eligible acquisition costs. Amortize assets consistently with the pattern of transfer of goods or services (that is, in proportion to revenue).	Include eligible acquisition costs in the initial measurement of the insurance contract. Eligible acquisition costs reduce the residual/composite margin that otherwise would have been recognized over life of the insurance contract.
<i>Which acquisition costs?</i>	<i>Incremental costs of obtaining a contract.</i>	<i>Direct and incremental costs at the portfolio level (but limited to those for successful insurance contracts).</i>
<i>Recoverability test?</i>	Capitalize only incremental costs expected to be recovered (through the margin in the contract).	Implicit in model—the residual/composite margin cannot be negative.

Summary of Guidance on Acquisition Costs in Exposure Drafts and Existing Standards

Standard/Exposure Draft	Incremental Costs* Recognized as Assets or in Measurement of Contract	Direct Costs Recognized as Assets or in Measurement of Contract	Other Guidance
Insurance Contracts ED	Yes	No	
EITF Issue 09-G	Yes	Yes—direct payroll, fringe benefits and other activities, and direct response advertising	Provides examples of direct payroll, fringe benefits and other activities, and direct response advertising
FASB Financial Instruments ED	Yes	Yes	Provides examples of direct payroll, fringe benefits and other activities
FAS 91/ASC Paragraph 310-20-30-2	Yes	Yes	Provides examples of direct payroll, fringe benefits and other activities
IFRS9/IAS 39, <i>Financial Instruments</i>	Yes	No	
Leases ED	Yes	Yes	Provides examples of <i>initial direct costs</i>
IAS 17, <i>Leases</i>	Yes	Yes	
Topic 840, <i>Leases</i>	Yes	Yes	Provides examples of <i>initial direct costs</i>
FTB 90-1/ASC Paragraph 605-20-25-4	Yes	No	Provides examples of costs that are not incremental

*Incremental costs are defined in the various EDs and existing accounting guidance as costs that would not have been incurred if the contract had not been made or issued.