

Revenue Recognition

Supplement to January 2013 Staff Paper 7A/166A – Scope

#Possible refinements to paragraph 10 of the 2011 ED	Possible refinements to paragraph 11 of the 2011 ED
<p>Added text is <u>underlined</u>, and deleted text is struck out:</p> <p>A customer is a party that has contracted with an entity to obtain goods or services that are an output of the entity’s ordinary activities. An entity shall apply this proposed guidance to a contract (other than a contract listed in paragraph 9) only if the counterparty to the contract is a customer. For some contracts, the counterparty to the contract might not be a customer but rather a collaborator or a partner that shares with the entity the risks and benefits of <u>undertaking an activity</u> of developing a product to be marketed. Such contracts are not in the scope of this proposed guidance.</p>	<p>Added text is <u>underlined</u>, and deleted text is struck out:</p> <p>A contract with a customer may be partially within the scope of this proposed guidance and partially within the scope of other standards.</p> <p>(a) If the other standards specify how to separate and/or initially measure one or more parts of the contract, then an entity shall first apply those separation and/or measurement requirements. <u>The difference, if any, between the amount attributable to the part or parts of the contract within the scope of other standards and total contract consideration is the amount allocable to the performance obligations within scope of this guidance.</u></p> <p>(b) If the other standards do not specify how to separate and/or initially measure one or more parts of the contract, then the entity shall apply this proposed guidance to separate and/or initially measure the part(s) of the contract.</p>

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Excerpts from 2011 ED (for your information)

BC37 When considering the definition of a customer, the Boards observed that revenue could be recognized from transactions with partners or participants in a collaborative arrangement. Those arrangements would be within the scope of the proposed guidance only if the other party to the arrangement meets the definition of a customer. Some industry respondents asked the Boards to clarify whether parties to common types of arrangements in their industries would meet the definition of a customer. However, the Boards decided that it would not be feasible to develop implementation guidance that would apply uniformly to various industries because the terms and conditions of a specific arrangement may affect whether the parties to the arrangement have a supplier customer relationship or some other relationship (for example, as collaborators or as partners). Therefore, an entity would need to consider all relevant facts and circumstances in assessing whether the counterparty meets the definition of a customer.

BC45 The Boards decided that the proposed guidance should be the default approach for separating a contract and allocating consideration to each part. However, specific issues could arise in separating contracts that are not within the scope of the proposed guidance. For example, a financial instrument or an insurance contract might require an entity to provide services that are best accounted for in accordance with the standards on financial instruments or insurance contracts.

BC46 Therefore, the Boards decided that if other standards specify how to separate and/or initially measure parts of a contract, an entity should first apply that guidance. In other words, the more specific standard would take precedence in accounting for a part of a contract. The Boards' decision is consistent with the existing requirements on multiple-element arrangements in Subtopic 605-25.