Welcome
Please stand by to learn about opportunities for research - Topic 606 Revenue from Contracts

12:00 PM E.D.T. (90 minutes)
Download slides from www.fasb.org/academics
This session will be recorded

The views expressed in this presentation are those of the presenter.
Official positions of the FASB are reached only after extensive due process and deliberations

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Topic 606 Revenue from Contracts with Customers
Opportunities for Research

March 19, 2021

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Agenda

- Objective of the session and overview of post-implementation review
- Overview of the standard and research opportunities
  - Problem and solution
  - Topical issues
  - Disclosures
- Future educational opportunities



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Housekeeping Items

- CPE – is not available for today's webcast
- Q&A - To ask a question during the session, use the "Q&A" feature (not the chat feature)
- Slides – will be available for downloading on our website at www.fasb.org/academics



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Archived Webinar

- A recording of the webcast will be available online at:
  - The academic landing page
    - https://fasb.org/academics
  - The Accounting for an Ever-Changing World website
    - https://aaahq.org/Meetings/2022/Accounting-for-an-Ever-Changing-World. www.fasb.org
- If you have any questions about this webcast, or any of our other educational webcasts, please contact the post-doctoral fellow at academics@fasb.org

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Objective and PIR

Objective of the Session

- Provide an overview of the post-implementation review process and connection to academic research
- Review certain aspects of the revenue standard
- Highlight areas of opportunity for academic research relevant to the PIR of Revenue



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Post-Implementation Review (PIR) Objectives

Determine whether a standard is accomplishing its stated purpose:

- Resolved the issues underlying its need
- Provides decision-useful information
- Standard is operational
- Any significant unexpected changes to financial reporting or operating practices
- Any significant unanticipated consequences

Evaluate implementation and continuing compliance costs

Provide feedback to improve the standard setting process

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Active PIR Projects

- Revenue recognition
- Leases
  - Archived recording of March 5, 2021 webinar available on academic landing page
- Credit losses
  - Registration open for academic webinar on March 26th



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Accounting for an Ever-Changing World Conference

- Joint conference of the FASB, IASB, *TAR*, and AAA, November 2-4, 2022, New York City
- https://aaahq.org/Meetings/2022/Accounting-for-an-Ever-Changing-World
- Focus on research related to FASB/IASB PIR projects:
  - Revenue recognition (Topic 606 and IFRS 15, *Revenue from Contracts with Customers*)
  - Leases (Topic 842 and IFRS 16, *Leases*)
  - Financial instruments (Topic 326, Financial Instruments—Credit Losses, and IFRS 9, *Financial Instruments*)

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Topic 606, Revenue from Contracts with Customers

Converged Standard on Revenue

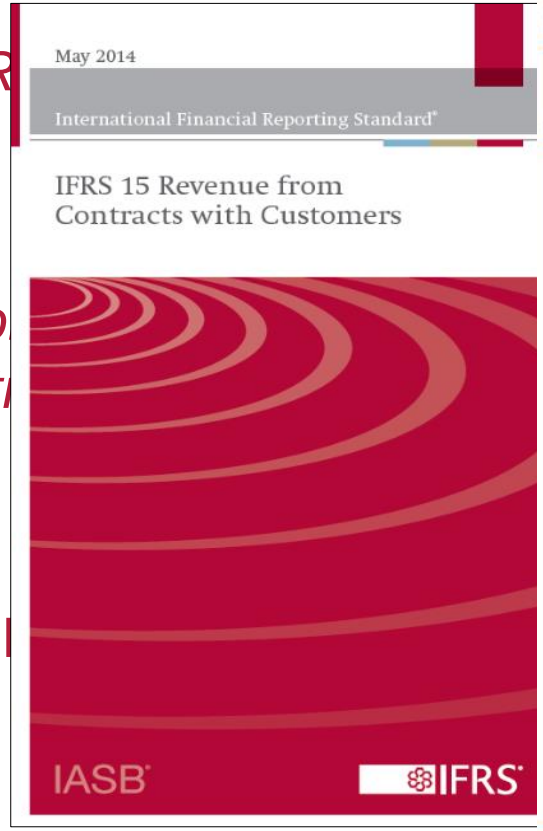
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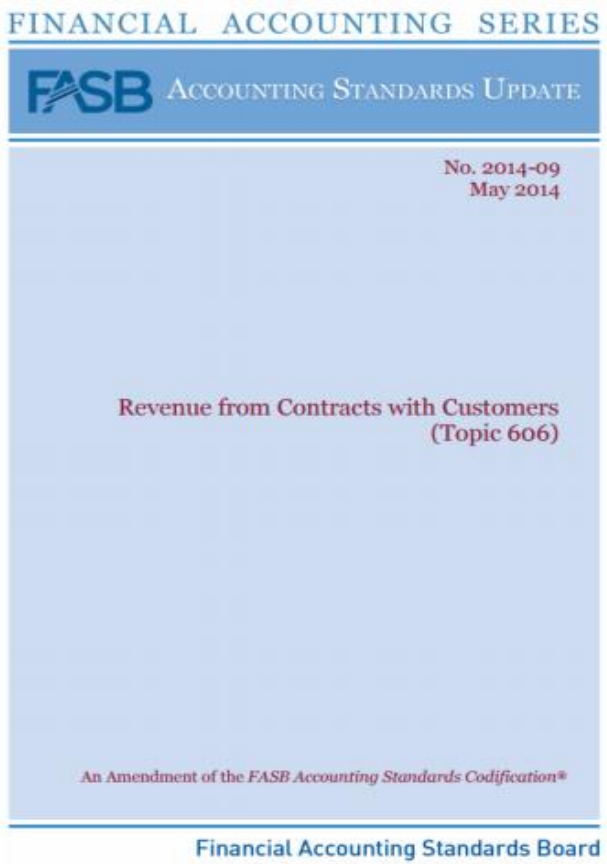
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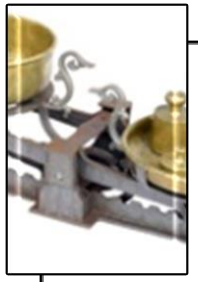
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Significant Improvements



Robust framework for addressing revenue issues



Increases comparability



Eliminates complex and prescriptive rules



Provides guidance in areas that previous GAAP and IFRS had none



Enhances disclosures

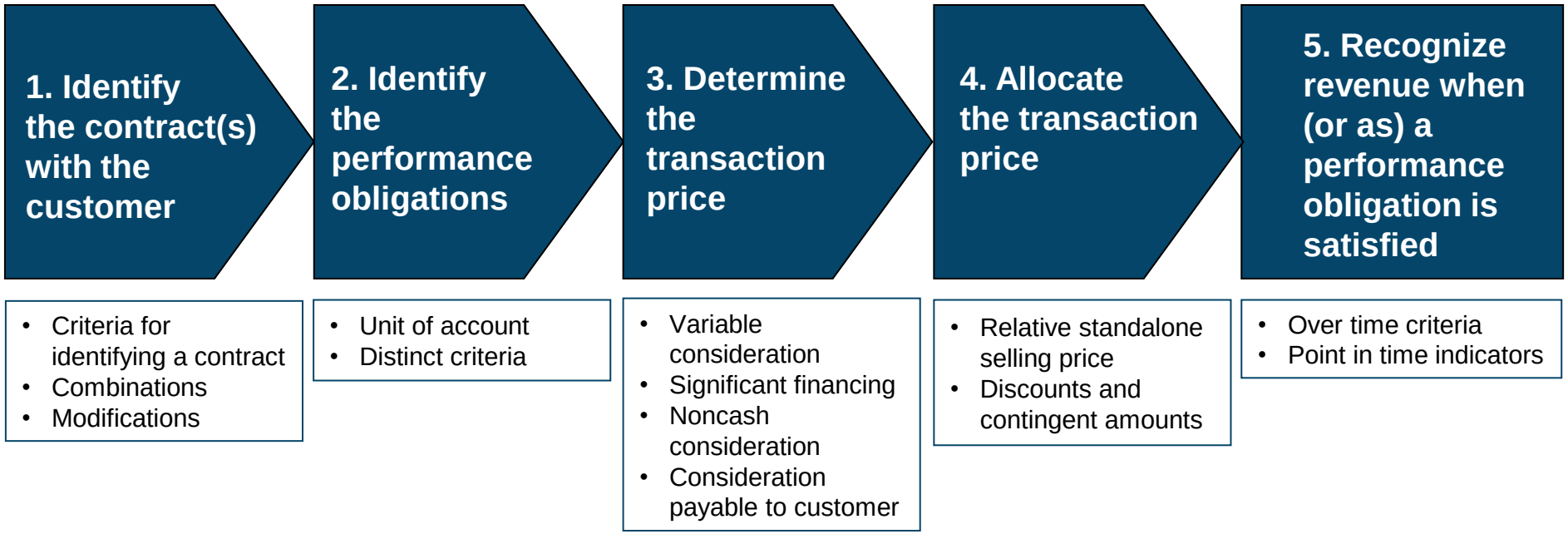
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Overview of Revenue Recognition Model

Core Principle:

Recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services

Steps to apply the core principle:



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Is the standard accomplishing its stated purpose?

Is decision-useful information being reported to, and used by, investors, creditors, and other users of financial statements?

- Has the decision usefulness of information about revenue from contracts with customers improved?
  - Does the decision usefulness of the information differ by type of user (E.g., international versus domestic investors, equity versus credit investors or analysts, buy-side versus sell-side analysts, etc.)
- Has the comparability of information improved across entities, industries, and jurisdictions?
- What was the nature and magnitude of revenue adjustments and did users react to these adjustments?

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Is the standard accomplishing its stated purpose?

Is the standard operational?

- What is the nature (E.g., systems, controls, audit cost), magnitude, and drivers of the implementation and ongoing costs of Topic 606?
  - What operational challenges have preparers and auditors faced related to Topic 606?
- How reliable and unbiased are estimates based on management's judgment?



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Is the standard accomplishing its stated purpose?

Have there been significant unexpected changes to financial reporting or operating practices resulting from the standard?

- Have there been changes in efficiency between accounting and operations departments?
- Is the five-step model a useful judgment and decision-making tool for making revenue recognition assessments?
- Has the guidance complicated the analysis of accounting for certain transactions?

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Is the standard accomplishing its stated purpose?

Have significant unanticipated consequences resulted from applying the standard?

- Has there been an impact on the contracting practices (such as changes in contract terms, product offerings, pricing structures, delivery terms etc.)?
- Has the alignment between revenue recognition and economics in certain industries or sectors changed?

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Revenue from Contracts with Customers – Topical Areas

Determine the Transaction Price

- Objective: to determine the amount of consideration to which an entity expects to be entitled in exchange for promised goods or services

Variable Consideration

- Estimate using:
  - Expected value
  - Most likely amount
- Constraint

Significant Financing

- Adjust consideration if timing provides customer or entity with significant benefit of financing

Non-Cash Consideration

- Measure at fair value at contract inception date

Consideration Payable to a Customer

- Reduction of the transaction price unless in exchange for a distinct good or service

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Variable Consideration Overview

- New guidance: **Estimate variable consideration**
  - Estimation = Amount “to which [they] expect to be entitled in exchange for transferring promised goods or services to a customer.”
- Methods
  - Expected value
  - Most likely amount
- Subject to constraint
  - Where it’s probable that a significant reversal will not occur

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Is the standard accomplishing its stated purpose?

Is decision-useful information being reported to, and used by, investors, creditors, and other users of financial statements?

- How does the application of judgment in the measurement of revenue impact the decision usefulness of the information?
- Does the application of judgment in the measurement of revenue impact the comparability of information? If so, how?
- Is the information disclosed about out of period revenue adjustments useful in understanding the changes in estimate?

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Is the standard accomplishing its stated purpose?

Is the standard operational?

- How reliable and unbiased are estimates based on management's judgment?
  - Are there trends of significant true-ups to revenue amounts (either positive or negative)?
- What significant judgments do companies make when determining their estimates of variable consideration?
- How does the application of judgment in the measurement of revenue impact the implementation and ongoing cost for entities?

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Licensing

Current GAAP includes limited, industry specific guidance on revenue recognition for licenses
New guidance includes comprehensive model to be applied to all industries

Nature of License: Functional or Symbolic

"Right to use" vs. "right to access" assessment

- Based on **significant standalone functionality**
- Functional: point in time recognition
- Symbolic: over time recognition

Contractual Provisions

There is a distinction between contractual provisions that:

- Require transfer of control of additional goods or services to customer (**multiple** performance obligations)
- Define attributes of a **single** promised license

Sales- or Usage-Based Royalties

Recognize revenue when the subsequent sales or usage occurs (as long as the performance obligation has been satisfied):

- Applies when royalty completely or predominantly relates to license
- Royalties should not be split into portions to which exception does and does not apply

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Is the standard accomplishing its stated purpose?

Have significant unanticipated consequences resulted from applying the standard?

- Have companies made systematic changes to favor over time reporting (E.g., restructured deals, changes to product offerings)?
- Have companies modified contract terms (for example the duration of term licenses) to accelerate revenue recognition?



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Contract Costs (Topic 340)

	Obtaining a Contract	Fulfilling a Contract
Recognize as an asset if:	• Incremental • Expect to recover	• Relate directly to a contract • Generate or enhance resources that will be used to satisfy performance obligations in the future
Example	• Sales commissions	• Pre-contract or setup costs
Practical expedient	• May recognize as expense when incurred if the amortization period is 1 yr. or less	• N/A

Prior GAAP allowed for a policy election for commissions

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Is the standard accomplishing its stated purpose?

Have significant unexpected changes to financial reporting or operating practices resulting from the standard?

- What is the nature and magnitude of costs capitalized under Topic 606?
  - What amortization periods are being used?
  - How have these amounts affected working capital, and have users reacted to this?
    - What proportion of costs are considered current assets vs. noncurrent assets?
- Is the information provided by requiring cost capitalized an improvement over the previous policy election?



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Revenue from Contracts with Customers – Disclosures & Transition

Disclosure Requirements

Objective: To enable users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers

Revenue

- Disaggregation of revenue
- Amounts recognized relating to performance in previous periods

Contracts

- Information about contract balances and changes
- Information about performance obligations
- Amounts allocated to remaining performance obligations

Significant Judgments

- Timing of and methods for recognizing revenue
- Determining the transaction price and amounts allocated to performance obligations

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Transition

Transition method		PY2 (2016)	PY1 (2017)		CY (2018)	CY Footnotes
Retrospective (with optional practical expedients)	Cumulative catch-up	Contracts under new standard				
Cumulative effect at date of application		Contracts under legacy standard		Cumulative catch-up	Existing and new contracts under new standard	Existing and new contracts under legacy standard for CY (2018)

Note: Dates in the table above reflect the public company effective date

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Is the standard accomplishing its stated purpose?

Is decision-useful information being reported to, and used by, investors, creditors, and other users of financial statements?

- Do the required disclosures achieve the disclosure objective?
- Do entities' qualitative disclosures convey decision useful information? Are they informative or boilerplate?
- Do entities' quantitative disclosures convey decision useful information?
- Are the disclosures sufficient to understand the application of management judgment in revenue recognition?
- Are there disclosures that could be removed or are there disclosures that should be added?
- Are the disclosures used to improve the comparability of revenue information across entities?

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Is the standard accomplishing its stated purpose?

Is decision-useful information being reported to, and used by, investors, creditors, and other users of financial statements?

- Are there systematic differences in the level of disaggregation of revenue?
  - Does the disaggregation of revenue convey decision-useful information?
  - Do certain industries disaggregate more than others?
  - Is there comparability between companies in the same industry in the number or types of levels that they disaggregate?
- Did users respond differently to companies that chose a full retrospective transition versus those that chose a modified retrospective transition?
  - Did the use of a full retrospective transition provide greater transparency and less disruption in trends and did users respond to these differences?
  - Were there systematic differences in the companies that chose a full retrospective transition versus those that chose a modified retrospective transition?

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Is the standard accomplishing its stated purpose?

Is the standard operational?

- What is the level of compliance with the disclosure requirements and does compliance vary across entities in a systematic manner?

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Is the standard accomplishing its stated purpose?

Have there been significant unexpected changes to financial reporting or operating practices resulting from the standard?

- What has been the impact of exemptions for disclosures related to remaining performance obligations (RPOs)?
  - How many companies provide the disclosure? How many companies have 100% of their revenue exempt from disclosure?
  - For companies that provide the disclosure, what proportion of their revenue is excluded/included in the disclosure?
  - Do companies voluntarily disaggregate RPO data? If so, what categories of disaggregation are presented?
  - How do companies present the information about when the entity expects to recognize the amounts as revenue (for example, what types of time bands are used, current/noncurrent etc.)?

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Educational Opportunities and Materials

Other Webinars

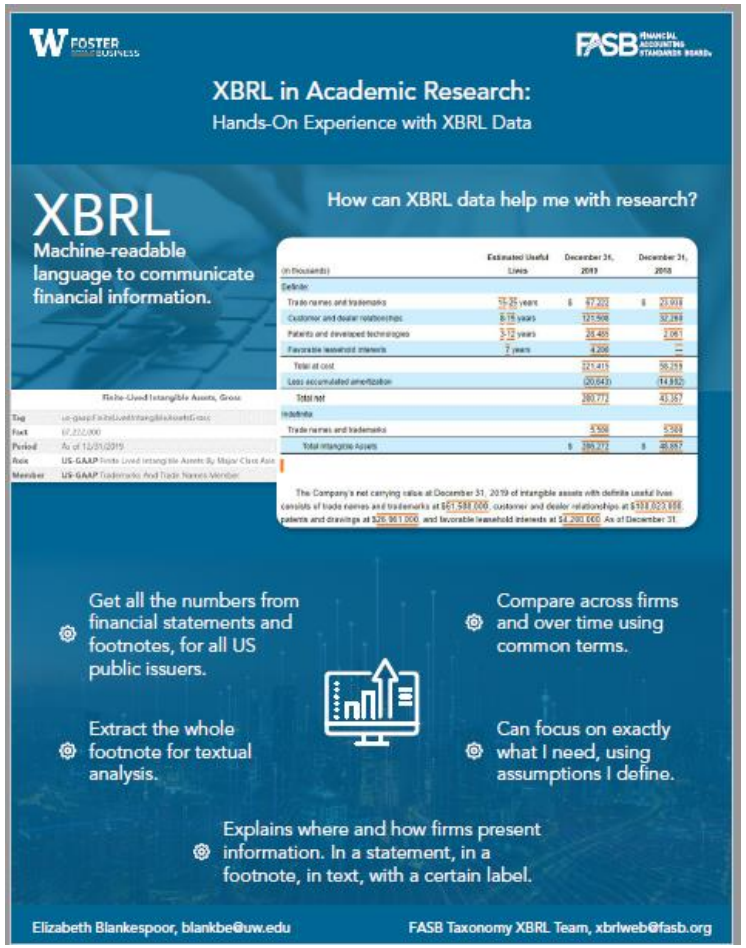
- Topic 842: Leases recording and slides available now
- Topic 326: Financial Instruments – Credit Losses on March 26
- XBRL in Academic Research: A Workshop on How to Pull XBRL Data on July 13
- Register on the FASB's academic landing page now for March webinars, more information to come for XBRL



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XBRL in Academic Research: A Workshop on How to Pull XBRL Data

- Webinar on **July 13, 2021**
- XBRL data allows real-time access to most recent corporate filings
- Webinar will focus on pulling data related to revenue, and will provide skills that should easily transfer to other settings
- Academic landing page has training video from 2021 AAA FARS Midyear Meeting



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Relevant materials (links)

- Conference Webpage: https://aaahq.org/Meetings/2022/Accounting-for-an-Ever-Changing-World
- Topic 606 Implementation Webpage: https://www.fasb.org/revrec
- FASB PIR Webpage: https://www.fasb.org/PIR
- FASB Academic Webpage (for PowerPoint slides, XBRL training video, webinar registration, etc.): https://www.fasb.org/academics
- FASB Academic fellow email: academics@fasb.org

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Q&A



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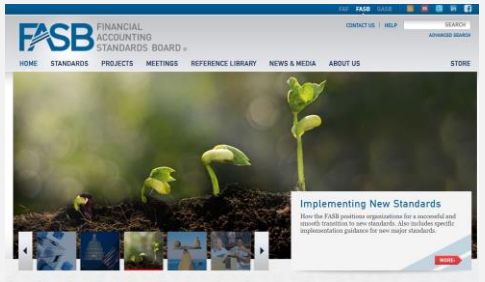
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